

# Chapter 12

## Challenges, Prospects and Strategies for CLMV: The Case of Myanmar

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## Chapter 12

# CHALLENGES, PROSPECTS AND STRATEGIES FOR CLMV DEVELOPMENT: THE CASE OF MYANMAR

*Kan Zaw*

### ABSTRACT

Since ASEAN economic integration is more than the liberalization of trade and investment and also linked with each other through many other means, the subregional growth areas of CLMV have been focused from Myanmar's perspective. This paper gives an overview on and insight into Myanmar economy. Statistical portrayals were updated. Trade indices and prospects were obtained from economic cooperation among ASEAN countries. In Myanmar, the nation-building tasks carried out in the past two decades are regarded as guidelines in carrying out peace and stability, as well as the balanced growth in its states and divisions. This paper highlights the National Development Planning, which focuses on the Development of Border Area: Plan for 24 Special Development Zones and Integrated Rural Development Plan. These remarkable national plans are expected to accelerate economic growth, achieve equitable and balanced development, and reduce the socioeconomic development gap between rural and urban areas all over the country. Also, regional infrastructure developments are included in the Growth Corridor Concept. For such efforts and its location advantage for future prospects, Myanmar deserves a closer look.

### 1. RATIONALE

The success of ASEAN economy reflects every facet of growth of Myanmar economy. Moreover, the lessons given by the 50 years of development have brought about new prospects for global and local economic development. Analyzing the contour of Myanmar economy and its present status will reveal that the nation has committed to

strengthening its economy to move towards a new, modern, and developed nation. The developmental activities in all sectors and for all of Myanmar people are also within the nation's development terrain.

For more than a decade now, Myanmar has been taking several steps and adopting a number of strategic frameworks as comprehensive initiatives towards economic development. After going through a socialist period from 1962 to 1988, various reforms and measures were introduced during the early 1990s. These reforms broadly covered the areas of foreign trade, foreign investment, tourism, fiscal and financial sectors, legal system, the establishment of special development zones, and the development of frontier area administration. Since then, development has been extended to other areas. Taking its cue from the World Development Report, which prescribes that “a renewed commitment to comprehensive reform is needed to position the economy for recovery and growth and to lay foundation for reducing poverty,” Myanmar undertook some initiatives to fix the economy and catch up with its neighbors.

It is necessary thus to expand the concern of economic integration as the vision of development strategy towards the age of economic integration, which is a challenging issue for all CLMV countries. Achieving sustainable development, developing the financial sector, and establishing the development fundamentals are essential measures to be undertaken for a comprehensive development of Myanmar. At this transition stage, Myanmar has declared that its development strategies are regionally feasible.

## **2. OVERVIEW ON MYANMAR ECONOMY**

Adopting the market-oriented policy since 1988 was a significant change in terms of overall policy framework in Myanmar. The utmost goal of becoming a peaceful,

modern, and developed country calls for the shared commitment by its citizens under the concept of "unity in diversity."

Three national initiatives or causes—nondisintegration of the union, nondisintegration of national solidarity, and perpetuation of sovereignty—are regarded as a national responsibility. Based on these three initiatives, the country has laid down twelve objectives (four political objectives, four economic objectives, and four social objectives). The thrusts for national development and the economic objectives laid down for the mission statements are as follows:

- Development of agriculture as the base as well as the all-around development of other sectors of the economy;
- Proper evolution into a market-oriented economic system;
- Development of the economy to invite participation in terms of technical know-how and investments from sources inside and outside the country; and,
- The initiative to shape the national economy must be kept in the hands of the state and the people.

To achieve the aforementioned economic objectives, the State Law and Order Restoration Council (SLORC)<sup>1</sup> initiated the economic reform measures in various sectors, under the following objectives:

- To adopt a market-oriented system for the allocation of resources and the distribution of goods and services;
- To encourage private investments and entrepreneurial activities in the domestic arena; and,
- To open the country to foreign direct investment and promote exports.

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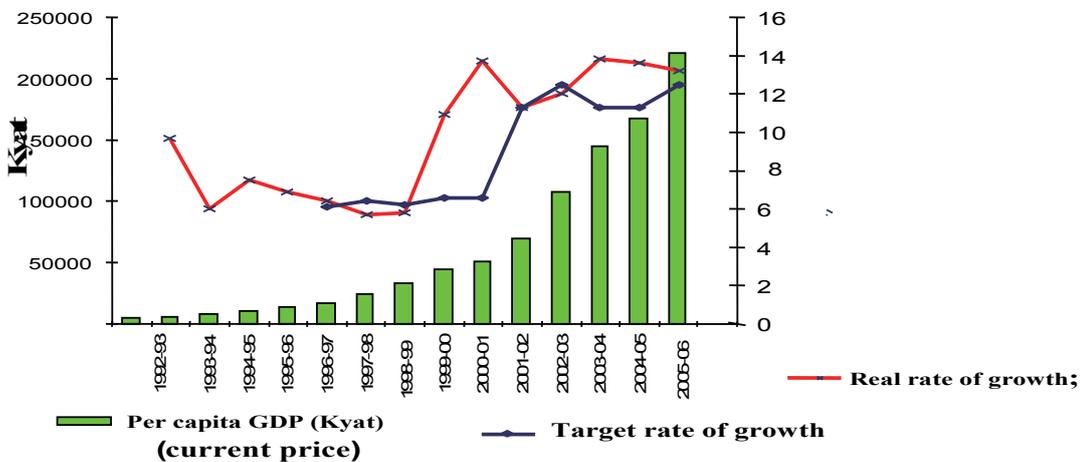
<sup>1</sup> SLORC was renamed as State Peace and Development Council (SPDC) since 15 November 1997.

The nation-building tasks carried out in the past two decades are regarded as guidelines in carrying out peace and stability and the balanced growth of its states and divisions. The growth of economy is also considered as the basic pillar of development, too.

The rate at which the economy grows is regarded as one of the key indicators of economic performance. Annual growth rate of GDP, comparing the targets for the Second Five-Year Short Term Plan (1996/1997 – 2000/2001) and the Third Five-Year Short Term Plan (2001/2002 – 2005/2006) and the per capita GDP, are shown in Figure 1. The actual growth rate of GDP surpassed the target rate. Annual average growth rate of GDP was 12.8 percent during the period 2001-2002 to 2005-2006.

It is apparent that the growth of output in the national economy is taking the upward trend. Growth rate of GDP in 1999 to 2000 was 10.6 percent, the highest growth rate in the decade. Growth rate of real GDP surpassed the target rate in the early 2000s and the per capita GDP also soared. The GDP increased significantly from 2552.7 billion kyat in 2000-2001 to 4661.3 billion kyat (at constant price) in 2005-2006. The per capita

**Figure 1: Rate of Growth of GDP (Actual and Planned) and Per Capita GDP**



**Table 1: Growth of GDP and Per Capita GDP**

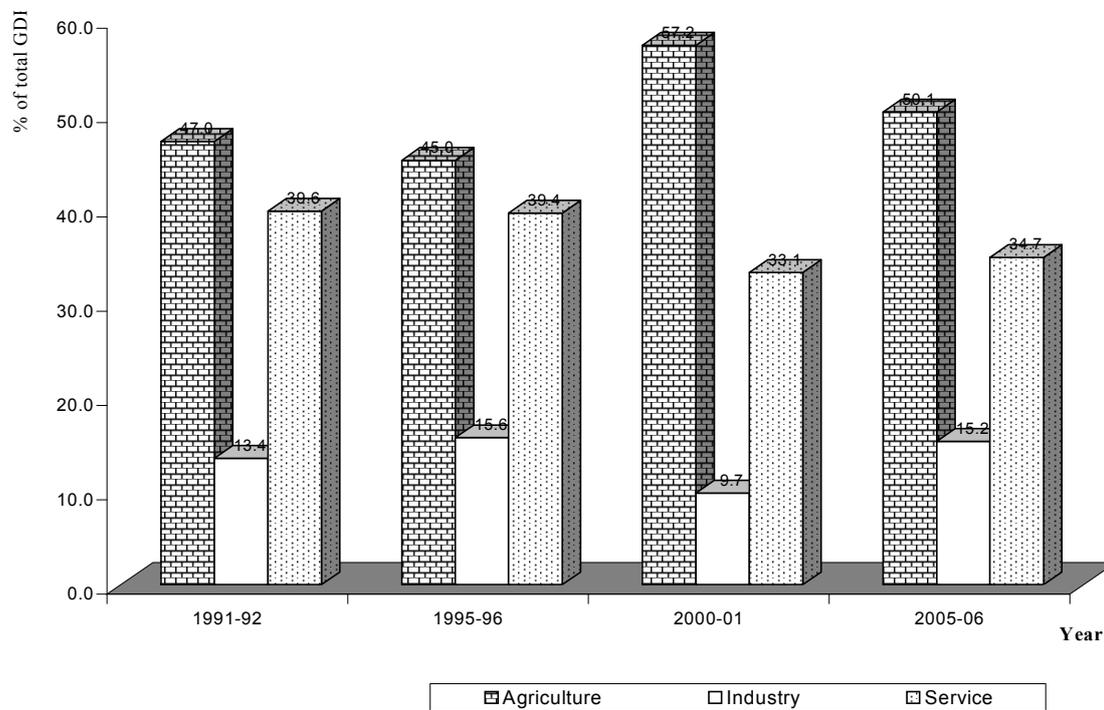
<b>Year</b>	<b>Total GDP (in billion kyat)</b>	<b>Rate of growth of GDP (%)</b>	<b>Per capita GDP (in kyat)</b>
1990-1991	151.94	2.8	
1995-1996	604.73	6.9	13,515
2000-2001	2,552.73	13.7	50,927
2001-2002	3,548.47	11.3	69,390
2002-2003	5,625.25	12.0	107,823
2003-2004	7,716.61	13.8	144,984
2004-2005	9,078.93	13.6	167,202
2005-2006	12,254.55	13.6	221,217

*Source:* Central Statistical Organization: Statistical Yearbook, 2005

GDP increased about 4.3 times, from 50,927 kyat in 2000-2001 up to 221,217 kyat in 2005-2006<sup>2</sup> (see Table 1).

