Chapter IV
Overview of Myanmar’s Economy

Introduction

The present-day region of Myanmar fell within one or more kingdoms for over two thousand years. The main civilizations were of the Mons, the Pyus and the Pagan Burmese. The Mons, closely related to the Khmer, came down the Mekong valley and moved south-east to establish their settlements in Upper Burma by the 3rd century B.C. and built their capital at the port city of Thaton. They quickly embraced Theravada Buddhism after Ashoka of Magadha sent a mission of Buddhist monks to Suvarnabhumi as the region was then known. With the expansion of Indian commerce in S.E.Asia up to the 8th century, Thaton's importance increased. The Pyus were a Tibeto-Burmese tribe who gained control over the land trade routes between India and China, and then of the whole Irrawaddy valley. They established their capital Sri-Kshetra near modern Prome, and became powerful enough to exercise suzerainty over the Mons, from whom they too acquired Buddhist culture.

By the 9th century the power of the Pyus declined and the leadership of the Tibeto-Burmese tribes passed to the Burmese, who established their kingdom at Pagan with Theravada Buddhism as their religion, and subjugated the whole of Burma under the first Burmese empire. After Kublai Khan's raids into Burma in the late 13th century, the historical record is one of the periodic expansion and contraction of the Burmese empire, until the last phase of expansion under the Alaungpaya dynasty at the end of the 18th century, when Ayutthaya (Siam) and Manipur were conquered, and Assam occupied. This brought the Burmese kingdom into direct conflict with the British in India.

In any case after Britain had established its dominion in India, it was bound to turn its attention to resource-rich Burma. Coastal Burma came under British control after 1826, Pegu in 1852, and the whole of the rest of Burma was annexed in 1885. Under colonial rule, the earlier structure of society was broken down, but it was not replaced by capitalism, for as in its other colonies the sole interest that Britain had was to turn Burma into a supplier of food and raw materials, which it purchased using locally raised taxes. Its other interest was to use it as a market for its manufactures,
causing the domestic Burmese manufactures especially textiles, to decline. In the name of free trade, a one-way free trade was practiced in which Burmese producers were completely unprotected from cheap machine-made imports and on the other hand Burmese oil and primary resources were exported without any equivalent, as was the case in British India.

Independence from the British came as a consequence of the Burmese freedom struggle and the chaos unleashed by Japanese aggression, for according to Halliday the Japanese 'smashed the colonial armies and the British, French and Dutch empires in the area". (Halliday, 1975, p.145)

After Independence there was 14 years of parliamentary democracy under the leadership of U Nu followed by 26 years of military rule under General Ne Win. Tighter controls on trade and guided implementation of controls on the structure of production, reshaped the economy into a new form of state capitalism under the rule of government. The greatest experiment in Myanmar's recent history was the formulation of the "Burmese way to Socialism" manifested in the programme of the only party of that time, BSPP (Burmese Socialist Programme Party) between 1974 and 1988. Accordingly attempts at state-directed economy through central planning were undertaken. Although it was called 'socialist economy' in fact there was no social forms of ownership of land (such as co-operative or collective) and after nationalisation land was distributed for private household use as before. Large-scale manufacturing and trade of which there was very little, was nationalised. The foreign interests in oil were nationalised and there was a policy of jobs for Burmese only.

The government attempted to achieve economic objectives by the consecutive long-term and short-term economic plans. The weakness of macroeconomic performance and inconsistent plans, and political unrest led the country into economic chaos by 1988, when the Revolutionary Council seized State power.

Thus the new military government, the SLORC (State Law and Order Restoration Council) took over power. In view of the experience with the previous economic policies, planning was abolished and market economy was promoted. It is presently market-oriented economy which is establishing itself under the SLORC. Many economic reform
measures are also being carried out in various fields in accordance with the market-oriented economy.

4.1 *A Brief Overview of the Colonial Period*

The history of the past more than 2000 years of Burma had been the history of ancient kingdoms. In the earliest communities, land was held in common ownership. The main occupation of Burmese has been and continues to be agriculture, and especially the cultivation of rice, which was primarily for home consumption rather than for export. The structure of Burmese society owing to its tribal origins and the influence of Buddhism, has been traditionally more democratic than most other Asian societies. However it cannot be called classless, since systems of hereditary nobility and kingship did prevail and these are typical of feudal society.

The economy of Burma was generally an agriculture-dominated subsistence one. Population was small (it totalled only about 20 million even as late as 1973) and population density was relatively low by Asian norms. Burma has a favorable geographical situation, located as it is within tropical latitudes, with ample rainfall and irrigation from the Irrawaddy and Salween rivers. Burma is rich in natural resources which have not been exploited fully - two-thirds of the area is forested. The richness of forest and minerals resources was very fascinating for the foreign allies - the British, the French and the other Europeans. Burma was defeated in three successive Anglo-Burmese Wars, and then occupied as a British colony while the Burmese king with his family was exiled to Ratnagiri in India. The first Anglo-Burmese war of 1824-26 saw Britain occupying Arakan and Tennasserim. With the second Anglo-Burmese war of 1852 the British seized Lower Burma, namely the Irrawaddy delta region of Pegu. Thereby the British controlled the entire coastal area of Burma and for some time it was satisfied with obtaining access to ports for its ships bound for the Malacca Straits and China. The whole of the rest of Burma was annexed in 1885, and it thereby turned into a British colony for more than sixty years (1885-1948). A guerilla struggle of resistance went on for four years in which thousands of Burmese were killed by the British.

Burma was made into a province of British India from Jan. 1 1886, which angered the Burmese as they were culturally quite distinct from India where Buddhism had been
suppressed and had disappeared centuries earlier. The Burmese did not see any logic in treating Burma as a province of India when much smaller Buddhist Ceylon had always been regarded as a separate country. The Burmese currency was linked with the Indian Rupee and immigration of Indian labour was encouraged by the British rulers.

