

ECONOMY AGRICULTURE COUNTRIES: MYANMAR

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Abstract

The aim of this study is a comparative characteristic of the rural economy countries, namely Myanmar. The study found that the main problem existing in agricultural economics is to support agriculture at the state level and the natural climatic and political conditions. This paper analyzes the agricultural economy of Myanmar for several years. The scientific novelty of the research lies in the fact that the author has made specific proposals and recommendations on the modernization of the rural economy of Myanmar, taking into account the state support, the natural climatic and political conditions.

Key words: Agriculture, change, Myanmar, the economy, the agricultural market, price.

JEL classification: Q13; Q14; Q18

Introduction. Myanmar is agriculture-based country. About 40 percent of the gross domestic product (GDP) comes from agricultural sector and more than 60 percent of the people live in rural areas. Agriculture sector contributes major source of foreign exchange, and supplies of the bulk of basic food. Agricultural output of the country rose starting from 1990 at an annual average rate of one percent per year. The linkage between agriculture sector and other sectors of the country' economy stimulates for growth and income generation. According to the Asian Development Bank (ADB), Myanmar's population for year 2000 was nearly 48 million and it reached 51 million in year 2005 and nearly 60 million in 2010 (CSO). The population was composed of 29.48 percent in the 0-14 age group, 65.58 percent in the 15-64 age group and 4.94 percent in the 65 and above age groups in 2005. It is indicating that nearly 66 percent of the population can be considered as potential human resources for the economic

development of Myanmar. The demographic structure of the country's population has changed overtime. The economically active group, between 15 and 64 years old, accounted for 55.31 percent of the population in 1980, and 25 years later this cohort comprised nearly 66 percent of the total population. Nearly 63 percent of the population was engaging in the agriculture sector in 2010. It was about 67 percent in 1980. These figures are indicating that Myanmar economy is still much depending on agriculture sector. At the same time, employed labor force in service sector stands within 20 to 25 percent from 1980-2010. This is also implying that sector contribution of services remains unchanged for 30 years. If we also look at the industry sector, we will see not much change during this time. It was nearly 10 percent in 1980 and 12.2 percent in 2010. Generally speaking, the employment distribution of the different sectors reflects their respective contribution to GDP. The share of the agriculture sector in total GDP was 46.54 percent in 1980 and it was increased to 60.1 percent in 1995 and decreased again to 57.23 percent, 42 percent and 36 percent in 2000, 2005 and 2010, respectively. This figure also indicating that the sector plays still important for Myanmar economy.

Main part. Steadily declining of agriculture's contribution, from 1995 to 2010, to job creation is to be expected as the economy moved to development, but the industry share in total GDP was declining from 1985 to 2010. Thus, industry sector failed to absorb the labor force of agriculture sector. On the other hand also, share of service sector in total GDP was declining from 1980 to 1995. But it was increasing from 1995 to 2010 indicating that labor force in agriculture sector moved to the service sector after 1995. In overall, agriculture sector is still the largest provider of jobs in Myanmar economy. According to the ADB data, per capita GDP in Myanmar has been growing since 1980. In 1980 per capita income was Kyat 3726 while in 2005 it was Kyat 167205. However, if we divide the per capita income in 2005 by market exchange rate, which is about Kyat 1200 per one US dollar in average, it is about US\$ 160. This income is far less than if comparing with other developing countries those are neighbor to Myanmar (ADB). The share of agricultural export of some commodities (for example, rice) from Myanmar to the world market has fluctuated from 185 million US dollars in 1980-1982 to about 84 million US dollars in 2000-2002, and 400 million US dollars in 2010. But market share of other products such as peas and beans and shrimps and prawns has increased because of rapid expanding demand of beans from India and shrimps and prawns from Japan. But Myanmar' agricultural export largely consists of a few low

