

# Policy Brief

## The Economic Transition in Myanmar: Towards Inclusive, People Centered and Sustainable Economic Growth

By Anita Prakash

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*Myanmar has embarked on an ambitious program of sweeping reforms to end its isolation and integrate its economy with the global system. In this reform period, Myanmar faces the challenge to remain on the course of reforms and openness while pursuing its economic growth. The Challenges of this transition can be met with a development model which is inclusive, people centered and sustainable.*

### 1. Development Vision: Keeping People at the Core

There is a new dawn in the political and economic landscape of Myanmar with the country moving towards political and civil reforms and economic growth. While the world waited for long years for Myanmar to open up, Myanmar responded to this only after the general elections of 2011. Since then, it has responded positively, both in words and actions, in setting down its development agenda to the world at large and to its immediate neighbours in South East Asia and East Asia. Myanmar has embarked on an ambitious program of sweeping reforms to end its isolation and integrate its economy with the global system. The political transition has found active support from all nations as can be seen in the endorsements to the reforms received from various countries of the world. The future of Myanmar would be largely decided by its ability to remain on the course of reforms and openness, which would in turn benefit the people across the country.

The political and economic development scenario is being closely watched by countries, both close and afar. The primary question on most minds is - Would Myanmar follow the growth model of its neighbouring economies in South East Asia, and, if so, the extent of

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political and economic reforms that the country would commit to over the short and medium term. But more importantly, how far the development scenario in Myanmar keeps the people at the center of economic and political reforms would be the litmus test of the present government as also those that follow after the next elections in 2015.

The current reforms in Myanmar are expected to take the country towards desired economic growth. What is heartening to note is that the economic reform agenda is closely entwined with prosperity of people and inclusive growth. The Framework for Economic and Social Reform (FESR), which sets out policy priorities until 2016 and also the guiding principles for longer-term development plans, aims for **peace, prosperity and democracy**. The framework identifies 10 priorities: (i) fiscal and tax reform, (ii) monetary and finance sector reform, (iii) trade and investment liberalization, (iv) private sector development, (v) improvements in health and education, (vi) food security and agricultural growth, (vii) governance and transparency, (viii) mobile telephony and internet, (ix) infrastructure investment, and (x) efficient and effective government. For the FESR to be recognised by people as the development plan which has people centered policies in its core, it must ensure that people recognise its outcomes sooner rather than later. In other words, the people must have a stake in the success of FESR. Some of the tangible development

effects sought by people are improved and cheap access to health and education, electrification, agrarian reforms, business facilitation, improved infrastructure.

The unique demography of Myanmar seeks a reconciliation of conflicts among ethnic groups so as to not derail the development vision of the government. The ethnic peace processes have a close impact on political economy of the resource-rich regions, as well as the country as a whole. Indeed, peace among the population would bring economic dividends not only to people in Myanmar. It would also be the standard against which the extent of entry of foreign investments would be decided.

A preliminary public feedback on the development plan under FESR suggests that the people and the government are on the same page of reforms, as results start to show, even if only on 'quick win' targets. As the development agenda unfolds in Myanmar, the FESR and the National Comprehensive Development Plan (NCDP) are being put to test (and also possible recalibration) in terms of their comprehensiveness as well as their ability to deliver peace, prosperity and democracy to the people in Myanmar.

## **2. Economic Performance and Growth Prospects**

Surrounded by a group of ASEAN member countries on one side and a fast developing China and India on the other, Myanmar is aspiring to be the new

**Table 1: Myanmar Selected Economic Indicators**

<b>Economic Indicator</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
GDP Growth (% change per year)	3.6	5.1	5.3	5.5	6.3
CPI (% change per year)	22.5	2.3	8.2	2.8	3.5
Unemployment Rate (%)	4.0	4.0	4.0	4.0	...
Fiscal Balance (% change per year)	(2.5)	(5.2)	(5.4)	(3.9)	(5.4)
Export Growth (% change per year)	12.3	(1.4)	25.8	13.3	11.2
Import Growth (% change per year)	25.6	1.9	15.8	24.4	22.0
Current Account Balance (% of GDP)	(3.1)	(2.6)	(1.2)	(2.5)	(4.0)