The British ruled large parts of Burma for over a hundred years (1826-1948) and the remainder for over sixty years (1885-1948). As J.S. Furnivall (1957) has described it, the economic development of Myanmar during the British colonial period took place under a laissez-faire regime with free trade. The opening of the Suez Canal in 1869, stimulated and enhanced the international trade of Burma. Cultivators were forced to enlarge rice cultivation and to promote the export of rice.

By 1890 the area sown to paddy had risen from 0.4 to 1.83 million hectares in Lower Burma alone, while taking the whole of Burma the paddy area was 2.4 million hectares, producing 2.4 million tons in 1890-1. About 0.98 million tons of this was exported leaving 1.4 million tons for domestic consumption. Under the British rule, “the value of rice export rose from Rs.30 million in 1869 to Rs.389 million in 1913-14, and Rs.659 million in 1926-27” (Singh, 1979, p.3). Thus Burma became the largest exporter of rice and was named as “Rice bowl of Asia”.

Burmese rice exports appeared as part of Indian export data since it was formally a province of British India until 1937. K.N. Chaudhuri in his chapter on foreign trade in the Cambridge Economic History of India points out (p.889) that foodgrains exports made up usually a fifth of India's total exports during the fifty years before W.W.I and went up to more than a quarter in many years, and Burma's share in this varied from over 90 percent in 1870-01 to 58.4 percent in 1913-14. Burma became the world's largest rice exporter in many years (Korean rice exports to Japan excepted, which did not enter the international statistics as Korea was treated as part of Japan).

It is not possible that such a rapid rise in rice exports could be combined with maintaining the availability level within Burma: it is very likely that the colonised Burmese could not afford to eat as much rice as before and that their consumption fell. Rapid growth of area under rice and rice output took place on the basis of high-cost credit to Burmese farmers supplied by the immigrant South Indian moneylenders with land as collateral. The democratic culture of division of property equally between all sons and
daughters among Burmese made capital accumulation rare and hence there was reliance on the immigrant Indian moneylenders who charged very high interest rates of 10 percent per month on loans.

Many thousands of Burmese farmers lost their land against debt especially when prices collapsed from the late 1920s. The price of paddy crashed from Rupees 200 in 1928 (per 100 baskets of 46 lbs. each, or per 2.05 tons) to R.120 the next year, R.80 in 1930, and R.60 in 1931 which was well below the cost of production. Rising real rent burdens on tenants and widespread loss of land against debt led to the Saya San peasant rebellion. Immigrant labour paid low wages was used to work the lands earlier tilled by the displaced Burmese who were used to a higher standard of life. By 1936-40 recovery had taken place, total acreage of rice was 5.2 million hectares and total annual output 4.9 million tons of which 2.9 million tons were exported. The Second World War led to a substantial decline in output and exports collapsed under the Japanese occupation.

Before the spectacular development of rice production, the chief article of export was teak during the early 19th century. Timber was an essential raw material of shipbuilding, which was important for transportation for commercial extension. Besides teak, the forest products - tropical hardwoods, were useful for railway sleepers in Burma and India. By that time, mineral resources especially petroleum was also exploited, and the B.O.C (Burma oil Company) controlled the whole output. They exported not only staple food items but also industrial raw materials such as cotton, jute, rubber, etc. Burma became a primary exporter to the world market.

Domestic manufacturing industry consisted of small-scale industries that were mostly for the processing of the primary products. There was an extensive textile manufacture. The handicraft industries of pre-British period such as spinning and weaving were totally damaged. As far as the manufacturing industries was concerned, J.S.Furnivall (1957) described the situation as follows:

"They [Burman industries] have gone backwards under the British government. Spinning and weaving used to be carried on in almost every village but imported cloth has killed the product of village loom. The blacksmith cannot easily make tools as cheap and efficient as those, which are imported and sold in all the Bazaars. Shipping building was at one time an important business in Rangoon and Moulmein. But ships are no longer built of timber". (p.161)
From the above statement, it is clear that domestic manufacturing industry was virtually wiped out with the flood of cheap imports, especially cloth. Local cloth was unable to compete with the imported cloth in price and quality and the import of yarn was high in relation to the import of cloth. Most of the clothing was home-woven and the imported yarn furnished the weavers with new and cheaper materials. The spinners were thus the first to be completely displaced by machine-made yarn imports. Later the weavers too were affected by the cheap cloth imports, and Burma was de-industrialized. The scanty population at that time was the main obstacle to progress. Therefore, in order to make up the labor shortage that existed in the country, the immigration of foreign labor, primarily Indian as well as Chinese, was encouraged.

According to the available pre-war population statistics, by 1931 the Burmese made up 65.7% of the population, other indigenous groups 24.6% while the immigrant Indians and Chinese made up 7% and 1.3% respectively. While Indians born outside Burma were 7.9% of the labour force, they accounted for 36.3% of all mining employment, 43.2% of transport jobs, 14.7% of industry and 15.6% of all public administration positions. The Chinese making up 1.5% of the labour force, held 9.7% of mining and 6.95 of trade jobs. 'Whereas the native population in the national economy was largely confined in agriculture, industry and commerce were dominated both by foreign capital and foreign labour' (Kiryu, 1999).

Foreign capital, mainly British and Indian, flowed in as investment. Approximately one-quarter of the capital stock in pre-war years was of foreign origin, and surplus flowed out as profit and as central Indian government’s revenues. (Taylor, 1987). The allocation of expenditures out of the Indian budget to Burma were very small in relation to revenues and declined over time: from 0.47 million rupees in 1876-7 to only 0.29 million rupees in 1927-8 (see Cambridge Economic History of India, p.910).

In the colonial period, the structure of the Burmese economy was significantly modified. The balance of trade was always in favor of Burma but this did not help to raise the income of the Burmese, for it was their own payment of taxes extracted by the government, out of which they were in turn paid for their exports. The foreign exchange earnings remained in the hands of the colonial government and the foreign private
enterprises. Hence the foreign trade multiplier could not operate and there were no benefits for the Burmese people.