To liberalize the economy, the government initiated a series of reform measures in various sectors (Appendix 1). As a result, the growth rate of GDP was over 7 percent per annum between 1992-1993 and 1995-1996. Other factors contributing to this significant growth were the surge in the agricultural production mainly due to the introduction of summer paddies, growth in exports, growth in the tourist industry, and construction boom. The positive response of the private sector to liberalization policies clearly attest to the prowess and dynamism of Myanmar's private sector in promoting development. Figure 2 shows that, although agricultural sector still plays an important role in economy, service sector is considerably advancing in line with the market-oriented system. The industrial sector also slightly improved in 2005-2006. As a whole, sector-wise performance is flourishing.

<sup>2</sup> Statistical Yearbook ,2005 (Yangon: Central Statistical Organization, 2007)

**Figure 2: Sectoral Shares in GDP**

### 2.1 Development of Agriculture Sector

Agriculture contributed 47 percent to GDP in 1991-1992. Its contribution to GDP went up to 51.9 percent in 2005-2006. It accounted for 18 percent of total export earnings and employed 63 percent of total labor force in the same period. Seventy-five percent of the total population residing in rural areas is principally engaged in agriculture, livestock, and fishery sector.<sup>3</sup> To develop the agriculture sector, the government has taken measures to ensure sufficient water supply and fulfill the other requirements of this sector. Moreover, the government is taking steps to expand the yield of major crops: rice, beans, edible oil crops, jute, palm, rubber, sugar cane, cotton, and castor. For this purpose, priorities are being given to reclamation of vacant and virgin lands, cultivation of mixed and double crops, and boosting the per-acre yield. As a result, arable land

<sup>3</sup> MNPED, Myanmar Economic Development, 2006, MNPED

reached a total of 19.9 million acres in 1988-1989, and increased to 27.3 million acres in 2003-2004 and 28.3 million acres in 2004-2005.

As the liberalization of agricultural sector keeps in line with a market-oriented economy, agricultural marketing precedes two steps: domestic marketing reform in 1987 and export liberalization in 1988. The first step comprised the abolishment of compulsory delivery system and admission of private traders into agricultural trading. The second step covered the authorization of private traders to export freely as long as they were registered exporters.

As a consequence, both agriculture production and sown acreage increased dramatically. Paddy production increased from 13,164 thousand metric tons in 1988-1989 to 30,537 metric tons in 2006-2007. Production of beans and pulses increased from 371,000 metric tons in 1988-1989 to 4,265 thousand metric tons in 2007/06. In terms of sown acreage, paddy production increased from 11,807 thousand acres in 1988-1989 to 19,818 thousand acres in 2006-2007. Sown acreage of pulses and beans went up from 1,803 thousand acres in 1988-1989 to 9,890 thousand acres in 2006-2007.

Employment opportunities of landless laborers increased, as there were more work offers in harvesting pulses and beans. Moreover, access of landless laborers to credit increased in the form of advanced wages<sup>4</sup>.

Due to export liberalization in 1988, export volume of rice and rice products rose from 134,000 metric tons in 1990-1991 to 182,000 metric tons in 2004-2005, while exports of pulses and beans increased significantly from 195,000 metric tons to 873,000 metric tons.

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<sup>4</sup> Okamoto, Ikuko, Agricultural Marketing Reform and Rural Economy in Myanmar; The Successful Side of the Reform, paper presented at the Parallel Session II, 2004, Institute of Developing Economies, JETRO

With the aim to expand cultivable land, private entrepreneurs and companies were allowed to reclaim vacant and fallow lands, virgin lands, and wetlands. The state also supports necessary machinery and equipment, manpower, fuel and communication network. In 2006, the total area of lands of private entrepreneurs and companies ready for cultivation reached 2.4 million acres, of which 0.7 million acres were reclaimed lands and 0.3 million acres were lands under cultivation. Accordingly, the net sown area increased by 1.5 times, from 19.9 million acres in 1988-1989 to 29.3 million acres in 2005-2006. Mixed and multiple cropping areas increased from 3.9 million acres in 1988-1989 to 19.8 million acres in 2006-2007<sup>5</sup>.

Since agricultural infrastructure development was given priority, the number of dams and reservoirs increased to 659 in 2005-2006, from 475 in 1988-1989, which indicates that a total of 189 new dams and reservoirs were built in 2005-2006. Accordingly, irrigable area increased by 2.2 times, from 2.52 million acres to 5.52 million acres, resulting in an increase in irrigated area to 20.5 percent of cultivated land area from 12.6 percent.<sup>6</sup> Moreover, the total sown acreages of principal crops between 1988-1989 and 2005-2006 doubled. As a result, production of principal crops during the same period increased (see Table 2).

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<sup>5</sup> Ibid., MNPED, Myanmar's Economic Development , November 2006

<sup>6</sup> Ibid.

**Table 2: Changes in Sown Acreage and Production of Principal Crops**

Crops	Production (in thousand metric tons)			Sown Area (in thousand acres)		
	1988-1989	2005-2006	Percentage Average Annual Growth Rate	1988-1989	2005-2006	Increase in Amount
Paddy	13,164	27,481	4.4	11,807	18,017	6,210
Beans and pulses	371	4,086	15.2	1,803	9,410	7,606
Oil crops	712	2,334	7.2	4,873	7,971	3,098
Cotton	60	236	8.4	443	820	377
Sugarcane	2,197	7,187	7.2	123	330	207
Culinary crops	389	1,810	9.5	327	852	525

*Source:* MNPED: Myanmar's Economic Development (2006).

Since 1992, the government has been implementing various reforms in the agriculture sector, including double cropping, which increased the number of paddies to 18 million acres in 2005-2006, of which 17 million acres were monsoon paddies and 0.6 million acres are summer paddies. Thus, yields from paddies doubled during said period. There was also an increase in the yield of beans and pulses by 11 times during the same period. The growth rate of production of beans and pulses averaged 15.2 percent annually. And the yields of other crops were also increasing faster than domestic consumption. Thus, the progressive achievements in the agriculture sector covering production, services, and trade, accrue to national development efforts.

Livestock and fishery, subsectors of agriculture, are also important to Myanmar economy. These sectors contributed 9.5 percent in GDP in 2005-2006. Concerted efforts are being made for the development of livestock and fishery sectors to meet domestic consumption and to promote export. In Myanmar, fish production is still

relatively untapped but has vast potential for advancements. Of the maximum sustainable yield of 1.5 million metric ton of freshwater fish and 1.05 million metric ton of marine fish, only 80 percent of freshwater fishery and 13.1 percent of marine fishery are being tapped at present.

## **2.2 Current Situation of Industry, Trade, and Investment**

In industrial development, Myanmar's manufacturing sector accounted for slightly over 15.2 percent of GDP in 2005-2006 and employed approximately 12 percent of the country's labor force<sup>7</sup>. The main manufacturing activities are related to the processing of natural, mostly agricultural resources.

Food and beverages production accounts for about 75 percent of total industrial output. Private industries, though significantly contributing about 92 percent in the total industrial gross production, had in the past been confined to small-scale activities that mainly focused on agro-processing.

In order to promote industrial development, a total of 18 industrial zones were established across the country in 1995 and 2005. Altogether, 9,915 enterprises are operating in these zones. (Table 3; the distribution of industrial zones across the nation is shown in Map-1).

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<sup>7</sup> Statistical Year Book 2005, CSO, November 2007

**Table 3: Development of Industrial Sector (December 2006)**

Industrial Zone	21
Industries	9915
Private industries	43374
Cottage industries	8595
State-owned industries	799

*Source:* Chronicle of National Development (MOI) (2007)

Industrial enterprises can be classified into three types: state-owned, cooperative and private. Pattern of industrial sector has been significantly changed by the decreasing number of state-owned factories and the increasing number of private factories (Table 4).

Industrial development in Myanmar has never been vigorous. The development of small and medium enterprises, which play an important role in the industrialization of Myanmar, influences the progress of industrial zones.

To gain greater impetus in the industrialization process, the Myanmar Industrial Development Committee (MIDC) was formed in 1995. The MIDC's primary objective is to lay down policy measures. Other objectives of the MIDC are the following:

- (1) Development of industries with agriculture as the base;
- (2) Enhancement of quantity and quality of industrial products;
- (3) Increased production of new types of machinery and equipment;
- (4) Production of machinery and equipment for industrial use; and,
- (5) Creation of suitable conditions for the shift to an industrialized state.

