

Myanmar's Economic Reform and Development: Prospects and Challenges

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Implementing economic reform is an imperative for Myanmar. Since the new civilian government came to power in 2011, it has undertaken a series of reform measures with varying degrees of success. Whereas a recent Asian Development Bank report noted that Myanmar could become a new economic star on account of its rich resource wealth, there continue to be many challenges to the reform process, not least poor infrastructure, insufficient capital, a lack of qualified personnel, and an unattractive regulatory environment for FDI.

Myanmar is a country replete with natural resources, which include petroleum, timber, tin, antimony, zinc, copper, tungsten, lead, coal, limestone, and marble. In spite of this resource potential, it has, since 1987, remained one of the world's poorest countries, additionally enduring decades of sanctions which have also served to shackle its development. The estimated GDP of Myanmar in 2012 was US\$53.1 billion, with per capita GDP standing at just \$835.¹ This poor economic situation has had serious political ramifications, serving as the catalyst for the demonstrations in 1988 and the Saffron Revolution in 2007.

Thus, the long period of poverty combined with its toll on the population of Myanmar has put pressure on the new government, which was formally sworn into power in March 2011, to grasp the imperative of initiating economic reform. Indeed, given Myanmar's rich resource potential, many people in Myanmar consider the county's economic plight as an embar-

assment to the nation, and point blame at the former Junta government. As a result of the latter's extended period of economic and political governance, there is no efficient market economic model, no independent central bank, and no stable exchange rate system. And while the new Thein Sein government is an elected government, its top officials are mainly drawn from the former Junta. In order to avoid further unrest, the government must clearly demonstrate reform of the country's economy to improve the population's economic situation and, secondly, rebrand and improve the image of the government.

After it came to power in March 2011, the Thein Sein government initially emphasized political reform

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as its priority. Especially during the first year of the new government, however, economic reform and development did not receive the necessary attention. It was not until later that top government officials realized that lagging economic reform would hamper political reform. If the economy remains underdeveloped, the country is unlikely to be able to maintain stability, and political reform is unlikely to be implemented smoothly; in fact it may even fail.

There are a number of factors that have heightened the urgency of reform and development. For one, the turmoil in the Arab world in the past two years has been disconcerting for the Myanmar authorities and pressed them to accelerate economic reforms. This is particularly the case, as many analysts have noted, because one of the catalysts for the so-called Arab Spring was the high rate of youth unemployment. Indeed, on June 1, 2012, Aung San Suu Kyi told the World Economic Forum (WEF) in Bangkok that youth unemployment in Myanmar was extremely high. She continued to note that unemployed young people “sit around tea shops, toddy palm shops, take to drugs, and take to gambling,” further adding, “What I’m afraid of

is not so much joblessness but hopelessness.”²

Even more worrying is the fact there are about three million Burmese migrant workers in Thailand, many of whom face unemployment after the new minimum wage requirements

were imposed by the Thai government in January 2013 that forced many factories and workshops to close down. As a result of such laws, but also because of the positive changes in Myanmar with the new civilian government, many of these migrant workers in Thailand are returning home, which places more pressure on the labor market and social stability.

Also of concern is that the ethnic minority areas of Myanmar are the poorest places in the country. This situation is further exacerbated because the central government has not reached a permanent ceasefire and peace agreement with all groups, one of the reasons being that the latter are dissatisfied with the ap-

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palling economic situation in their controlled areas. If the central government is unable to provide equal development opportunities for the country as a whole, Myanmar will not realize permanent stability and development.

Economic Reform: Aims and Objectives

In a speech delivered on May 20, 2011, at the National Level Workshop on Rural Development and Poverty Alleviation, President Thein Sein emphasized that: “In Myanmar, rural people who make up about 70% of the population are the main working force, and the majority of them engage in agricultural and livestock farming. Therefore, boosting production of goods and economic development of rural areas is the engine of national economic development. Only with economic development of rural areas, will there be alleviation of poverty.”³