By the beginning of the 20th century a group of young nationalists had developed in Burma who were mainly England-educated barristers. On their return they set up the Young Men's Buddhist Association and a number of schools. They were regarded as leaders by the people and were soon expressing the aspiration for political reform. In 1920 a nationwide protest movement was led by them against the denial of constitutional reforms which had been announced for India, and this protest movement included a boycott of British goods. Even though the inclusion of Burma in India in 1886 had been unpopular, the move to separate Burma from India fifty years later in the mid-thirties, was seen as the attempt to deny to the Burmese the political reforms which the British were being forced to give to Indians through provincial elections in response to the national movement there. A radical student group developed in the University of Rangoon which resented the control of the British, doubted the progress of liberal reforms and which came to be known as the thakin movement.

The Depression had started with falling primary product prices from the mid-twenties and this had a disastrous impact on the Burmese two-thirds of whom depended on agriculture. In 1931 the peasants under their leader Saya San rose in revolt and fought British and Indian troops for two years though armed with only swords and sticks. The thakin were joined by two student leaders, Aung San and U Nu; the radical thakin won the trust of farmers and came to replace the liberals, as leaders in the eyes of the Burmese people. With the separation of Burma in 1937 from its previous status as an administrative province of British India, the national movements for freedom gained momentum. Persecuted by the British, nationalist leader Aung San sought Japanese help for expelling the alien rulers from the country. In 1941, first they had drove out the British with Japanese's aid and then, they tried to expel the Japanese in 1945. Subsequently, Allied force returned and the whole country was re-occupied again.

By 1942, Japanese invasion that expelled the British destroyed the foundations of colonial power in the territory. The Burmese economy suffered sorely in the hands of the Japanese. In the economic sphere, the Japanese occupiers intended to implement economic planning and regulation in their own interests. "The first attempt was made in
1942-43 with the issuance of the 'New Order Plan'. But it was a failure for the lack of both economic resources and coercive power" (Taylor, 1987, p. 254). The inability of the Japanese to export Burma rice and import urgently needed consumer goods caused the greatest distress which was further aggravated by the chaos and uncontrollable inflation caused by the Japanese currency policy” (Hall, 1970, p. 824). The country had been flooded by Japanese currency notes. In 1945, as the Japanese regime crumbled, this phase of commercial activity collapsed. After the expulsion of the Japanese from Burma, the British Government returned to the Burmese economy again, imposing a considerable degree of state control and even state trading.

The Second World War and these two invasive wars caused great damage to the Burma’s economy. To make matter worse, the country erupted with multiple political and ethnic rebellions on the eve of independence. This turmoil decreased the real GDP in 1946-47 to “61% of the pre-war level”(Appendix 4.A). Nevertheless, due to the national leaders’ endeavours for freedom, Burma finally gained Independence in 1948. A prolonged period of insurgencies by ethnic groups and communist factions caused widespread destruction and deteriorated the political, economic and social life of the country, resulting in slow economic growth.

In short, under colonial rule, Burma’s traditional subsistence economy was transformed into an export-oriented one based on primary resources. Heavy taxes were imposed on the Burmese people. Trade was completely liberalized and rice exports grew fast, followed by exports of rubber, teak and petroleum. However there was no stimulating effect on the Burmese economy of these exports as the producers were paid in local currency out of the tax revenues they themselves had paid to government, while all foreign exchange earnings from Burma's export surplus was taken by the British for their own use. (It was the same as the Indian case of transfers, discussed in Patnaik, 1985, 2003). Imports also grew and machine made goods were imported without tariff. These cheap imported goods flooded the domestic market and caused unemployment and de-industrialization. The economic development of colonial period was characterised by a rising share of the primary sector and tertiary sector in employment and output, at the expense of the manufacturing sector.
4.2 The Period of the Regime of Parliamentary Democracy (1948-1962)

The modern history of Burma started in 1948 when it gained independence from Britain, after large parts of the country had spent a century or more under the colonial yoke. U Nu was a nominated leader after the assassination of Aung San. In 1949-50, the real GDP of Burma was only three-fifths of the pre-war level. The acreage under rice had fallen to half the pre-war level and rice exports had collapsed since the Japanese occupation had cut Burma off from its traditional outlet through British India.

Reconstruction was carried out under four Plans, but even by 1961-62 the real GDP had recovered to only 11% above that of 1938-9. For a quarter century therefore there was no real progress owing to the need for reconstruction after war devastation and owing to the foreign exchange constraints which kept investment lower than required, since capital goods had to be imported.

Under the U Nu regime, the form of government was parliamentary democracy and state investment was undertaken in public enterprises. The economy was constructed with a heavy emphasis on the role of the State in initiating and maintaining the process of economic development. The new State intended use its enhanced role to overcome the negative legacy incurred from the past and to promote economic development in order to elevate the economic and social status of the population. The foreign control over businesses and trade that prevailed under the colonial system was replaced by a system of licensing with the proviso that 60% of licenses were to be issued to Burmese run businesses and at most 40% to foreigners. However many Burmese with little experience simply gave their licenses for a fee, to foreign businessmen. Fairly strict controls were imposed on the repatriation of profits by foreign businesses after the mid-1950s as foreign exchange shortage developed.

Section 30 (1) in 1947 Constitution had declared that: “the State is the ultimate owner of all lands”. The Land Nationalization Act of 1948 was passed as part of the government's programme of agrarian reform. Its purpose was to return the land held by foreign and local landlords, to the tenants who worked it. There was, according to official statistics, a total of 11.12 million acres of land under cultivation in the delta in 1948, of which a little less than 52% was held by peasant proprietors, about 9% by
resident landlords and the remaining 42% by non-resident (alien) landlords. In central Burma by contrast only 7.5% of the 8.2 million acres of cultivated land was with alien landlords and nearly 87% was held by peasant farmers. However the implementation of the Act was sabotaged owing to the distraction of the civil war and the absence of trained administrative personnel. (Taylor, 1987, p.276).