**Table 4: Current Situation of SMEs in Myanmar**

	<b>1999</b>	<b>2000</b>	<b>2,001</b>	<b>2,002</b>	<b>2,003</b>	<b>2,004</b>	<b>2,005</b>
<b>Large</b>	1,593	1,843	2,047	2,304	3,135	3,213	3,438
	(4.4%)	(5.1%)	0	0	0	0	0
<b>Medium</b>	4,033	4,185	4,291	4,342	6,215	6,359	6,430
	(11.2%)	(11.5%)	0	0	0	0	0
<b>Small</b>	30,410	30,201	31,393	31,852	33,454	33,863	33,456
	(84.4%)	(83.4%)	1	1	1	1	1
<b>Total</b>	36,036	36,229	37,731	38,498	42,804	43,435	43,324
	(100%)	(100%)	1	1	1	1	1

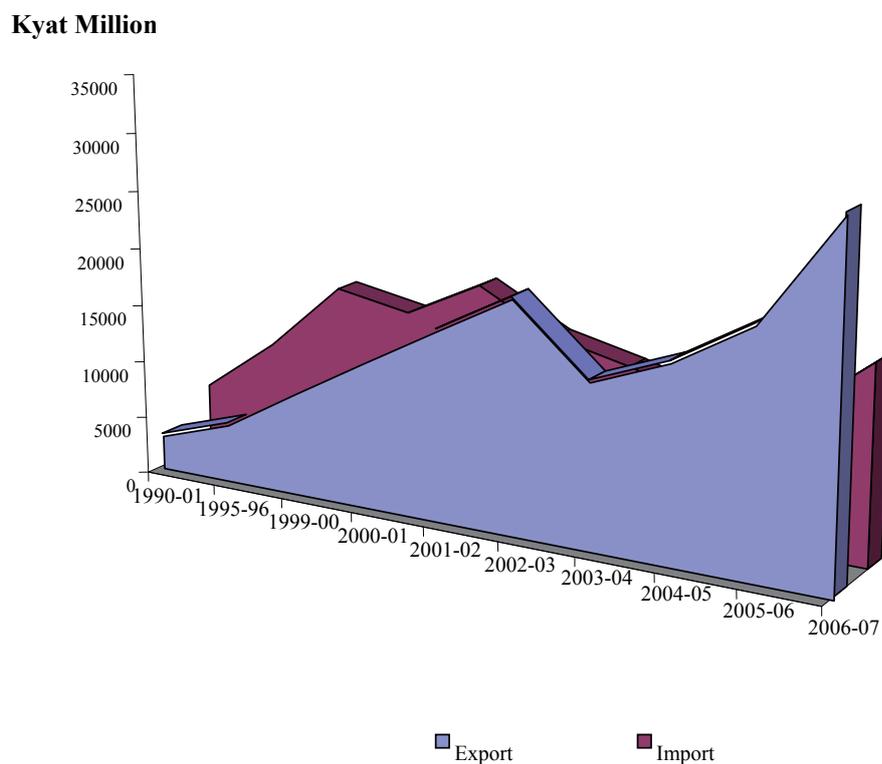
*Source:* Myanmar Industrial Development Committee (2007)

Through the support of government and the assistance of MIDC, advanced foundry and related workshops were established in industrial zones of Mandalay, Monywa, and Ayethaya (Taunggyi) to produce machine parts for the state organizations and local markets. Parallel to the establishment of advanced foundry shops, the government also assisted in the establishment of mould and die industry to support the manufacturing of high-quality machine parts. Indeed, setting up of advanced foundry and mould and die industries was a significant turning point and an important step for industrial development.

As to international trade, which is also in line with the market-oriented system, Myanmar's international trade performance got a boost when open economy and trade deregulation took center stage. As a result of the liberalization policy, the trade sector has grown steadily. Figure 3 shows the constant increase in the value of exports and imports, even as the balance of trade continued to have deficits until early 2000.

However, since 2002, there has been trade surplus due to the increase in total export volume and new export items in general and surge in natural-gas export in particular.

**Figure 3: Changes in Value of Myanmar International Trade**



The structure of export commodities obviously changed after 1999-2000. In the early 1990s, export structure was dominated by agro-based products. Later, resource-based products became the main export items. As shown in Table 5, agriculture products, mainly rice and pulse, contributed one-fourth of the total exports.

**Table 5: Structural Changes in Export Commodities (Percentage Share)**

No.	Commodity	1991-1992	1999-2000	2003-2004
1	Rice and rice products	5.8	0.7	0.9
2	Pulses	17.4	13.2	12.3
3	Maize	0.4	0.6	0.7
4	Oil cakes	0.4	0.0	-
5	Raw rubber	0.1	0.8	0.7
6	Raw cotton	-	0.1	-0.1
7	Raw jute	-	-	0.0
8	Other agricultural products	7.7	2.4	2.0
9	Animal products	0.2	0.3	0.1
10	Fish	1.2	2.6	2.3
11	Prawn	3.8	5.9	4.2
12	Other marine products	0.5	0.5	0.3
13	Teak	25.0	8.1	10.6
14	Hardwood	8.7	2.2	3.9
15	Base metal and ores	2.4	3.2	2.4
16	Silver	0.2	0.0	-
17	Precious stones and pearls	2.7	2.4	2.5
18	Gas	-	0.3	24.6
19	Garment	0.3	30.4	13.9
20	Other commodities	23.1	26.0	18.5
	<b>Total Export</b>	100.0	100.0	100.0

Source: Ministry of Commerce (2007)

Since 2003-2004, the new export product, natural gas, has been the major export item. It accounted for 24.6 percent of total export, followed by agricultural products, accounting 7 percent of the total. In 2006-2007, value of natural gas was the highest (55

percent) among the topmost export commodities, followed by forest and agricultural products, and garments (8 percent each).<sup>8</sup>

Meanwhile, the structure of importations remained unchanged. The majority of imports are dominated by capital goods, such as machines and transport equipment, contributing about 26 percent of total imports. Leading import item in 2006-2007 was refined mineral oil, which accounted for 32 percent of the total value of the top ten imported commodities. Other import leaders were machinery (23 percent) and nonmachinery and transport equipment (10 percent).

In accordance with one of the economic objectives, that is, developing the economy by inviting participation in terms of technical know-how and investments from sources inside and outside the country, the government enacted in 1988 the Foreign Investment Law (FIL). The law permits foreign investments and gives an opportunity to foreign companies to enjoy up to 100 percent ownership. And to stimulate investment from the domestic private sector, the Myanmar Citizen Investment Law (MCIL) was enacted in 1994. Along with these opportunities, joint ventures can be undertaken with either a private company or a state-owned enterprise. As a result, the inflow of FDI surged until the middle of 1996 but dropped sharply after 1997 partly due to the Asian economic crisis and partly due to the economic sanctions imposed on Myanmar by Western countries.

Under the FIL, 400 enterprises from 29 countries were permitted to invest in Myanmar, whose total investments were valued at US\$13848.86 million as of end of September 2006. The permitted amount of investment since 1996-1997 is shown in Table 6.

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<sup>8</sup> MNPED, Myanmar's Socio-economic Development (2006-07)

**Table 6: Yearly Permitted Amount of Investment**

<b>Year</b>	<b>Amount, in Billion US Dollars</b>
1996-1997	2.814
1997-1998	1.013
1998-1999	0.054
1999-2000	0.058
2000-2001	0.218
2001-2002	0.019
2002-2003	0.087
2003-2004	0.091
2004-2005	0.158
2005-2006	6.066
2006-2007 (until September)	0.033
<b>Total</b>	<b>13.848</b>

Source: Ministry of National Planning and Economic Development (2007)

Most of the inflow of foreign investments came from Asian countries, followed by European countries and the United States. Among Asian countries, ASEAN+3 was the largest investor. The permitted amount of investment by source countries and the number of registered enterprises and businesses under FIL are shown in Tables 7 and 8.

Analyzing FDI by sector, it can be noted that electric power sector was the largest recipient sector of FDI in terms of volume, although there was only one investment made in this sector. The oil and gas sector takes the second spot in terms of the number of projects and invested value, followed by manufacturing, real estate development, hotel and tourism, and mining sectors. Most of the FDIs are resource-seeking and efficient-seeking, such as oil and gas, fishery, and garment industries due to the richness of natural resource endowments in the nation. Sectoral investment of permitted enterprises is shown in Table 9.

It is also noticeable that the domestic investment under MCIL increased annually, amounting up to Ks 125.34 billion in 2006. According to statistics, 669 enterprises have

already been permitted under the MCIL. As to the number of projects and value invested, the largest player was the manufacturing sector, followed by real estate development, construction, and transport sectors.

**Table 7: Permitted Amount of Investment by Source Countries**

	<b>Amount (in million US dollars)</b>	<b>Share (%)</b>
<b>Asian countries</b>	<b>11,011.649</b>	<b>79.5</b>
-ASEAN+3	10,461.599	75.5
-ASEAN	9,860.787	71.2
-Japan	215.283	1.5
-China	194.221	1.4
- Republic of Korea	191.308	1.4
- India	35.075	0.3
- Others	514.975	3.7
<b>European countries</b>	<b>2,388.231</b>	<b>17.3</b>
-EU countries	23,79.599	17.2
- others	8.632	0.1
<b>American countries</b>	<b>3,33.897</b>	<b>2.4</b>
- United States	243.565	1.8
- others	90.332	0.6
<b>Australia</b>	<b>82.080</b>	<b>0.6</b>
<b>Russia Federation</b>	<b>33.000</b>	<b>0.2</b>
<b>TOTAL</b>	<b>13,848.857</b>	<b>100.0</b>

Source: Ministry of National Planning and Economic Development (2007)

**Table 8: Number of Registered Enterprises and Business**

	<b>Enterprise</b>	<b>1990- 1991</b>	<b>2000- 2001</b>	<b>2004- 2005</b>
1	Exporters and Importers	5473	14121	18201
2	Business Representatives	282	2605	2774
3	Myanmar Company Limited	265	9596	14376
4	Partnership Firms	565	1264	1270
5	Foreign Companies and Branches	82	1410	1477
6	Joint-venture Companies Limited (excluding those under Foreign Investment Law)	16	64	66
	State-owned Economic Enterprises and Private Entrepreneurs	12	50	52
	State-owned Economic Enterprises and Foreign Companies	4	14	14
7	Joint-venture Companies Limited, formed under Foreign Investment Law	14	77	81
8	Other Organizations	6	39	41
9	Tourist Enterprises	-	601	700
10	Tourist Transport Business	-	423	378
11	Hotel Business	-	336	427
12	Lodging House Business	-	178	168
13	Tour Guide Business	-	5019	6327
	<b>TOTAL</b>	<b>3,923</b>	<b>35,797</b>	<b>46,352</b>

Source: Ministry of National Planning and Economic Development (2006)

**Table 9: Foreign Investment of Permitted Enterprises**

Sector	Permitted Enterprises (as of end September 2006)	
	Number	Approved Amount (in million US dollar)
Electricity	1	6,030.00
Oil and Gas	72	2,668.00
Manufacturing	152	1,610.41
Real Estate Development	19	1,056.45
Hotel and Tourism	43	1,034.56
Mining	58	5,34.89
Transport and Communications	16	313.27
Livestock and Fisheries	24	312.36
Industrial Estate	3	193.11
Construction	2	37.77
Agriculture	4	34.35
Other Services	6	23.69
<b>TOTAL</b>	<b>400</b>	<b>13,848.86</b>

Source: Ministry of National Planning and Economic Development (2007)

### **3. MECHANISM FOR ECONOMIC DEVELOPMENT IN MYANMAR**

#### **3.1 Development Strategies in Myanmar**

Myanmar Development Strategy started with the most universal inward-looking development strategy since the early years of independence (1950- 1960). Myanmar, similar to other developing countries, practiced import-substituting industrialization led by the public sector during the socialist period (1962-1988). For external trade, a

moderately high tariff wall was put in place to replace the free trade system of the colonial era. Although, the country's economy was based on agriculture, the socialist government gave priority to industrial sector development.