As previously mentioned, however, the government was slow to implement economic reforms, instead prioritizing political reform, an omission which it subsequently sought to redress. Thus, on June 19, 2012, in a televised speech billed by official media as a “state of the union address,” on the impoverished country’s reform process, President Thein Sein announced that the country would embark on a new phase of econom-

ic reforms. The president pointed out: “From this year onwards, we are working on a second phase of reforms which will focus especially on the development of the country and the public’s welfare.”⁴ He also invited international business and economic specialists to join with the government for “national development.” Stating the objectives of a five-year plan, the government outlined a projected GDP growth of 7.7 percent to 2016, a 6.1 percent increase of the industrial sector as part of GDP, a rise in per capita GDP, as well as a generally better harnessing of human capacity, financial capital, technology, and increasing foreign investment, among other objectives.⁵

Since then, Thein Sein’s government has exerted a lot of energy in pursuing economic reform to accelerate the transition from military rule. In contrast to the former Junta government, one of the fundamental goals of the economic reform of Thein Sein’s government is to improve the economic wellbeing of the population of Myanmar, paying particular attention to rural development and poverty alleviation. This policy direction is designed to increase the income of the workforce, and create a more prosperous country with a domestic market of booming demand.

Economic Reform: Steps and Measures

The following section examines some of the measures and steps that have been taken in regard to economic reform.

Raising Income, Microfinance Initiatives, and Improving Livelihoods

On March 15, 2013, the Minister of Finance and Revenue announced that all civil servants would receive a 20,000 kyat (US\$23) monthly pay rise beginning in April 2013, and the minimum salary for workers in industrial zones was temporarily set at 56,700 kyat (about US\$65) per month following several strikes by garment factory workers in 2012.⁶ Indeed, the government has stressed the need for people-centered development, including increasing individual household incomes.

President Thein Sein often inspects poor rural areas around the country; he also requests that government officials stabilize agricultural products and ensure that loans reach the hands of farmers in order to attract the

necessary foreign investment to develop agriculture. On March 2, 2013, the Myanmar official newspaper *The New Light of Myanmar* reported that: “Our government is planning to increase agricultural loans to address the peasants’ need of the injection of capital. The loan for paddy and sugarcane will be increased to K 0.1 million and that for other seasonal crops to K20,000 per acre.”⁷ On May 12, 2013, furthermore, as he addressed the Mandalay Region rural development and socioeconomic improvement discussion event, President Thein Sein called for microfinance initiatives to bring tangible benefits to the poor, saying that it was also incumbent on borrowers to use loans and repay them in full.⁸

Another issue that has to be addressed is the serious shortage of gas supply. The Thein Sein government has promised that newly explored gas in the country will be provided to the domestic market first—and thus be used to improve citizens’ livelihoods—rather than be geared toward exports. The government recently cut electricity supply to the industrial zones to ensure supply to common households. Further to these measures, the government also asked telecommunication enterprises to reduce the price of mobile phone cards. The government has also put a lot of money into building and upgrading infrastructure, such as bridges, roads, railways, as well as airports to ease people’s daily lives.

Reshuffling and Privatization

The Myanmar government has reshuffled several economic governing organizations, set up several new service organizations, discharged conservative officials, and elected reform-minded officials to important positions. Indeed, President Thein Sein has reshuffled the cabinet several times in the past two years. The main purpose of such was to prevent conservative officials from blocking the reform process and so forcing them to step down or sidelining them, while promoting officials supporting the reforms to more important positions. The result has been that the government basically has reached a consensus that the reform process is irreversible and that cabinet members need to act in concert; less resistance to reform means that progress is able to proceed faster.

With the status of reformers enhanced, government decisions and rules have improved with the result that investors are also better served. For example, in Janu-

ary 2013, the government formed a central committee comprising of 27 members with President Thein Sein as head for the development of small and medium-sized enterprises (SME). More specifically, the central committee is tasked with drawing up laws, regulations, and procedures for SME development. One of the responsibilities is to ensure that the government and private banks provide financial capital for its development, that local and foreign organizations meet technical requirements, and that human resources are sufficiently nurtured.⁹