In 1954 a second Land Nationalization Bill was introduced. Like the earlier Act, it was not intended to introduce socialist forms of ownership and production as land reform in China and Vietnam in the same period did, but rather to redistribute land ownership from foreign and resident landlords back to the tenants. The revised law provided for the compensation of Chettiar and other landlords, but only up to a fraction of the value they set on the land. Between 1953-4 and 1957-8 about 17% of all cultivated land had been nationalized. The government established the State Agricultural Bank (SAB) to provide credit to avoid the indebtedness of farmers to Chettiars but SAB was unable to provide all the needed credit a class of indigenous moneylenders emerged.

By 1961-2 the acreage under rice, and rice output had recovered to 84% and 88% respectively of the pre-war level. The government encouraged the people to take a more active role in trade and industry, while also welcoming foreign investment, especially in large-scale projects. Joint ventures were established by government with both domestic and foreign businesses.

The government nationalized the enterprises formerly run by private British firms. The Irrawaddy Flotilla Company became the State Inland Water Transport Board and the various timber extracting and exporting firms were nationalized under the State Timber Board. Rice purchase and export became a monopoly of the State Agricultural Marketing Board (SAMB). More technically complex foreign owned enterprises as in oil extraction became the object of joint ventures between the State and the mainly British owners.

Centralized governmental planning agencies and development corporations implemented development plans such as the Two-Year Development Plan and Pyidawtha Eight Years Plan. (Maung, Mya.,1971. p.45). The Appendix table (4.B) outlines the various plans and the periods over which they were implemented. The Two-year Development Plan started in 1948 failed due to lack of law and order caused by insurgency at the beginning of 1948-49. The government implemented to some extent the
Eight-Year Plan, 1952-53 to 1959-60, (Pyidawtha Plan) which was drawn up by foreign advisers in 1952. The objectives of this plan were to create employment for the growing population, to reduce the dependency on imports of goods that could be produced economically within the country, to make larger supplies of more varied products available to the people at reasonable prices and to strengthen national defence (Pyidawtha, 1954). But implementation was interrupted in the mid-1950s by the sharp decline in the price of rice after the end of the Korean War, which reduced government's revenues and caused a foreign exchange constraint to emerge. Financial problems were compounded by the civil war and ethnic insurgency, which resulted in economic stagnation and inflation during the second half of the 1950s.

The fluctuation of economic growth in the U Nu period can be seen in figure (4.1) which indicates a transition from sustained growth to depression. The real GDP fell in both 1948-49 and 1949-50 to only three-fifths of the prewar level. The economy recovered again in 1950-51 due to the boom in primary products caused by the Korean War: export earnings grew rapidly and the GDP growth was 13.1%, falling to around 7% in the next two years. The rate of growth of GDP fluctuated markedly in the early 1950s, as the economy was highly dependent on trade, especially of rice, timber and other primary products, and the current account balance reflected the fluctuations in the external price of the major export crop, rice. During the period of war boom from 1948-9 to 1952-3, while the quantum of rice exports hardly changed, its value nearly doubled and foreign exchange reserves rose to a height of 97 million pounds sterling by 1953, before
the crash (Tinker, 1967, 258). Rice contributed at least three-quarters of Burma's exchange earnings (see in table 4.1). With the end of the Korean War and collapse of rice price, deficits emerged. The 8-year Plan was abandoned in 1955 and replaced by a four-year Plan, 1956-57 to 1959-60.

### Table (4.1) Quantum and Value of Rice Exports

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Rice Export volume (Million ton)</td>
<td>1.194</td>
<td>1.129</td>
<td>1.367</td>
<td>1.161</td>
<td>1.200</td>
<td>1.300</td>
</tr>
<tr>
<td>Value (K million)</td>
<td>595</td>
<td>576</td>
<td>758</td>
<td>809</td>
<td>1019</td>
<td>810</td>
</tr>
<tr>
<td>Total Exports (K million)</td>
<td>727</td>
<td>657</td>
<td>975</td>
<td>1093</td>
<td>1295</td>
<td>1130</td>
</tr>
<tr>
<td>Share of Rice (%)</td>
<td>81.8</td>
<td>87.7</td>
<td>77.7</td>
<td>74.0</td>
<td>78.7</td>
<td>71.7</td>
</tr>
</tbody>
</table>

Source: Tinker, 1967, pp. 259, 265

U Nu’s government collapsed by 1961 and disputes emerged among the parties. Due to the increasingly chaotic politics and economic instability, finally the military government took over the reins of power under Gen. Ne Win on March 2, 1962.

### 4.3 The "Burmese Way to Socialism" (1962-1988)

Myanmar has undergone several drastic changes in its political and economic system since independence. The economy was incrementally shaped into a planned socialist economy which was supposed to be of the Sino-Soviet type, but actually in practice perhaps represented a form closer to centralised state capitalism. This was equated with the socialist road in economic policy but in practice it seems to have been more like a state monopoly capitalism since there was no comprehensive socialization of property, and private property ownership remained substantially intact in the main economic sphere of agriculture which supported two-thirds of the country's population. Private property also occupied a large role in the smaller scale manufacturing and the tertiary sector, while larger industrial and financial units - mainly so far in foreign hands - were nationalized, as was banking, communication and much of trade.

As the Table 4.2 shows, even by 1983-4, of the primary sector's contribution to GDP only a quarter came from state or cooperative owned units while three-quarters came from household units. Within the primary sector the State dominated in mining and forestry but 97 percent of agriculture, livestock and fisheries was in private hands. In processing and manufacturing nearly two-fifths of GDP contribution came from private units though in power and construction, the state units dominated. In the services sector
the contribution of private units was much lower at 30% owing to the state monopoly established over communication, financial institutions and social and administrative services. However in any controlled economy it must be remembered that the private illegal or black economy also tends to be quite substantial and particularly in the case of border trade and foreign exchange transactions parallel markets existed alongside the official ones.