Since the military junta (SLORC) assumed power in 1988, Myanmar economy was transformed into a market-oriented economic system, initiating an *outward-looking development strategy*. Various efforts have been made to achieve sustained development for the economy. The most significant effort is the structural reform, which is considered as to be accompanied with stabilization programmes (especially monetary and fiscal adjustments) based on the following objectives:

- Adopt a market-oriented system for the effective allocation of resources and the distribution of goods and services;
- Encourage domestic private investments and entrepreneurial activities; and
- Open the economy to foreign direct investment and promote exports.

The main thrusts that direct the development strategies are envisioned towards the modern, development and peaceful nation with the three main national causes: nondisintegration of the union, nondisintegration of the national solidarity, and perpetuation of national sovereignty. With these guided national thrusts, four economic goals have been laid down as pillars for development strategies:

- Development of agriculture as the base and all-around development of other sectors of the economy as well
- Proper evolution into a market-oriented economic system
- Development of the economy that invites participation in terms of technical know-how and investments from sources inside and outside the country

- The initiative to shape the national economy must be kept in the hands of the state and people

### **3.2 Strategies towards Agricultural Development**

For the development of agricultural sector, the Ministry of Agriculture, as a focal ministry, has adopted and implemented the following policies and strategies for agriculture development:

- To allow freedom of choice in agriculture production;
- To expand agricultural lands and safeguard the rights of the farmers; and,
- To encourage the participation of private sector in the commercial production of seasonal crops and perennial crops and the distribution of farm machineries and other inputs.

With a view to improve the agriculture sector and uplift the national economy, an agriculture policy was established in 1992, which declares the following:

- Production of food crops and industrial crops with no restriction;
- Permit the production of industrial and plantation crops on commercial scale;
- Allow private investors and farmers to expand agriculture production in cultivable wasteland;
- Encourage the participation of private sector in the distribution of farm machineries and other farm inputs; and,
- Utilize agriculturally unproductive land for other production programmes.

The policy objectives are:

- To achieve surplus in paddy production (*to increase rice production so that more surplus of rice could be exported after having reserved enough quantity for local consumption*)
- To be self-sufficient in edible oil production (*edible oil production in Myanmar is not sufficient and huge amount has to be imported annually. However, Myanmar plans to stop edible oil importation in the near future.*)
- To increase the production and export of pulses and industrial crops (*pulses are one of the major sources of protein and foreign exchange in Myanmar. Industrial crops include sugarcane, cotton, rubber, palm oil, of which cotton and sugarcane production is being intensified to increase export volume.*)

To achieve these goals in a more efficient manner, state-private harmonized approach and rural-welfare orientation approach are being carried out in the long-term. With a view to accelerate land development, the government has accorded strong administrative support to national companies, associations, and local citizens by encouraging and granting rights for the cultivation of paddies, pulses, oil crops, and industrial crops.

Specifically, Myanmar has five strategic approaches in implementing the policy, namely:

- a. Development of new agricultural land;
- b. Provision and adoption of agricultural machineries;
- c. Provision of irrigation water;
- d. Development and adoption of modern agro-technology; and,
- e. Development and utilization of modern crop varieties.

In harmony with a market-oriented system, the government has made the most remarkable reform in the agricultural sector in 2003: the "Decontrolling of Paddy, Rice and Rice Product Trade", which mentions that the government will directly buy rice from farmers. This policy aims to ensure a free trade of the crop for the majority of rural farmers, in accordance with market-oriented policy. Within two decades, there was evident growth in the investments in agriculture infrastructure and the linkage between agriculture and industry had become stronger.

Functional and territorial aspects viewed as important factors for harmonious developments in agriculture, industrial, and infrastructure are taken into account in the strategies for development. Moreover, national unity, territorial integrity, special requirements and needs, challenging potentials, necessary reallocation/rehabilitation, and special plan of actions are covered under the territorial aspects of development. In order to accelerate economic growth, to achieve equitable and balanced development, and to reduce socioeconomic development gap between rural and urban areas, the National Development Plan comes with three national development programs, namely:

1. Development of Border Area
2. Build 24 Special Development Zones
3. Integrated Rural Development Plan

#### Development of Border Area

To ensure the equitable development all over the country, the programme was started in 1989. Specifically, the Ministry of the Progress of Border Areas and National Races and Development Affairs was established in 1992 to promote the well-being of border areas. The main task carried out by the Ministry is upgrading infrastructure in border areas to

ensure greater connection with the other parts of the country and thereby narrow down development gaps. Until 2006, the programme was being carried out in 18 different areas covering 68 townships.

#### Plan for 24 Special Development Zones

To facilitate balanced socioeconomic development in all states and divisions, the government promotes education, health, and infrastructure advancement within the 24 Special Development Zones established in all states and divisions (illustrated in Map-2).

#### Integrated Rural Development Plan

More than 70 percent of the population live in rural areas in Myanmar and accordingly, national development will be delayed if improvements in these areas lag behind. In 2001, the Integrated Rural Development Plan was initiated to undertake the following major tasks:

- Construction of roads between villages in rural areas to establish a link with urban areas;
- Make water available for people as well as for cultivation;
- Improve and upgrade school buildings and furniture to improve the standard of education, to improve the quality of teachers, and to encourage school-age children to attend school;
- Uplift rural health care system; and
- Bring about economic growth for the rural populace.

With the objectives of enhancing economic development in Myanmar, the First Short-Term Four-Year Plan was implemented during the periods 1992-1993 to 1995-1996. It achieved an average annual growth rate of 7.5 percent.

The Second Five-Year Plan was also formulated and implemented from 1996 to 1997 and 2000 to 2001. This achieved an average annual growth rate of 8.5 percent.

The latest initiative, the Third Five-Year Short-Term Plan (covering the periods 2001-2002 and 2005-2006), achieved an average annual growth rate of 12.4 percent.

The main objectives of the Fourth Short-Term Five-Year Plan (2006-2007 and 2010-2011) are:

- To extend the establishment of agro-based industries and other required industries in building an industrialized nation;
- To develop the electric power and energy sectors to conform with the developing trends in industries;
- To develop agriculture, livestock, and fishery sectors in order to meet local demand for self-sufficiency and promote exports;
- To make initiatives to meet the targeted yield per acre of designated crops;
- To expand new cultivable lands for agriculture use;
- To set up a system that will fulfill the demand for edible oil and lubricant oil;
- To push for the utilization of biodiesel oil to supplement lubricant oil and fuel oil;
- To establish forest areas for greening;
- To conserve natural resources and protect the environment;
- To extend education and health support for human resource development;
- To build better roads and communication facilities in order to develop commerce and trade and establish friendly relations with other countries

- To continuously develop the infrastructure;
- To meet the set targets of the Special Development Zones;
- To carry on the development of border areas;
- To carry on the development of rural areas;
- To alleviate poverty;
- To exceed the targets of MDGs in implementing the national plans;
- To realize balanced economy and comprehensive economic development;
- To allow the good foundation of economic and financial condition to continue by means of the following:
  1. Retaining the momentum and the high economic growth rate;
  2. Strengthening the value of kyat;
  3. Reducing budget deficit to obtain surplus by the third year;
  4. Curbing inflation; and,
  5. Continuing the surplus of current account position in the balance of payment.

Moreover, to maintain sustainable development, the government adopted the Myanmar Agenda 21 in 1997 and ratified the UN Framework Convention on Climate Change and joined the Kyoto Protocol in 2003. Moreover, Myanmar put into operation efficient policies and strategies to keep in line with the United Nations' Millennium Development Goals, namely;

- Eradicate extreme poverty and hunger;
- Achieve universal primary education;
- Promote gender equality and empower women;
- Reduce child mortality;
- Improve maternal health;

- Combat HIV/AIDS, malaria, and other diseases;
- Ensure environmental sustainability; and,
- Develop a global partnership for development.

### 3.3 Development of SMEs in Myanmar

In Myanmar, the most distinguishing characteristics of the SME sector are: (1) it is composed largely of traditional micro and small businesses or enterprises (handicrafts, traditional weaving, pot making, etc), as well as small and medium manufacturing enterprises (food processing, oil production, cosmetics, soap and shampoo, herbal indigenous medicine, etc.); (2) it practices traditional production methods and techniques; (3) it is labor intensive and has low productivity, unable to meet local market demands.

Since the introduction of market-oriented policy in 1988, SMEs progressed vigorously. The enactment of the Private Industrial Enterprises Law of 1990 classified the industries, as shown in Table 10.