The government has also strongly pursued the privatization of state-owned enterprises, loosening state control in the sectors of telecommunications, energy, and finance, among other fields. The government wants to create a suitable environment for the private sector in the reform process, which can then inject more dynamism into the economy. Most of the state-owned enterprises are unprofitable, receiving a lot of government subsidies, while corruption remains a problem. Reducing its state-owned sector and boosting private businesses, it has introduced privatization (sale or rent) in certain areas of government-run businesses. Private sector participation in the national economy continues to grow. This encourages competition in the relevant business areas, generates a greater number of jobs, increases efficiency, and benefits the general public in terms of competitive pricing and improved services. In the future, more and more state-owned enterprises will be transformed into corporations with the aim of boosting the private sector.¹⁰

Banks & Bolstering Expertise

The government takes full advantage of the recommendations and advice of domestic and international experts. On April 11, 2011, President Thein Sein set up the Economic Advisory Unit lead by Dr. U Myint, by means of which advisors can directly submit economic reform advice to the president. Myanmar has held several large workshops concerning rural development and poverty alleviation, the reform of banks (including increasing the independence of the central bank), and the capital market, and it has additionally, since coming to power, held the Myanmar Investment Summit each year. The Myanmar government has invited many international scholars, experts, and investors to

attend the workshops and summits, and it has even employed several U.S. and EU experts to assist with the issue of economic reforms. With the help of IMF experts, for example, on April 1, 2012, Myanmar ended the parallel market currency exchange rate system which had lasted for more than 20 years, and Myanmar's central bank set a reference exchange rate of 818 kyat per U.S. dollar (basically according to the black market range of 800 to 820 kyat per dollar, which is already used for most transactions in the country). Besides these measures, the Myanmar banks have joined the VISA ATM network, and they have begun to conduct international credit card transactions and engage in E-Commerce. Seeking and listening to expertise has thus been pivotal to such developments.

Attracting FDI

President Thein Sein has undertaken economic and political reforms that have persuaded Western countries to suspend, and in some cases rescind, most of the sanctions placed on Myanmar. However, the country is seriously short of capital and techniques to develop the economy, because it holds a large amount of debt largely as a result of two decades of economic sanctions. Therefore attracting FDI and emulating the lessons learned from other countries is an urgent task for Myanmar's economic development. Accordingly, the Myanmar government is making efforts to attract FDI from ASEAN, the U.S., EU, Japan, China, India, South Korea, and other countries. On May 23, 2012, Myanmar sent a delegation to China to discuss preferable measures regarding FDI, inviting Chinese companies to invest in Myanmar. Indeed, when senior Myanmar officials have visited foreign countries, such as Japan and EU member states, they often meet with interested enterprises to introduce Myanmar's investment environment. The most significant measure in this regard was the issuing of a new foreign invest-

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ment law in early November 2012, which allows foreign firms to fully own ventures as well as offering tax breaks and lengthy land leases. This law has prompted an upsurge of interest in the country from multinational firms, which see potential in Myanmar's abundant resources and low-cost economy.¹¹

Foreign enterprises can now invest in the fields of electricity, oil, gas, hotels, tourism, and telecommunications, among many others. The Myanmar Investment Commission is responsible for approving joint ventures, if foreign and local companies agree on the investment ratio, and has been reorganized to provide better services to investors. Furthermore, the Ministry of Commerce plays a vital role in the transformation process of the implementation of a market-oriented economic system. It offers a one-stop service for company registration, and accelerates the process of examining and approving trade licenses.

Asia's Next Rising Star?

Myanmar finds itself on an accelerated track of reform and development. On August 20, 2012, the ADB released a report entitled *Myanmar in Transition: Opportunities and Challenges*. The report pointed out that Myanmar could emulate Asia's fast-growing economies and expand at 7 to 8 percent a year, become a middle income nation, and triple per capita income by 2030 if it can overcome substantial development challenges by further implementing across-the-board reforms.¹² Stephen Groff, ADB's Vice President for East Asia, Southeast Asia and the Pacific, stated: "Myanmar could be Asia's next rising star, but for this to happen there needs to be a firm and lasting commitment to reform."¹³ Further, in May 2013, the IMF said in a statement that Myanmar's reforms are bearing fruit, and its economic growth is gaining momentum: Myanmar's economy is expected to grow 6.75 percent in the fiscal year 2013 ending March 2014, thus accelerating slightly from an estimated 6.5 percent growth in the previous year.¹⁴