Table (4.2) Contribution to GDP by ownership (1983-84) (percentage)

<table>
<thead>
<tr>
<th>Sector</th>
<th>State</th>
<th>Cooperative</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods</td>
<td>22.9</td>
<td>2.4</td>
<td>74.7</td>
</tr>
<tr>
<td>1. Agricultural</td>
<td>0.3</td>
<td>2.6</td>
<td>97.1</td>
</tr>
<tr>
<td>2. Livestock &amp; fishery</td>
<td>1.8</td>
<td>1.3</td>
<td>96.9</td>
</tr>
<tr>
<td>3. Forestry</td>
<td>37.8</td>
<td>4.4</td>
<td>57.8</td>
</tr>
<tr>
<td>4. Mining</td>
<td>88.8</td>
<td>2.7</td>
<td>8.5</td>
</tr>
<tr>
<td>5. Processing &amp; manufacturing</td>
<td>59.0</td>
<td>3.2</td>
<td>37.8</td>
</tr>
<tr>
<td>6. Power</td>
<td>99.9</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>7. Construction</td>
<td>81.5</td>
<td>0.8</td>
<td>17.7</td>
</tr>
<tr>
<td>Service</td>
<td>67.1</td>
<td>2.9</td>
<td>30.0</td>
</tr>
<tr>
<td>8. Transportation</td>
<td>37.0</td>
<td>5.8</td>
<td>57.2</td>
</tr>
<tr>
<td>9. Communication</td>
<td>100.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>10. Financial institution</td>
<td>98.9</td>
<td>1.1</td>
<td>0.0</td>
</tr>
<tr>
<td>11. Social &amp; Administrative services</td>
<td>98.7</td>
<td>1.3</td>
<td>0.0</td>
</tr>
<tr>
<td>12. Rental &amp; other service</td>
<td>13.1</td>
<td>4.5</td>
<td>82.4</td>
</tr>
<tr>
<td>13. Trade</td>
<td>46.2</td>
<td>9.2</td>
<td>44.6</td>
</tr>
<tr>
<td>Total</td>
<td>38.9</td>
<td>3.9</td>
<td>57.2</td>
</tr>
<tr>
<td>Total (1961-62)</td>
<td>24.8</td>
<td>0.7</td>
<td>74.5</td>
</tr>
</tbody>
</table>


The new government was not only influenced by the legacy of colonial rule but also inspired by socialist ideas at that time as was the case also in other newly independent countries. "Socialism is not exploitative. The socialist society based on justice is a prosperous and affluent society, free from exploitation of or oppression of man by man. Where there is no profiteering, where there is no class antagonism which threatens human welfare, and where man's physical well-being and spiritual happiness

Soon after the Military government seized power in 1962, it formed a Revolutionary Council and set about changing the economic policy of Burma. It demolished parliamentary democracy and installed in its place the “Burmese way to socialism” on April 30, 1962. This was the blueprint for action to restructure the economic and political institutions in line with the perceived goal Socialism. The era of Burmese Socialism may be divided into two periods according to the political system in effect, that is, direct military rule by the Revolutionary Council from 1962 to 1974, and Socialist Republic Rule (BSPP) from 1974 to 1988.

The economic principles of the Socialist State under the rule of Revolutionary Council were to eliminate foreign control of the economy, to reduce the country’s dependence on foreign markets, to restructure the economy away from its dependence on primary production towards a more balanced industrial structure, and to reduce the power of the private market by centralization of economic power of the State. “Burmanization” of economy has been a major goals and “nationalization” was thought to be a major policy instrument for attaining this goal.

Accordingly, in 1963, the Revolutionary Council launched the nationalization of the means of production and distribution and import and export of all major commodities, as well as prohibition of formation of new private enterprises in order to carry out its socialist plan. In doing so, the Revolutionary Council began to steer the country along a new road of development. There was an immediate exodus of foreigners from Burma.

The government propelled a series of nationalization programs until 1967. By the early 1970s, all major economic enterprises except agriculture, small-scale trading, and minor services had been nationalized. In fact, “the transfer of resources from private to the public sector, as an organizational means of promoting economic growth and correcting inequity in income distribution, was a phenomenon, which was born out of the Sino-Soviet experience and experiment” (Maung, 1971.p.125). To achieve the economic goals of equity in income distribution and productivity in the economy, the substitution of public for private enterprise (or vice versa) is not only of theoretical interest but also of strategic importance in the development planning of developing countries (ibid, p.119)
Likewise the economic objectives of the Revolutionary Council gave the priority to equity rather than efficiency in adopting the model of a command economy. They thought that sustained economic growth could be achieved without relying on the external sources such as foreign aid and investment. They attempted to grow by self-reliance. Hence, the government practiced isolationism and autarky as a foreign policy because of the anxiety regarding political and economic influence through foreign aid. Consequently, the state had to rely largely upon domestic sources of investment to avoid the involvement of foreign multinational corporations and large-scale foreign aid, as well as avoiding significant foreign borrowing.

However since the major sphere of economic activity in Burma, and the major potential source of investible funds, namely agriculture, was never socialized, we can say that there remained a basic contradiction at the heart of Burmese socialism. In the case of China and later Vietnam, it was a socialised agriculture (operation of larger scale cooperatives and communes) which had quickly raised productivity, and enabled an adequate supply of food and raw materials for development, contributed substantial tax revenues, as well as provided a growing internal market for manufactured goods as rural employment and incomes rose. In Burma however the most important, in fact the most crucial lesson of the economic programmes and actual practice followed by China and Vietnam was never understood by those in Burma who claimed to believe in socialism. There was never any socialisation of agriculture and no recognition that rising productivity and rising incomes in this sector were vital for everything - capital formation for agricultural and industrial growth, supply of food and raw materials without undue inflation, and expansion of the internal domestic market for the products of state industries and private manufacturing alike.

Thus it is not surprising that the country faced the lack of capital formation for investment to develop the economy. It was not only because of the absence of foreign investment flows but also the inability to accumulate capital through domestic savings and taxation. Therefore the rate of growth of investment through out the 1960s remained low and contributed to a slow rate of growth of the gross domestic product (See Appendix 4C). As a result the annual rate of growth of real GDP was also downward, plunging from an average growth rate of about 2.3% between 1961-62 and 1965-66 to a
negative 6% in 1966-67. The average annual growth rate of real GDP between 1966 and 1974 remained low at about 3.7%.