**Table 10: Classification of Industries**

No.	Category	Small	Medium	Large
1.	Power used (in horsepower)	3 to 25	Over 25 to 50	Over 50
2.	Number of workers	10 to 50	Over 50 to 100	Over 100
3	Capital outlay (in million kyat)	Up to 1	Over 1 to 5	Over 5
4.	Production value per year (in million kyat)	Up to 2.5	Over 2.5 to 10	Over 10

Source: Union of Myanmar Federation of Chambers of Commerce and Industry (2005)

To develop SMEs in Myanmar, the government promulgated the Cottage Industries Promotion Law of 1991. The promulgation of this law resulted in the registration about 600 cottage industries or micro industries, which employ less than 10 workers and utilize less than 3 horsepower of electrical power. In Myanmar, majority of the SMEs are in food and beverages production, followed by clothing and apparel, construction materials, household goods, printing and publishing, industrial raw materials, and agricultural equipment.

At present the Myanmar Industrial Development Committee (MIDC) has set up policy guidelines for the development of SMEs and the entire industrial structure, based on following framework:

- (a) Development of Industries with agriculture as the base;
- (b) Enhancement of quantity and equality of industrial products;
- (c) Increased production of new types of machinery and equipment;
- (e) Production of machinery and equipment for industrial use; and,
- (f) Creation of suitable conditions for a shift to an industrialized state.

Existing institutions involved in the development of SMEs are shown in Appendix 2. Below is the list of organizations that are mainly responsible for SME development in Myanmar.

- (a) Small-scale Industries Development Sub Committee (Myanmar Industrial Development Committee)
- (b) Directorate of Industrial Supervision and Inspection (Ministry of Industry 1)
- (c) Directorate of Myanmar Industrial Planning (Ministry of Industry 2)

- (d) Myanmar Industries Association (Union of Myanmar Federation of Chamber of Commerce & Industry)
- (e) Small and Medium Enterprise Committee (Myanmar Engineering Society)

Human resource development programmes for the development of SMEs are undertaken by government ministries (including the Ministry of Science and Technology, Ministry of Industry 1 and 2, Ministry of Cooperatives, and Ministry of Education) and nongovernmental organizations (NGOs), including Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI), MES, etc. Among the NGOs, the UMFCCI is mandated to:

1. Cooperate and coordinate with the state in economic and social activities;
2. Enhance the competitiveness of Myanmar SMEs; and
3. Lead Myanmar business community in integrating into international trade and globalized economy.

Moreover, in order to promote SMEs, Myanmar also works with foreign agencies such as United Nations Development Programme (UNDP), JETRO, and Myanmar-Japan Association.

### **3.4 Initiatives for Sustainable Development**

Myanmar is indeed very rich in forest resources. Forest covers about 50.81 percent of the total land area. Various types of forest exist according to the nation's climatic zones—from temperate to arid and tropical.

To conserve the forest and the natural environment, the government gives priority to efforts to protect the soil, biodiversity, plant/animal resources, scenic reserves, and

national heritage sites. Sustainable management of the forest is also practiced simultaneously. It also employs the maintenance and rational use and enhancement of the forest resource base, to ensure continuous ecological resilience and contribution to socio-economic growth.

The government has reformulated and adopted the Forest Law in 1992, Protection of Wildlife and Wild Plants and Conservation of Natural Areas Law in 1994, Myanmar Forest Policy in 1995 and Forest Rules in 1995. Moreover, the Department of Forest issued the Community Forestry Instructions in 1995 to promote community participation in forestry. In order to prevent desertification, a new institution, the Dry Zone Greening Department, was set up in 1997. The institution implemented the greening program for arid areas in Central Myanmar and Bago Yoma. Likewise, the National Commission for Environmental Affairs was established.

The forest policy of Myanmar was formulated according to the forestry principles adopted by the Union Nations Conference on Environment and Development. Myanmar Forest Policy will be implemented through six main activities, which comprise the following:

- Forest protection and conservation and management;
  - Reforestation;
  - Community forestry for local communities;
  - Forest harvesting, processing, and marketing;
  - Research and development, education, and trainings; and,
  - Establishment and management of protected area system.
- Moreover, major elements integrated in the Forest Policy include:
- Food security;

- Rural development and viability of rural areas; and
- Environmental and social aspects.

As shown in Table 11, total forest area has increased about 4,000 square miles all over the country from 1998 to 2003 due to the massive efforts towards sustainable development.

**Table 11: Distribution of Forest Covered Area by State and Division  
(in Square Miles)**

Year	Total Land Area	Forest Area			Other Land Area
		Total	Reserved	Unclassified Forest Area	
1998-1999	261,228	132,650	44,859	87,791	128,578
1999-2000	261,228	132,650	48,612	84,036	128,578
2000-2001	261,228	132,650	49,979	82,671	128,578
2001-2002	261,228	13,2861	53,992	78,869	128,367
2002-2003	261,228	13,6582	54,756	84,980	124,646

Source: Ministry of National Planning and Economic Development (2006)

### 3.5 Energy Security in Myanmar

Myanmar is well known for its rich natural resources, including renewable and nonrenewable resources (Table 12). Myanmar has a very high potential in the oil and gas and hydro-energy sector—this sector is the most attractive sector for foreign investment in Myanmar. Off-shore gas fields are operating under the production sharing contracts with foreign investors. There is, therefore, a lot of potentials in the establishment of downstream and related industries in this particular sector.

**Table 12: Energy Resources in Myanmar in 2005**

Sr.	Subject	Count	1988	2005
1	Oil Field (inland)	Number	19	18
2	Oil Field (Offshore)	Number	-	3
3	Gas Pipeline	Mile	250.91	1677.29
4	Crude oil production	Barrel	6,165,641	6,395,488
5	Gas Production	Cubic feet (in million)	41,913.97	371062.1
6	Refining Crude Oil	Gallon	156.461	230.796
7	Hydrogen Power Plan Implementing Projects	Number	14	44
	a. Large Scale		(2)	(10)
	b. Medium Scale		(1)	(10)
	c. Small Scale		(11)	(24)
	Implementing projects, large scale		(11)	20
8	Other Power Plants	Number	-	4
	i. Recycling Power Plant		3	3
	ii. Boiler Power Plant		8	11
	iii. Natural Gas Power Plant		-	1
	iv. Coal Power Plant		588	567
v. Diesel Power Plant (National Grid)				
9	Present Capacity for Generator	Megawatt	4,379.597	102.451
10	Future Capacity of Generator	Megawatt	273.755	5,599.345
11	Maximum Load	Megawatt	363.678	996.761
12	Electricity Consumption	Unit (in million)	1,517.570	5,461.089

Source: Ministry of Information, Chronicle of National Development (2007)

Hydropower is vital to electrification program for rural hilly regions. The untapped hydropower resources in Myanmar are estimated to have a total of 6421.4 MW and the present hydropower resources in Myanmar are estimated to be about 10 percent of the potential. Thus, Myanmar still has large renewable energy resources that can be used for electricity generation.

In Myanmar, electricity is also generated by using natural gas and diesel. The government also encourages the use of alternative sources of energy, such as solar and

wind power, which have practically unlimited supply. The electricity consumption in Myanmar is still very low compared to other neighboring Asian countries, but the demand for electricity has rapidly increased since the introduction of market-oriented economic policy in 1988. The increasing manufacturing activities as well as the changes in modern lifestyle in Myanmar will continue to push up the demand for electricity. Therefore, the efficient use of energy and development of alternative sources of energy are crucial in Myanmar today.

Energy security is a vital part of the foundation on which a country's economy is built upon, especially for a country which has to depend on external supply of energy. Energy security consideration entails three distinct aspects:

- First is the need to maintain secure access to a strategically vital commodity. i.e. to ensure against energy disruption in order to protect the economy from external threat of interrupted supplies or infrastructure failure.
- The second concerns the leverage that oil producers may employ.
- The third stems from the power that oil wealth can bring to currently or potentially hostile oil producers.

In Myanmar, the most widely and commercially used nonrenewable energy are crude oil and natural gas. Exception for the limited joint ventures, oil and natural gas companies are state-owned. Most of the oil is produced on shore in 17 geological valleys; offshore production is undertaken in Rakhine, Gulf of Marta Ban, and Tanintharyi Division. The development of Myanmar's energy sector is presented in Table 13.

**Table 13: Development of the Energy Sector of Myanmar**

Subject	Count	1988	31-12-2006	Progress
• Oil field (Inland)	field	18	20	2
• Oil field (Offshore)	field	-	3	3
• Gas pipeline	mile	250.91	2,183.62	1932.71
• Crude oil production	barrel	6,165,641	7,663,236	1,497,595
• Gas production	cubic feet (million)	41,913.97	429,784.43	387,870.46
• CNG station	station	5	25	20
• Refining crude oil	gallon	156.46	219.9	63.44

Source: Ministry of Information, Chronicle of National Development (2007)

It is estimated that over 3000 million barrels of crude oil and more than 4 million cubic feet of natural gas are still deposited in the unexplored inland oil fields which have not yet been widely surveyed or searched. The unexplored offshore oil and natural gas are estimated to be about 100 million barrels and about 84 trillion cubic feet, respectively. In order to boost oil exploration and production, Myanmar Oil and Gas Enterprises (MOGE) has sought for foreign investment. Recently, 34 inland and 19 offshore joint venture agreements were signed and operations started in 11 inland and 12 offshore blocks. Myanmar has become a major exporter of natural gas within the region since 2000.

In Myanmar, electricity is generated mainly from four types of power sources: hydropower, gas, diesel, and thermal. There are eight types of transmission and distribution lines in Myanmar national grid systems. These include 230KV, 132KV, 66KV, 33KV, 11KV, 6.6KV, 3.3KV, and 0.4 KV lines.