value-added primary commodities. On average, these two export items, which are predominantly primary agricultural commodities, account for more than 60 percent of total agricultural export earnings. Moreover, because of the sanction practiced by EU and US, Myanmar's exports are concentrated particularly on only a few markets of which Thailand is by far largest, followed by China, India, and Japan. Intra-ASEAN trade is not so much in volume compared with trade of those countries. Starting from 1980, with the growing integration of markets due to globalization and trade liberalization, economies of the less developed countries face a more fiercely competitive external trading environment. Myanmar is also not an exceptional country. Myanmar continue to export a limited range of primary commodities that are highly vulnerable to instability in supply, demand and a decline in terms of trade before 1988 under the then centrally controlled Burmese socialist government. Given the context of political and economic reforms, Myanmar could assess larger and more affluent market like Japan favors growth and development through trade after 1990 but still facing many internal supply side constraints associated with its underdeveloped economy which renders its exports uncompetitive. But after 1980s, globalization brought outward-looking policies in the world. Since then it became popular policy prescription among economists and policy makers. Many developing countries liberalized their trade and harvested the benefits of such openness. At the same time, another hypothesis related to structural changes of exports and diversification of the exports was used to debate in the trade literature. Many economists have been argued that a more diversified export mix may enable a country to be stable in economic growth (Ali and others 1991; Gutierrez de Pineres and others 1997). In this context, Honma (2003) noted that for a small country, the price elasticity of demand for exports of a homogeneous commodity is large and there is a huge potential to be gained if it is successful in reducing the export price by more efficient production. Therefore, least developed countries and/or developing countries should create markets for their agricultural commodities with large price and income elasticities of demand to achieve sustainable long-term growth by means of export diversification. For many least developed countries and developing countries, agricultural trade remains an important part of overall economic activity and continues to play a major role in domestic agricultural production employment. But greater reliance on a small number of primary exportable commodities for export earnings is a challenging issue for those countries. Johnston and Mellor

(1961) reported that expansion of agricultural exports is considered one of the most promising means of increasing income and augmenting foreign exchange earnings, particularly for a country stepping up its development efforts. In the international trade literature, a number of empirical studies have been undertaken in this context (Michaely 1977; Feder 1983; Hsiao 1987; and Dutt and Ghosh 1996).

The Past Trade Policy Context The then Myanmar Socialist Government pursued closed-door policy for many years which actually suited the centrally-planned socialist economic system. Many analysts agree that the economic policy of Myanmar during the socialist period (1962-1988), especially up to the early 1970s, was essentially a policy of agricultural exploitation, with heavy emphasis on rice production (Soe and Fisher 1990; and Thein 1997). Because of the economic and political deterioration of socialist system, popular uprising was happened in 1988. As a consequence, military took the power by coup in the same year. Starting from the late 1980s and 1990s, Myanmar initiated economic reforms and export-oriented policies. The State Peace and Development Council (SPDC) further encouraged state economic enterprises (SEEs) to form the joint ventures with private entrepreneurs. However, the export growth has declined slightly in the late 1990s and early 2000s because of the heavy reliance on very few commodities and regional financial crisis and deterioration overall macroeconomic conditions inside the country. Asian financial crisis led to the reduction of the inflow of foreign direct investment into the country. Consequently it increased the trade deficit because imports are increasing while exports are stagnant due to decrease in demand of export. Myanmar implemented a series of reforms since late 1980s. It liberalized the agriculture sector, expanded the private sector for trade to some extent, opened the border trade and allowed foreign investments to inflow into the country. These were done by the licensing of private bank operations, the legitimizing of foreign exchange transactions in the parallel market, the privatizing of SEEs and the simplifying of the tariff system. The country's GDP grew by more than 6 percent between 1993 and 1996. But after 1997, its economic growth was slowed to 4 percent per annum due to adverse weather conditions, the regional financial crisis and deterioration in overall macroeconomic conditions. Myanmar signed PTA with Malaysia in 1998 whereby Myanmar received crude oil on beneficial terms in exchange for agricultural products. Foreign trade is engaged in Myanmar both by public and private sector. All public sector exports and imports are recorded using the official exchange rate, even though actual transactions

may use one of several exchange rates. Private sector imports require import licenses for each transaction and are financed through the importers' foreign trade account. Private sector trade is transacted at the parallel market rate, although a range of other exchange rates may be applied.