China, India, ASEAN, Japan, Russia, and Western countries are boosting economic ties with Myanmar. Western countries have abolished many sanction measures, opened new markets for Myanmar products with low tariffs—in some cases even zero tariffs—and have begun to invest in Myanmar. For example, the value of bilateral trade between Myanmar and the United

States reached US\$190.96 million in 2012, of which Myanmar's exports to the United States accounted for \$16.47 million while its imports stood at \$174.49 million. Moreover, U.S. investment in Myanmar in the last couple of years has amounted to \$243.56 million across 15 projects. In November 2012, Obama promised that the U.S. would provide \$170 million in aid to Myanmar.¹⁵ On May 21, 2013, the two countries also signed a Trade and Investment Framework Agreement (TIFA).¹⁶

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Myanmar's economic reform and development has received international support. The countries of the Paris Club, a group representing 19 major world economies, cancelled US\$2.2 billion of Myanmar's debt in January 2013.¹⁷ In May, Japan wrote off a further \$2 billion in debt and is extending a new aid package worth 51.05 billion yen (\$504 million).¹⁸ In January 2013, the Asian Development Bank granted \$512 million to the country, and the World Bank has approved \$440 million in credit for Myanmar to aid its social and economic development.¹⁹ These investments will help Myanmar to build infrastructure, develop special economic zones, open new factories, and employ more workers.

Myanmar is in a good position to connect businesses and the interflow of goods and materials between Southeast Asia and South Asia. In this context, Myanmar is establishing several special economic zones which will help it to become a center for products and logistics in the region. These projects include a special economic zone in Dawei in the Myanmar-Thailand border area, Kyauk Phyu near the coast of the Indian Ocean, and Thilawa near Yangon Port on the Andaman Sea. These special economic zones will better bring into play Myanmar's geographical advantages and boost its development. In addition to Myanmar's rich mineral resources, the country is also fortunate in possessing huge stands of teak and other hardwoods. All this lends itself to the possibility that Myanmar will be able to develop rapidly and become a hub of regional economic cooperation and prosperity.

Challenges to Reform and Development

The future of Myanmar's economic reform and development seems bright, but the reality is that economic reform has only just begun. Whether or not Myanmar can maintain a relatively high growth rate for a sustained period of time and become a middle-income nation, is still in question. The country's process of reform and development will be an arduous one full of challenges.

Many international investors are still hesitant regarding the results of the new round of reforms. Skepticism is largely due to the failure of reforms under the former Junta government, which left many foreign investors disappointed. According to Transparency International's Corruption Index 2012, Myanmar is still one of the most corrupt countries in the world, a fact which presents itself as a big obstacle to economic reform and development.²⁰ An article in the *Wall Street Journal* pointed out that Myanmar has only just recently opened to Western investors after the Junta government stepped down in 2011, with private-equity firms divided over whether Myanmar will be a source of profits, or just another place to endure losses.²¹

The outdated economic system, especially the financial system, will be a big hindrance to economic reform. Myanmar has not established a mature and stable market economy system, and agriculture is the main sector in the national economy, with industry remaining backward and fragile. The country is short of skilled workers, lacking expertise in technology and management, particularly in the financial sector, which is a critical lubricant of the economy. Even now, many Myanmar banks still keep accounts by hand, and the country is far from fully realizing electronic transactions both domestically and internationally. Accordingly, many foreign investors are concerned about problems with Myanmar's outdated banking system. As the U.S. Department of State notes in its 2013 Investment Climate Statement for Burma: "In practice, the transfer of money in or out of Burma has been difficult, as many international banks have been slow to update their internal prohibitions on conducting businesses in Burma given the long history of U.S. and European sanctions that had isolated the sector."²²

Myanmar's banks cannot easily handle large amounts of U.S. dollars being transferred between Myanmar

and foreign countries. The question is therefore: how should foreign investors transfer large profits from Myanmar? Foreign investors also worry about the dispute settlement mechanism concerning FDI in Myanmar. As the above cited Investment Climate Statement further reports: "There is no bankruptcy law in Burma. Foreign companies have the right to bring cases to and defend themselves in local courts. As the courts are tightly controlled, foreign investors involved in conflicts with the government are unlikely to receive compensation."²³