To provide assistance to operators and managers of rural electrification projects, a manual for sustainable rural electrification using renewable energy was prepared, based on the development of the following three priority projects:

1. Small Hydro Electrification Plan in Heho of Nyaung Shwe Township
2. Mini Hydro Electrification Plan in Nan Lan Township
3. Lighting by rice husk gas engines in Sama Lauk village.

Economic growth target of the country requires a substantial expansion of the national power supply. Much emphasis is given to the development of the electric power sector because of its vital importance to the nation's social and economic developments. However, commercialization and privatization of the electric power sector still requires fulfilling the power demand of the country.

Myanmar has an abundance of hydropower potential of more than 100,000 MW and huge reserves of offshore natural gas. Development of hydropower involves big capital and longer lead time for commercial production. In order to meet future demand, hydropower has to be developed on long-term basis and gas turbine will have to be built to fulfill the current power demand. The abundance of hydropower enables Myanmar to consider development of hydropower projects not only for domestic power supply but also for export to the neighboring countries.

#### **4. INITIATIVES FOR BRIDGING THE DEVELOPMENT DIVIDE TOWARDS ASEAN ECONOMIC COMMUNITY (AEC)**

##### **4.1 Initiatives for Economic Integration**

Since early 1990s, the trend of the global economy has been shifting towards a more collaborative nature. Economic integration among nations is significant on regional and global scale, and most economies benefit from this process of integration.

To intensify economic integration, ASEAN countries, both the founding countries and the newer member-countries, have drawn up road maps for deeper integration,

covering a broad range of issues such as elimination of tariffs and nontariff measures (NTMs), harmonization of customs procedures, standards and conformance, protecting intellectual property rights, as well as promoting logistic services, free flow of investments, movement of business persons, skilled labors and professionals, human resources development, and research and development.

Moreover, ASEAN has envisioned the ASEAN Economic Community (AEC) to be enjoying a free flow of goods, services, investments, and capital and skilled labor by 2015. The members of the ASEAN have a commitment to achieve these visions at national level.

Another development which contributed to the impetus for East Asian economic cooperation was the emergence of China as a powerful economic force, both in the regional and global scenes. To support the region's economic development, the ASEAN Free Trade Area (AFTA) was extended to the East Asia Free Trade Area (EAFTA), which consists of 10 ASEAN countries, China, Korea, Japan, India, Australia, and New Zealand. The realization of greater East Asian integration offers many opportunities as well as poses many challenges for countries in the ASEAN. The larger market resulting from greater trade integration will create greater demand for products, goods, services, and tourism.

Other initiatives, such as the Initiative for ASEAN Integration (IAI), Greater Mekong Sub-Region (GMS), Ayeyawady-Chao Pharya-Mekong Economic Cooperation Strategy (ACMECS), and BIMSTECS Initiatives, as well as the effort to provide financial and technical resources to assist CLMV, are being implemented. ASEAN+3 countries are also contributing resources to these projects as well as providing bilateral assistance schemes to CLMV.

Since 1988, the government of Myanmar has shifted towards outward-looking development strategy. Accordingly, Myanmar is actively cooperating with Asian and international economies. Myanmar's perspectives on economic integration can be viewed through the development policies in Myanmar, initiatives for promoting trade, the role of FDI in Myanmar's economy, industrial strategies, and promulgation of laws related to the economy.

#### **4.2 Initiatives for Domestic Infrastructure Development**

Indeed, geographical and communication factors play a significant role in the development of physical and economic relations between regions. Since the adoption of an open economy in 1990, Myanmar has realized the importance of infrastructure and made considerable progress in developing transportation, communications, and energy infrastructure to bring about a balanced and proportionate growth between regions and achieve solidarity of its citizens. Thus, infrastructure development has been carried out to achieve this goal.

However, the rural and border areas were underdeveloped due to insurgency and instability in frontier areas before 1988. After several negotiations and the state's efforts for regional development, a total of 17 armed groups joined the state for national integration. Since then, the state has fostered regional development projects in frontier areas. These remarkable achievements extended several national projects, including the Border Areas and National Races Development Project, Rural Development Projects, and Development of Special Zones, which are being implemented with the collaboration of government agencies, NGOs, and INGOs. Investments in major infrastructure development as percentage of total public investment are shown in Table 14.

**Table 14: Public Investment in Major Infrastructure Development in Myanmar  
(% of Total Public Investment)**

Year	Public Investment by Sector (%)					
	Production	Service	Infrastructure			Total
			Transport and Communications	Power	Subtotal	
1952/1953-1955/1956	34.2	35.1	20.6	10.1	30.7	100
1955/56-1959/1960	22.3	36.4	25.7	15.6	41.3	100
1962-1963	35.9	36.4	23.5	4.2	27.7	100
1974-1977	58.7	17.7	17.4	6.2	23.6	100
1978-1981	72.0	10.3	12.4	5.3	17.7	100
1987-1988	53.5	16.1	17.8	12.6	30.4	100
1990-1991	24.8	47.4	12.3	8.0	20.3	100
1999-2000	41.8	36.6	15.0	6.6	21.6	100

Source: Ministry of National Planning and Economic Development (2006)

Since 1988, the government has given emphasis to the expansion of highway network to narrow the gap between regions. Highways, such as the Union Highways and National Highways, have been constructed and upgraded. Construction of bridges across the major rivers Ayeyarwaddy, Chindwin, and Thanlwin are also being implemented under the Special Projects Implementation tasks (Table 15). New roads constructed across the nation during the period 1988-2005 reached a total distance of 22,451 miles. The upgrade of road network in urban and rural areas is shown in Table 16.

**Table 15: Number of Bridges (1988-2006)**

State/Division	Number of Bridges Constructed in 1988	Number of Bridges Constructed in 2006
Kachin State	27	45
Kayah State	6	8
Kayin State	8	13
Chin State	2	5
Sagaing Divisions	17	33
Taninthayi Division	8	15
Bago Division	36	55
Magway Division	20	38
Mandalay Division	18	32
Mon State	3	7
Rakhine State	11	48
Yangon Division	7	38
Shan State (East, South, North)	24	41
Ayeyawady Division	11	59
<b>Total</b>	198	437

Source: Ministry of Information, Chronicle of National Development Comparison between Period Preceding 1988 and after (2007)

**Table 16: Upgrading the Road Networks (1988-2005)**

Kind of Road	Road Distance, 1988-89 (mile)	Road Distance, 2004-05 (mile)
<b>Rural</b>		
Tarred road	280	1182
Graveled road	682	3957
Granite road	673	1,689
Earthen road	2,092	17,070
Total	3,729	23,900
<b>Urban</b>		
Tarred road	940	1890
Graveled road	724	997
Granite road	190	318
Earthen road	1,060	2,088
Total	2,915	5,295

Source: Ministry of Information, Chronicle of National Development Comparison between Period Preceding 1988 and after (2007)

The government is also expanding railroad routes. The number of railroad routes increased from 2,793.86 miles to 3952.9 miles (Table 17). With the participation of the private sector, the number of aircraft has increased from 10 in 1988 to 18 in 2005. The number of airports has been also increased to 38 from 21 during the same period (Table 18). The progress in development of telecommunication sector is illustrated in Table 19.

These progresses in the infrastructure sector can be considered as part of the border area development to narrow down the gap between regions and to build more confidence and understanding among the population.

**Table 17: Progress in the Rail Transportation Sector**

Subject	1988	2005
1. Railroad section		
(a) Railroad (mile)	2,793.86	3,952.90
(b) Station	487	780
(c) Bridge (large/small)	5,650	9,219
2. Engines and coaches		
(a) Steam engine	39	39
(b) Diesel engine	150	292
(c) Local train	26	N/A
3. Passengers and goods (in mil.)		
(a) Passenger	36.689	58.21
(b) Passenger per mile	1,870.125	2,604.360
(c) Goods	1.269	2.878
(d) Goods per mile	196.579	544.592

*Source:* Ministry of Information, Chronicle of National Development Comparison between Period Preceding 1988 and after (2007)

**Table 18: Aircraft and Airport (1998 -2005)**

No.	Subject	1998	2005
1.	Aircraft (Myanmar Airways)	10	13
2.	Aircraft (Private)	-	5
3.	Airport	21	38

*Source:* Ministry of Information, Chronicle of National Development Comparison between Period Preceding 1988 and after (2007)

**Table 19: Developments in Telecommunication Sector (1988-2005)**

	1988	2005
1. Post and Telegraph	1,428	1,814
(a) Post office	1,115	1,331
(b) Telegraph office	310	483
2. Telephone		
(a) Auto phone exchange	33	163
(b) Manual phone exchange	212	676
(c) Phone line	67,016	447,097
3. Mobile phone (quantity)		
(a) Cellular phone system	-	18,760
(b) Digital European Cordless Telecommunication system	30.1.97	2572
(c) CDMA system	17.10.97	12,041
(d) GSM Mobile system	12.3.02	58,442

*Source:* Ministry of Information, Chronicle of National Development Comparison between Period Preceding 1988 and after (2007)

### 4.3 Initiatives in Line with Regional Infrastructure Development

In the context of Myanmar regional cooperation with neighbouring countries, the government is implementing the Union Highways to facilitate linkages with the ASEAN and international communities. These are the following:

- ASIAN Highway
- ASEAN Highway
- Greater Mekong Sub-region (GMS) Highway
- GMS East-West Economic Corridor Highway
- GMS North-South Economic Corridor Highway
- BINSTEC Highway
- India-Myanmar-Thai Tripartite Highway

#### **4.4 Related Issues**

The challenges that the ASEAN came across with in the last decade have established the proof that the state and destinies of the Southeast Asian countries are interwoven with another and have shown how the way towards the AEC. They are in fact regional challenges that are transnational in scope.

These call for forging a stronger sense of unity in ASEAN and more engagement and cooperation for regional solidarity and cooperation. That is why the reaffirmation and acceleration of regional economic integration is seriously taken into account. Here economic integration means more than removing obstacles to trade—it means bringing economies closer together through infrastructure linkages at the highest level. To build the ASEAN Economic Community, ASEAN economic integration is vital.