Myanmar entered AFTA on January 1998 a year after being a membership in ASEAN. Under this scheme, imports are classified under several lists: the inclusion list, temporary exclusion list, sensitive list and general exception list. About 43 percent of all imports were on the inclusion list which consisted of commodities on the fast track (0-5 percent tariff rate within 5-8 years) and normal track (0-5 percent tariff rate within 10 years). Products on the temporary exclusion list (about 55 percent) were phased into the inclusion list by 2015. The government practiced an unrealistic official exchange rate to overvalue the Kyat. Although the official rate has remained fixed at Kyat 8.5 per Standard Drawing Right (SDR) since 1977, the market rate of the Kyat has significantly depreciated and business transactions are conducted at market rate. SEEs are required to record their transactions at the official rate as well as foreign firms are also. This practice distorts the accounts and reduces transparency. In 1993, the government introduced foreign exchange certificates which have been used in external trade and selected invisible private sector transactions (means unrecorded business transactions). Despite moves to encourage foreign trade and investment, extensive regulations and procedures tend to hinder commercial activities in the country. The procedure for requesting permits that required for exports, imports and other business activities has been cited as not being transparent and the list of prohibited exports has been frequently changed. Commercial disputes are handled solely under the arbitration among the persons involved in the disputes. As a result, business involved in disputes tend to seek settlement informally rather than legal system. The government partially liberalized rice production in 1996 and encouraged the farmers to diversify the crop production away from so-called industrialized crops such as pulses, sugarcane and cotton. However, the restrictions on rice export made the domestic prices far lower than international prices. In 2004, government announced that domestic rice marketing and export of rice are freed. But unfortunately, export of rice has been again prohibited to stabilize the rice prices inside the country. As a result, the export capabilities in Myanmar are restrained by the unintended effects of agricultural and trade policies as well as by political situations in the past.

The scientific novelty of the research lies in the fact that the author has made specific proposals and recommendations on the modernization of the rural economy

of Myanmar, conducted an analysis of the rural economy in recent years and offered recommendations for its improvement.

Conclusions. Myanmar's economy was hurt due to its neighboring countries' economies slowdown by global financial crisis and the impact of Cyclone Nargis in 2008. Economic growth was recovered to 5.5 percent in 2010 as FDI inflow into the country and as domestic investment, construction and services increased up. The ADB said that the country needs to reduce its poverty rate based on the joint survey made by United Nations Development Program (UNDP) and Integrated Household Living Conditions Assessment (IHLCA, 2007) done by Myanmar government. The overall poverty rate for the country was 32 percent though the rural poverty rate was 36 percent and urban poverty was 22 percent in 2007. The country's poverty rate was decreased to 26 percent in 2010 from its level of 36 percent in 2004. There were also positive indicators such as increases in net school enrollment rate, vaccination of under 5 years children against measles, births given with skilled medical staff, and access to safe water, and decrease in lack of food supply and death toll of pregnant women.

Myanmar's government, parliament, private sector and civil society must decide collectively whether they aspire to pursue a Long Game or a Short Game agricultural growth strategy. By definition, government commitment to key structural and policy reforms constitutes a prerequisite for a Long Game strategy. So the first question any potential donor must ask is whether or not the Government of Myanmar is prepared to increase public funding for agricultural support institutions and at the same time ramp up the process of institutional and policy reforms necessary to raise productivity, lower volatility and increase predictability. Private sector, civil society and donors can then adjust their aspirations accordingly. In the absence of government commitment to key institutional and policy reforms, the private sector, civil society and donors will be confined to Short Game interventions. Within the Short Game, early actions in the areas outlined above can help to lay the foundation for quick gains while at the same time providing a bridge to Long Game structural reforms. As a result, gains in a Short Game can help to pave the way for much greater gains in a Long Game. Our team strongly advocates a strategy focused on the Long Game, particularly a set of early actions necessary for enabling necessary structural reforms, but complemented by Short Game interventions that help to increase incomes, assets, farmer skills and water management systems that expand productive potential in the Long Game. By piloting models for effective bottom-up research and extension, actions in a Short Game can help to set up a

successful Long Game. A balanced attack, centered on the Long Game but complemented by Short Game interventions, will likewise help to demonstrate to rural communities that the GOM and its development partners are seriously committed to improving the agriculture sector.

This multi-pronged approach addresses the needs of rural communities for early visible change while at the same time remaining committed to necessary structural re-engineering of institutions and policies. Myanmar's neighbors and competitors in Thailand, Vietnam, Bangladesh, Malaysia, India and China have all committed to high-productivity Long Game strategies. Without similar commitment from Myanmar, we find it difficult to see how Myanmar's farmers will be able to compete in increasingly competitive regional and global markets – including those at home. Because two-thirds of Myanmar's population and three-fourths of its poor live and work in rural areas, broad-based agricultural growth offers a uniquely powerful instrument for accelerating economic growth and improving the welfare and food security of vulnerable households. Myanmar's current highly skewed distribution of land, its growing levels of landlessness and increasingly contentious disputes over land access not only pose dangers to vulnerable household welfare but also risk inflaming social tensions and conflict. As a result, we consider the Long Game reforms outlined here imperative for agricultural productivity growth as well as long-term political stability.

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