Burma's population according to official estimates, doubled between 1939 and 1978, from 16.4 million to 32.2 million, and it is projected to increase to 46 million by the mid-1990s. In the absence of systematic population census the estimates are based mainly on smaller surveys yielding vital rates: the population growth rate is assumed to be 2.2 % per annum since the mid-1960s.(Steinberg, 1981, 05). The Burmese government considered the country to be under-populated relative to other Asian countries and has been following a pro-nationalist policy under which birth control measures have been banned; but in practice they are in use especially in urban areas. While the crude death rate per thousand has fallen to about 10 by the late 1970s compared to over 16 before 1962, the birth rate has also fallen from about 35-36 per thousand to 28 over the same period, so that the estimated rate of natural increase has remained at about the same level of 20-22 percent during the sixties and seventies (Steinberg, 1981, p.87).

Burma’s economy is ultimately based on traditional agriculture. There is a vast potential of land and forest resources, for further expansion of the cultivable land and sustainable exploitation of forests. Under the self-reliance policy, agriculture along with forestry was the only resource that could finance industrial development. But the State did not collectivize agriculture. Instead, it controlled agriculture and the economic life of the peasantry through nationalization of the internal and external trade in rice and other major products (Taylor, 1987.p.351). The government had never implemented complete land reform that included land allocation not only to tenant farmers but also to agricultural labourers. The agricultural policy was inconsistent with the cause of Burmese socialism, which emphasized the equal distribution of national welfare. The government seemed to have been more concerned with extracting resources from the agricultural sector than with the equal redistribution of land, with raising rural productivity and expanding rural incomes - which would have expanded the rural market for manufactures.

Moreover, the government gave priority in its investment decisions, to industry over agriculture. The share of public industrial investment in total capital expenditure increased remarkably from 3.6% in 1960-61 to 37% in 1970-71 (Steinberg, p.37). Even
though capital-intensive factories mushroomed, industrial output in the public sector did not increase proportionately. In addition to managerial inefficiency, the shortages of imports of raw materials and spare parts, which occurred whenever the foreign exchange situation became tight, aggravated the low capacity usage ratio of expensive machines. Nevertheless, the government adhered both to its self-reliance policy and to industrialization based on import-substitution strategy. The results were disappointing. (Kiryu, p.222) It is argued that too great a reliance on import-substituting industries and practically no attention to export-promotion industries led to resource misallocation (Wai, p.25) but the real story is more complex, and relates to the failure to realise the importance of raising mass employment and incomes in the major producing sector, agriculture.

The disappointing economic performances during 1960s and the 1970s had drawn increasing government attention to the need to reorient economic policies. The strategy of self-reliant development was modified. Restructuring of the economy was considered in the context of transforming the economy from an agricultural to agriculture-based industrial country and hence gradually to industrial nation. The state sector replaced key private business through nationalization scheme. In 1970, the co-operative Act was issued and Co-operative sector became involved in business activities. Meantime the government established a single party political system with the formation of the Burmese Socialist Programme Party (BSPP). In 1974, after drawing up of the constitution, Burma was renamed the “Socialist Republic of the Union of Burma”. The members of BSPP influenced in all parts of the administration and economic activities of the country. The country was ruled by only one political party, and Burma was made into a reclusive state cut off from the outside world, especially the west. (Maung, 1998.p.10)

Despite its avowedly socialist ideology, Burma had not formally adopted any development plan between 1965 and 1971. But in September 1972, the Twenty-Year Plan (Long-term Plan) was promulgated, whose objectives were to be achieved through a series of Four-Year plans. The first four-year plan was to start from fiscal of 1971-72, but the target fell behind schedule and a revised plan was issued in 1974. The Twenty-Year Plan (1974/75 to 1993/94) was initiated only with the second Four-Year Plan (1974-77), and its successors were the third, the Fourth and the Fifth four-Year Plans.
Subsequently, macro-economic performance showed a steady improvement. Formerly, Burma economic performance was stagnant for about a decade up to 1974 due to the lack of adequate investment. The government sought the way of economic reforms to get more investment. Thereby, government received massive foreign aid from the west adopting some ostentations liberalization measures and by borrowing abroad at concessional rate. As a result of external aid, more funds for investment became available and the growth rate rose from the mid 1970s to the early 1980s with lower fluctuations. The trend of economic growth during these periods is given in figure (4.2). The actions undertaken in the Second Four-Year plan (1974-75 to 1977-78) undoubtedly facilitated the relatively favourable economic upturn which saw a higher rate of growth of investment. The economy grew at 4.2% in 1975-76 and in the next year accelerated to a growth rate of 6.15. The annual average rate of growth of GDP and investment were around 4.7% and 18% in respectively. An impressive average annual growth rate of 6.5% had been maintained during the period from 1975-76 to 1981-82.

From the table (4.3) it can be seen that the contribution of the different productive sectors to gross domestic product remained virtually unchanged for the quarter century from 1960-1 to 1983-4. In fact the contribution of the primary sector-Agriculture, forestry and fishing - actually increased from 34.5 to 37.6 percent in 1973-4 and maintained this share in 1983-4. Mining, manufacturing and power rose marginally from 12.3 to 13.5 percent comparing 1960-1 and 1983-4, while the inclusion of construction gives us 14.2 and 16.3 at the two dates. While the share of trade registered a fall, rise in other tertiary sector activities meant that the tertiary sector as a whole was still accounting for 46% of GDP in 1983-4 compared to 51% in 1960-1.

Agriculture also provided more than 60% of total employment in the economy during these more than two decades. Hence, the over all structure of the economy had not changed appreciably. The importance of manufacturing sector is low and it contributed only a tenth of total GDP. Even though, the economic policy was aimed at boosting industry based on agriculture, the lack of agricultural investment and new technology, and an excessively inward-looking policy negatively impacted the potential growth of the productive sectors. Especially, agricultural output grew slowly despite the country’s
potential to progress faster. In the 1970s world prices of primary products were high but Myanmar was unable to derive much benefit from it.