Undoubtedly, Myanmar has shown its full participation in the regional integration process of ASEAN. The key measures undertaken include the following:

- Signing of Protocol for the Accession of the Union of Myanmar (1997);
- Signing of the Agreement on the Common Effective Prudential Tariff Scheme (CEPT) for ASEAN Free Trade Area (1997);
- Signing the ASEAN Agreement on Customs by ASEAN Finance Ministers (1997);
- Signing the ASEAN Framework Agreement on Services (AFAS) (1997);
- Adoption of Harmonized Commodities Description and Coding System (1997); and,
- Adoption of implementation strategies for the realization of ASEAN Investment Area in 2010.

The role of services in the ASEAN also has to be taken into account in the economic development in this region. The commitments of each sector under the ASEAN Framework Agreement in Services (see Appendix 3) have to given national

treatment and expanded services liberalization beyond the scope of the GATS. To facilitate such commitments, Myanmar has to speed up its cooperation and efficiency efforts through the improvement of market access, as well as the diversification and facilitation of services suppliers, both within and outside the ASEAN region. Through an updated and comprehensive understanding of the market access opportunities under the said commitments, there are more concrete opportunities for Myanmar in service trade and investment.

Here remarkable initiatives taken by the government can be seen through the enhancement of the socio-economic life of rural folks and the fulfillment of the fuel requirements in the country via the plantation of physic nut oil for the energy sector. That is why cultivation of physic nut oil is given special priority; physic nut oil plays essential role in the production of biodiesel used to power up agricultural machines, generators, water pumps, and trailers. To obtain a comprehensive development for Myanmar, programmes, such as the 24 Development Zones for the Economics and Social Infrastructure and Rural Development based on five Rural Development Principles, are actively generating and promoting socio-economic life.

The concept of development and its challenges are moving to new directions as improving the quality of life and providing better education, higher standards in health and nutrition to reduce poverty, and adopting a richer cultural life and globalization. By overcoming the challenges, a new equilibrium may be sought between national sovereignty and the regional purpose of Southeast Asian community, after a close integration has been achieved. As ASEAN Vision 2020 is the signal that the ASEAN gives for a new integrated approach to regional economic cooperation, the challenges, prospects, and strategies for development should be a two-way linkage between peace

and development. At the same time, Myanmar has issued mandates to step up their economic, social, and cultural development efforts for the welfare of the country and its people. Hence, being fully prepared for further challenges, Myanmar's participation in AFTA and possibly AEC is expected to lead the development of Myanmar based on its comparative advantage of abundant natural resources, its cheap but literate labor, and other strategic advantages like its location, which is near China and India.

## **5. POLICY IMPLICATIONS FOR MYANMAR ECONOMY**

The 19 years dedicated to making a turnabout from the 1988 experience that is characterized by a lot of setbacks and poor performance of national economy for more than four decades, highlighting the "Growth-first strategy" is a primary concerns of the country. The Growth-first strategy calls for strong government with high mobilization force. To have community peace and tranquility and prevalence of law and order, which will lead to the stability of the state, the welfare of the community should be considered. In terms of reforms for building a new state, political renewals should bring about stability of the state, national reconsolidation, building a new nation in accord with the new state constitution.

Relative to the experiences gained through its legacy, the national development in the entire country can only be done if peace and tranquility are maintained. The aspirations to build a sustainable, strong, and modern nation can only be realized if there is national integration among the ethnic groups. National integration and sustainable progress of national integration attained by the present government are remarkable achievements. It has been envisaged that objectives, targets, and strategies elaborated with state interests are overwhelmed by the major reforms that have made in 19 years.

The designation of 24 development regions being pushed for regional prosperity is part of the improving parallel development in all regions. Throughout their length and breadth of area, the basic infrastructure development measures, such as the construction of roads, bridges, dams, and embankments, as well as facilitating requirements for health, education, and communications, have been extended under multinational projects. In fact, these developments can assure not only peace and stability but also nation-building endeavors, in which all members of the entire union take active participation. The legacy of the past gives many lessons and gives utmost importance to national thrusts, including national development.

The border area development projects give priority to the development of the regions where armed groups from national ethnic communities had returned to the legal fold. In a broader view of regional development, the state aims to ensure balanced and equitable growth in states and divisions, implement special projects in 24 special zones, and establishment of five rural development tasks, in addition to the projects for border areas and development of the ethnic groups. Moreover, the basic need for development of 43 remaining regions is placed under special projects division.

The overview of production of the manufacturing sector during the productive years and their structure form has led to sectoral development, fulfilling the requirements of the urban and rural areas as well as the border regions. By implementing the national tasks, the development of the manufacturing sector in fact uplifts the socio-economic life of the people. The tables in this chapter mention the overall picture of production and developments undertaken from 1988 to present.

Furthermore, the financial crisis in the region attributed to the initial financial turmoil in some Asian countries in 1997 and the sudden shifts in market expectations

and confidence followed by regional contagion has provided many lessons to be learned. It is suggested that the extent and depth of the crisis should not be attributed to the deterioration in fundamentals but rather to the misrepresentations on domestic and international investors.

Nevertheless, Myanmar has to put forward a more realistic approach to be able to participate in the economic pole in the ASEAN region. Through its bilateral and multilateral engagements with overseas countries, feasible objectives, regardless of whether it is profitable or not, are necessary to promote economic relations with ASEAN in line with the bilateral agreements. A lack of experience in integration before 1988 and the historical setbacks in that year call for rapid achievements at national level and setting goals unhindered by economic gaps among its states and divisions. However, Myanmar, having the location advantage—it is located between two giant economies—can play an active role as a catalyst in achieving the economic pole in the region with ASEAN + 3 in the near future.

Because of the heterogeneity of the developing world, it will be wise for Myanmar to combine relevant concepts and theories from traditional economic analysis along with new models and broader multidisciplinary approaches derived from studying the historical and contemporary development experience of ASEAN, its immediate neighbors, and of East Asia. Myanmar's efforts to push the integration of regional economies and other forms of regional cooperation should be placed on a stable ground to earn investor confidence. The call of the hour in the global economy is transparency, and reliable statistics are recommended for business enterprises and financial institutions. To take stronger steps to hasten the AFTA process and draw investments into the nation, some policies have to be put place: to accelerate financial reforms and

realign exchange rates which distort resource allocation; to promote the participation of SMEs in production and distribution networks in the neighboring countries by improving quality of products; to realize SEZs and FTZs (including industrial export processing zones); to enhance FDI and foreign exchange; and to take advantage of geographical location of the country between China and India by developing economic corridors. In the ASEAN context, national resilience means a degree of economic vigor, social cohesion, and cultural richness that help make a nation strong. That is why this collective commitment by the respective leaders of ASEAN is strongly supported by Myanmar as reinforcement for bringing about national prosperity.

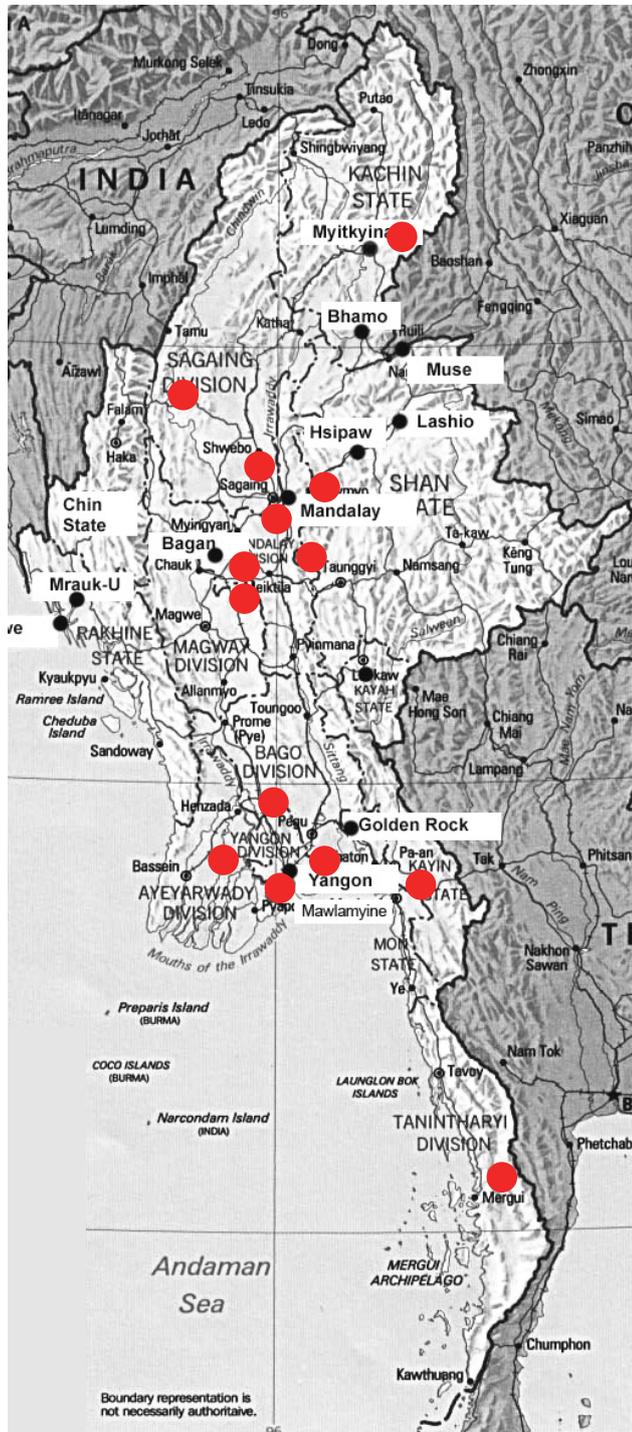
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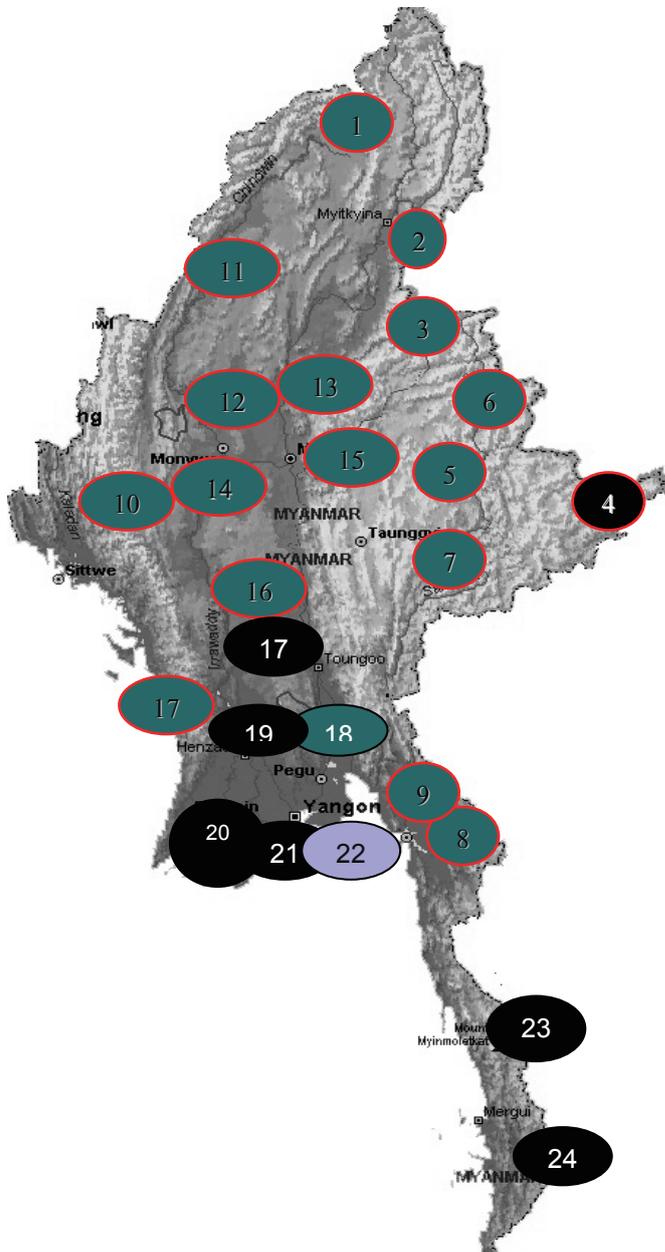
MAPS