The obstacles in the economic system are significant, and they are the most difficult problems to overcome in the reform process. The dilapidated state of infrastructure is another big and long-term barrier to economic reform and development. Most of the roads in Myanmar are old and in bad condition; railways in Myanmar are also old and too narrow. The efficiency of operating a business in Myanmar is therefore very low, but the cost of the logistics is very high. Another headache to investors is the frequent brown- and black-outs of electricity throughout the country. Telephone and internet penetration in the country is also still very low, which continues to hamper development and efficiency.

An additional challenge is that the government will continue to struggle in the collection of taxes for many years to come, and the yearly fiscal deficit continues to be very high. This means that the government has little money to invest to push forward economic reform. Although the Paris Club has cancelled almost half of Myanmar's foreign debt, Myanmar still has several billions of dollars in international debt.

However, there are some positive signs. On May 12, 2013, President Thein Sein announced that the number of local and foreign investments had increased five-fold between 2011–12 and 2012–13 (fiscal years).²⁴ And Myanmar has approved FDI projects worth more than \$1.8 billion from the start of the fiscal year on April 1 to the end of August, compared with \$1.4 billion in the whole of the previous fiscal year.²⁵ Nonetheless, FDI inflow remains relatively small or not as much as expected. Reasons for the slow inflow of FDI include the fact that China's investment in Myanmar fell to just \$1 billion in 2012, a sharp decrease from the previous year. This is largely due to concern from Chinese investors worried about the safety of invest-

ments in Myanmar after the suspension of the massive Myitsone dam project and demonstrations against the Chinese-operated Letpadaung copper mine.²⁶ Secondly, the new laws impose strict standards on FDI, and there are many protests against foreign investors arising out of environmental concerns, land disputes, and dissatisfaction with working conditions and wages. Thirdly, foreign companies setting up operations in Myanmar market face a growing problem: Southeast Asia's highest office rental rates. Aung Naing Oo, a director general at the Ministry of National Planning and Economic Development, said that he fears potential foreign investors will be turned away by a severe shortage of office rental space.²⁷

The question remains whether Myanmar's industry can become stronger or if it will be marginalized by foreign companies; whereas national industry is essential to Myanmar's economy, in fact most of Myanmar's companies are middle- or small-sized firms. The several big enterprises that exist lag behind international competitors in terms of their technology, management, and operation. In the face of increasingly powerful international companies, questions can be posed concerning the fate of Myanmar's national companies. How can local and international companies compete or cooperate harmoniously? And how can both find mutually beneficial solutions and profit from new developments?

Internationally speaking, the prospects for the world economy, especially the U.S., EU, and Japan, are still gloomy, which is bad news for Myanmar's economy. Western investors do not have abundant capital to invest in Myanmar, and Western market consumption capacity is slowing. This negative situation will likely continue for several years, which means that Western investments and markets cannot play a strong role in Myanmar's economic development.

Conclusion

In conclusion, the Thein Sein government has implemented a series of ambitious economic reform measures since it came to power, which have attracted a lot of attention both domestically and abroad. Myanmar's economic reform will boost the country's development and improve its population's overall well-being. Nev-

ertheless, Myanmar should also take note of the challenges and carefully overcome the difficulties ahead. In short, Myanmar will have to make sustained and concrete efforts if it is to become Asia's next economic star.

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KEY POINTS

- In spite of its resource potential, Myanmar has remained one of the world's poorest countries.
- According to the ADB, Myanmar could emulate Asia's fast-growing economies if it can overcome substantial development challenges by further implementing across-the-board reforms.
- Myanmar is in a good position to connect businesses and the interflow of goods and materials between Southeast Asia and South Asia.
- International support and foreign investments will help Myanmar to build infrastructure, develop special economic zones, open new factories, and employ more workers.
- The government must clearly demonstrate reform of the country's economy to improve the population's economic situation, paying particular attention to rural development and poverty alleviation.

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