**Figure (4.2) The Changes of Rate of Growth of Real GDP and Investment**

(at 1969-70 price)

![Graph showing changes of rate of growth of Real GDP and Investment](image)

**Table (4.3) Real Gross Domestic Product by selected Sectors (at 1969-70 price)**

<table>
<thead>
<tr>
<th>Sector</th>
<th>1961-62 % Of total GDP</th>
<th>1973-74 % Of total GDP</th>
<th>1976-77 % Of total GDP</th>
<th>1983-84 % Of total GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Agriculture</td>
<td>26.0</td>
<td>28.0</td>
<td>27.0</td>
<td>28.9</td>
</tr>
<tr>
<td>2. Livestock &amp; Fishery</td>
<td>5.6</td>
<td>7.4</td>
<td>7.0</td>
<td>6.7</td>
</tr>
<tr>
<td>3. Forestry</td>
<td>2.9</td>
<td>2.2</td>
<td>2.3</td>
<td>2.3</td>
</tr>
<tr>
<td>4. Mining</td>
<td>1.3</td>
<td>1.1</td>
<td>1.1</td>
<td>1.5</td>
</tr>
<tr>
<td>5. Manufacturing</td>
<td>10.5</td>
<td>9.8</td>
<td>10.5</td>
<td>10.5</td>
</tr>
<tr>
<td>6. Power</td>
<td>0.5</td>
<td>0.8</td>
<td>0.9</td>
<td>1.5</td>
</tr>
<tr>
<td>7. Construction</td>
<td>1.9</td>
<td>1.7</td>
<td>1.8</td>
<td>2.8</td>
</tr>
<tr>
<td>8. Transportation &amp; communication</td>
<td>6.1</td>
<td>2.1</td>
<td>2.1</td>
<td>5.8</td>
</tr>
<tr>
<td>9. Banking &amp; Finance</td>
<td>1.1</td>
<td>1.7</td>
<td>1.7</td>
<td>3.9</td>
</tr>
<tr>
<td>10. Trade</td>
<td>29.3</td>
<td>24.6</td>
<td>24.5</td>
<td>20.6</td>
</tr>
<tr>
<td>11. Other services</td>
<td>14.8</td>
<td>17.2</td>
<td>18.0</td>
<td>15.5</td>
</tr>
<tr>
<td>12. Total (factor cost)</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>


In brief, before the 1980s, the growth rate of GDP was boosted and the average annual growth rate was around 6% between 1975 and 1980 due mainly to the external inflows. However, this externally stimulated growth rate could not be sustained, and by the later 1980s the economic growth showed a negative trend for three consecutive years (1986-87 to 1988-89), precipitated by a decline of trade. Per capita income (GDP) registered an even sharper decline in the same period. It occurred as a result of shortfalls
in export earnings, mainly due to the 1980s fall in the prices of primary commodities in the world market. Furthermore, it affected the productivity of various economic sectors. For instance, in the agriculture sector, it became difficult to maintain the momentum of the intensive cultivation programme due to the shortage of chemical fertilizer, diesel oil, pesticides etc. Also in the manufacturing sector there has been low level of capacity utilization resulting from limited availability of imported and domestic raw materials, fuel and spare parts.

Owing to low productivity in state enterprises and unfavorable conditions of the export of primary products in the world market, the economy suffered from chronic trade deficit almost every year and faced shortages of foreign exchange. Thus, the official exchange rate became progressively more overvalued and the fiscal deficit widened. To reduce the wide deficit, the government attempted to stabilize the economy by tightening import controls and cutting public investment.

In so doing, it resulted also in high prices in the domestic market given the inelastic nature of the demand for most imports, and there was a rapidly rising inflation rate. "Inflation, which had never been an important factor in the past, became a serious problem, rising from 14.75% in 1986-87 to 22.03% in 1987-88" (CSO, 1997). To control inflation and reduce the fiscal deficit, two rounds of demonetizations in 1985 and 1987 deteriorated the economy severely. The growth rate of real GDP plunged to a negative rate of the least developed countries in the world. Therefore Burma applied for and was economically degraded to the status of one of the 41 least Developed countries in the world granted by the UN. According to the UN criteria, a country 'qualifies' as a least developed country if it is a country with less than $200 per capita income, less than 10% contribution of manufacturing to GDP, and less than 20% national literacy rate. The last criterion was not met by Burma which has always had higher literacy than many Asian nations. The real GDP growth rate plunged further to a negative 11.4%, precipitating the mass political uprising in 1988.

In a nutshell, for the entire period from 1962 to 1988, the average annual growth rate of real GDP was no more than 3%. The economy was shifted from the potential growth situation to the recession under the 'Burmese Way To Socialism'. Burma emerged with one of the lowest per capita income in the world. These economic
difficulties played an important role in precipitating the anti-government demonstration of 1988. In 1988, the general situation led to a series of political upheavals and turmoil as a result of which the Army had to take over the State's power with the formation of the (SLORC). This led to the emergence of the new phase of market-orientated economy.

4.4 THE (SLORC/SPDC) REGIME OF MARKET-ORIENTED ECONOMY

The State Law and Order Restoration Council (SLORC) has introduced a market-oriented economic system. By definition, in a market economy, the price mechanism plays a central role and the decisions of investment and of production, are made on the interaction of market forces of demand and supply in a relatively competitive environment. Price mechanism replaces the directives of central planning authority. So the role of government in the economy is minimal. Accordingly, the first and most important policy issue that must be faced squarely is the role of government in the market economy.

There is no single or perfect solution in transforming a socialist economy into market economy and each country has to design its own strategy suitable for its own political, social, cultural and economic circumstances. A consistent and coherent set of policies is essential and timing and sequencing of these policies measures is crucial. SLORC introduced the economic reform measures in various fields to arrest the decline and spur the economy back to recovery after taking over the reins of government in September 1988. The new 'open door policy' replaced the existing 'Burmese Way To Socialism' policy.

The SLORC officially abandoned the establishing a socialist economic system and began to promote the market-oriented economy. It laid down four economic objectives:
1. Development of agriculture as the base and all-around development of other sectors of the economy;
2. Proper evolution of the market-oriented economic system;
3. Development of the economy inviting participation in terms of technical know-how and investments from sources inside the country and abroad;
4. The initiative to shape the national economy must be kept in the hand of the state and the national people.