Map 1: Industrial Zones of Myanmar



1. Mandalay
2. Myingyan
3. Meikhtila
4. East Yangon
5. West Yangon
6. North Yangon
7. South Yangon
8. Myaungmya
9. Hinthada
10. Patheingyi
11. Monywa
12. Kale
13. Pyaw
14. Yenanchaung
15. Pakokku
16. Mawlamyaing
17. Taunggyi
18. Mueik

**Map 2: (24) Special Development Regions in Myanmar**



1. Myitkyina (Kachin State)
2. Bamaw (Kachin State)
3. La-sho (Shan North)
4. Kyang-Tong (Shan East)
5. Taunggyi (Shan South)
6. Pin-Lon (Shan South)
7. Lwai-Kaw (Kayah State)
8. Pa-an (Kayin State)
9. MawlaMyaing (Mon State)
10. Sittwe (Rakhaing State)
11. KaLay (Chin State)
12. Monywa (Sagaing Division)
13. Mandalay (Mandalay Division)
14. Pakhuku (Magway Division)
15. Maitthila (Mandalay Division)
16. Magway (Magway Division)
17. Pyay (Bago West)
18. Bago (Bago East)
19. Hinthada (Ayeyarwady)
20. Pathein (Ayeyarwady )
21. Ma-u-bin (Ayeyarwady)
22. Yangon (Capital Region)
23. DaWe (Taninthayi Coastal)
24. Myait (Taninthayi Coastal)

## APPENDICES

### Appendix 1: Chronology of Major Economic Reforms in Myanmar, 1987-2000

- 1987
  - Participation of private and cooperative sectors in foreign trade
  - Relaxation of government monopoly on the domestic marketing of paddy and some important crops
- 1988
  - Removal of restrictions on private-sector participation in domestic and foreign trade
  - Introduction of liberal Foreign Investment Law
  - Restitution of small-and medium-size establishments
- 1989
  - Decontrol of prices
  - Official revocation of the 1965 law of establishment of socialist economic system
  - Regularization of border trade
  - Introduction of SEE law allowing private sector participation in economic activities
  - Relaxation of restrictions on private investment
  - Introduction of the Central Bank of Myanmar Law
- 1990
  - Introduction of Myanmar Tourism Law
  - Introduction of 100-percent retention of Export Earnings Law
  - Introduction of Financial Institutions of Myanmar Law
  - Introduction of Myanmar Agricultural and Rural Development Law
  - Promulgation of the Commercial Tax Law
- 1991
  - Announcement of the Central Bank of Myanmar's Rules and Regulations
  - Reestablishment of Myanmar Chamber of Commerce and Industry
- 1992
  - Announcement to lease inefficient state-owned factories
  - Announcement of denationalization of nationalized saw mills
  - Announcement of the sale of government palm oil firms
  - Announcement of the establishment of four private banks
- 1993
  - Introduction of foreign exchange certificates (FECs)
  - Announcement of the establishment of four more private banks
  - Issuance of Treasury bonds with five- and seven-year maturity
- 1994
  - Introduction of the Myanmar Citizens Investment Law
  - Announcement of the establishment of three more private banks
  - Announcement of licensing of representative offices of 11 foreign banks
- 1995
  - Announcement of the privatization of 51 establishments
  - Announcement of the formation of Privatization Committee
  - Permission to establish joint-venture banks between local private banks and foreign banks

- Opening of the foreign exchange center for free exchange of foreign exchange certificates
- 1996 ● Permission granted to local banks to conduct foreign banking business and to pay interest on foreign currency deposits; basic reforms were introduced in 1989, many of which were delayed because of the political situation. Some significant reforms are highlighted in the following subsections.
  - Contract signed between Japan's Daiwa Group and Myanmar Economic Bank to establish a stock exchange company
  - Introduction of law on development of computer knowledge
- 1997 ● Procurement of paddy through a tender bid system in November 1997, but the plan did not materialize and the requirement to sell paddy to the state has remained as usual
  - Joined ASEAN/AFTA
- 1998 ● Leasing of fallow and virgin land for cultivation or livestock breeding by private farmers including foreign investors
- 2000 ● Across-the-board increase of public sector wages and salaries by five to six times to align these with private sector remunerations
- 2006 ● Second across-the-board increase of public sector wages and salaries by five to 10 times to align these with private sector remunerations

**Appendix 2: Existing Institutions Working on the Development of SMEs**

Government	Private Sector
<ol style="list-style-type: none"> <li>1. Myanmar Industrial Development Committee</li> <li>2. Myanma Industrial Development Working Committee and Sub-committee</li> <li>3. Industrial Zone Supervision Committee</li> <li>4. Ministry of Industry No.(1) <ul style="list-style-type: none"> <li>- Directorate of Industries</li> <li>- Industrial Supervision and Inspection Department</li> </ul> </li> <li>5. Ministry of Industry No.(2) <ul style="list-style-type: none"> <li>- Directorate of Industries</li> <li>- Industrial Supervision and Inspection Department</li> </ul> </li> <li>6. Ministry of Science ad Technology <ul style="list-style-type: none"> <li>-Myanma Science and Technological Research Department</li> <li>-Technological Transfer and Coordination Department</li> <li>-Atomic Energy Department</li> <li>-Higher Technological Education Dept.</li> </ul> </li> <li>7. Cottage Industries Department, Ministry of Cooperative</li> <li>8. Ministry of Education - Human Resource Development Centers Arts and Sciences Academy Sciences and Technology Academy</li> </ol>	<ol style="list-style-type: none"> <li>1. Unions of Myanmar Federation of Commerce and Industry</li> <li>2. States and Divisions Chamber of Commerce and Industry</li> <li>3. Myanmar Rice Millers Association</li> <li>4. Myanmar Forest Product and Timber Merchants Association</li> <li>5. Myanmar Fisheries Federation</li> <li>6. Myanmar Industries</li> <li>7. Myanmar Printers and Publishers Associations</li> <li>8. Myanmar Women Entrepreneurs Association</li> <li>9. Myanmar Garment Manufacturers Association</li> <li>10. Myanmar Computer Industry</li> <li>11. Myanmar Pharmaceutical and Medical Equipment Entrepreneurs Association</li> <li>12. Myanmar Construction Entrepreneurs Association</li> <li>13. Myanmar Engineers Society</li> <li>14. Myanmar Computer Science Association</li> </ol>

Source: Union of Myanmar Federation of Chambers of Commerce and Industry (2006)

**Appendix 3: Sector Commitments under the ASEAN Framework Agreement in Services**

Air transport	Sales and marketing of air transport services, computer reservation, aircraft repair, maintenance, etc.
Business services	Information technology, accounting, auditing, legal, engineering, architecture, market research, etc.
Construction	Construction of commercial buildings, civil engineering, and installation works, etc.
Financial services	Banking, insurance, securities and broking, financial advisory, consumer finance, etc.
Maritime transport	International passenger and freight services, storage and warehousing
Telecommunications	Public telephones services, mobile phone services, business network services, data and message transmission, etc.
Tourism	Hotel and lodging services, tour operators, travel agencies, etc.

Source: ASEAN (2005)