In order to achieve these objectives, economy was managed by formulating and implementing annual plans. The main objectives of the annual plans were to achieve economic recovery with stability in the short-run and to lay down firm foundations for sustained growth in the long run. Since then, he government has been carrying out economic reforms for economic development based on market economy.

The principles of the economic reforms were:
1. To transform the rigid and inefficient economic management (of the planned economy) into a market oriented economy,
2. To encourage private investment and entrepreneurial activity at home and
3. To open the economy to direct foreign investment and to promote exports.

On the basis of the principles mentioned above, the government has been carrying out the reforms concentrating on the following issues:

1. Fiscal Reforms: The nation's fiscal revenue decreased drastically from the beginning of the 1980s. The rate (revenue as percentage of GDP) fell from 15.0% in 1982-83 to 8.2% in 1987-88 because of its dependence on state-owned enterprises and lack of alternative sources of revenue.

In order to cope with this decreasing level of revenue, a drastic policy is the curtailment of government fiscal expenditure and the execution of tax system reform, etc. the incomes and expenditure of enterprises was organized into State Fund Account (SFA) and control the national budget to prevent the worsening of the State enterprise balance of payments.

Even though, there was a temporary increase after reforming, for example: fiscal revenue increased from 8.2% in 1988-89 to 9.3% and 10.4% in 1988-89 and 1989-90, the downward trend of revenue as a percentage of GDP did not improve much even after 1990. As revenue decreases, so expenditure remains low. The capital investment expenditure by State-owned enterprises fell to 1.3% of GDP in 1992. So it caused the productivity of State-owned Enterprises to be deficient.

2. Financial Sector Reforms: Under the regime of "Burmese Way To Socialism", all banks were nationalized and all financial business was integrated into the Central
bank. After adopting the open-door policy, the private sector has grown and the financial
system needed to cope with the transition to market economy. The government revised
various financial laws in 1990 and permitted the opening of private domestic banks and
representative offices of foreign banks in the country. Interest rates and deposits rates
were to be flexible according to market conditions.

3. State-owned Enterprises Reforms: this reform can be divided into two groups:
i.) Management reform by State-owned enterprises themselves and ii.) Privatization
through joint ventures between private and foreign enterprises. Reforms after 1988 have
been so far unsuccessful in improving the performance of State-owned enterprises.
Although management autonomy has gradually been transferred to each enterprise since
1988, they still do not have efficient management.

4. Agricultural Reforms: under the rule of Gen. Ne Win, the various agricultural
sector related activities including production, sales, land ownership, processing and
marketing were strictly controlled and managed by the government. The paddy
procurement price of the SAMB was held constant for long periods at a fairly low level.
This did not have a positive effect on the farmer’s incentive to produce and in addition,
the agricultural development plan was not smoothly implemented.

Under the present government, reform measures were introduced such as:
Liberalization of agricultural product trade with an end to government monopoly, and the
introduction of agricultural production expansion policies. The production of staple
agricultural products including paddy, beans, peanuts and sugarcane, increased.
Moreover, the other changes are the increase in cultivated areas and secondary crops in
accordance with an increased use of irrigation and increased yield per areas. In this sense,
agricultural reform was successfully implemented.

5. Policies to Foster Private Firms: The fostering of the private economic sector
is the main objective of economic reform. To promote the private sector, firstly
government deregulated the economic activities in private sectors through liberalization
of import-export excluding certain specified agricultural products, and opening up of
industries monopolized by State-owned enterprises to the private sector through the
enactment of State-owned Economic Enterprises Law (1989). In addition, the various
preferential taxation systems were established as an incentive for private investment and allowed the establishment of private banks.

Due to the implementation of measures mentioned above, the number of private enterprises especially in export & import has increased from 986 in 1988-89 to 8931 in 1997-98. (CSO, 1998)

6. **External policy:** Under the former government, the economy was inward looking oriented as a closed economy according to the self-reliance and self-sufficient policy, and nationalization. In addition, foreign direct investment was prohibited and it resulted in economic stagnation. Thus, the current government began opening the economy and allowed FDI with the enactment of the Foreign Investment Law (1988). Moreover, it established incentives for foreign investment including tax exemptions as well as set up a foreign investment committee for the purpose of luring in foreign capital.

By adopting the open-door policy, the current government allowed the private enterprises in external trade. And border trade, which was previously illegal, was normalized (i.e. licenses or permits). Moreover, government implemented reforms including- the liberalization of import and export excluding specified goods, and the deregulation of the procession of foreign currency, and the review the laws and regulations on import and export.

With the implementation of these above reforms, foreign capital inflow is not as much as expected because of the political instability and international sanctions on the country even though Myanmar regulations on foreign capital and incentives are more generous than in the neighboring countries.

In concerning the external trade, Myanmar’s trade has become vigorous and import and export has increased since the open-door policy has been practiced. Some rules and regulations on trade procedures were eliminated and custom duties were revised. The participating of private economic enterprises increased by leaps and bounds in trade after 1989. The border trade has been also normalized. However, this is indeed a trade structure in which intermediate and capital goods are imported by means of the exporting of primary products. The volume of external trade increased significantly. But term of trade is still unfavorable because exports were depended on the primary, which
are price instability, and imports prices were high. In addition, the trade deficits actually increasing because of a higher rate of import than export.

In summary, the government's (SLORC) economic reforms are aimed at transforming the economy from one along socialist lines and dominated by the State sectors to a market-oriented system. Specifically, the reforms aimed at increasing the outward orientation of the economy and its integration with the world economy, at expanding the role of private enterprise, and at reducing the scope and extent of government interventions. In order to achieve these goals, a number of laws have been enacted and regulations instituted since 1988. After initiating the economic reform measures in all economic areas, the Myanmar economy, which was at its worst at the end of 1988-89, in generally speaking, has been improving since 1989-90. An account of the improving economic performance improved will be presented in the next chapter.