*Note: ( )= Negative*

*Source: ADB.2013. Asian Development Outlook 2013.*

member of the growth saga of the region. Over the last half century, the most successful developing countries have come from South East and East Asia. Southeast Asia (Indonesia, Malaysia and Thailand) adopted an essentially common core of policies and institutions, including an early emphasis on agricultural development and education until the take-off point was reached. The next step was a gradual opening up economies by liberalizing and facilitating trade and capital inflows, followed by introducing technology and innovation in the economy. All this was done while maintaining macroeconomic stability, even though the form and degree of government intervention were different.

### **3. A Pragmatic Approach**

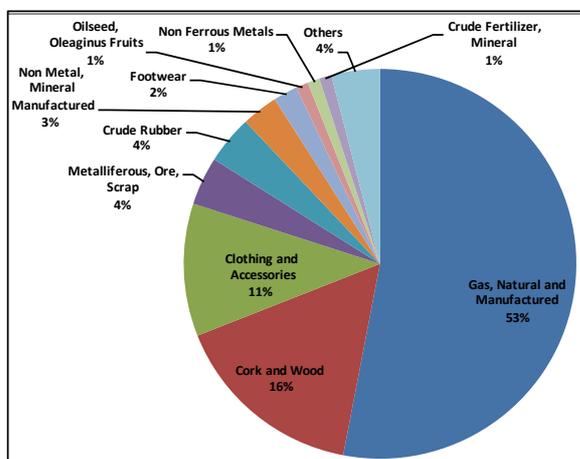
Since a new government came to power in March 2011, Myanmar has embarked on an ambitious program of reforms to end its isolation and integrate its economy with the global system. The new government has inherited a dysfunctional economy, resulting from decades of

mismanagement as well as the impact of western economic sanctions. In June 2012, President Thein Sein announced that the government's strategy for reforms would seek to promote a high economic growth, targeting 1.7-fold rise in per capita GDP after the first five-year plan. He also outlined four guiding principles. First, agriculture and all round development will be the top priority. Second, growth must be balanced and proportionate among states and divisions. Third, it has to be inclusive for the entire population. The last principle is the most interesting, in that the country would work towards reliable statistics and an overall improvement in the way statistics are collected. Indeed, the fourth element reflects a pragmatic approach to development as the real extent of economic performance of Myanmar is at best an estimate as the data and statistics collection and reporting is one of the weakest link in reporting and planning economic and social growth.

Myanmar's economy is clearly dominated by agriculture which constitutes around 36% of the GDP. There

has been negligible change in this trend since the last 70 years. Also during the same period, its major exports remained limited to rice, timber, minerals and other agricultural products. In the last decade and a half, natural gas, and garments also rose to form the highest component of exports but the latter took a hit during the period of US sanctions. Natural gas however remains the main component of exports now.

**Figure 1: Myanmar Exports 2010-2011**

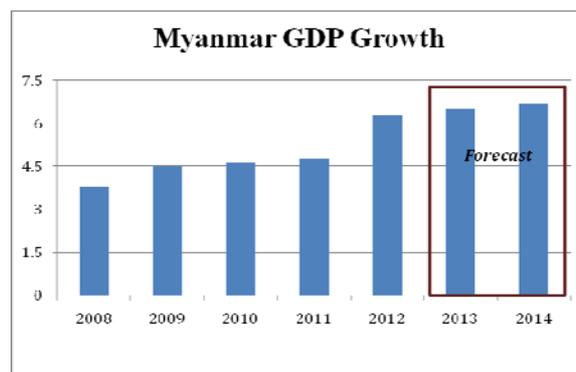


Source: UN COMTRADE

Sustained policy reforms over the 2012 have stimulated the economy towards performance. Buoyed by the policy reforms and opening of the economy, investors have started studying the market with great interest. The Asia Development Bank Outlook 2013 has reported that GDP growth in Myanmar grew to an estimated 6.3% in FY2012 (ending 31 March 2013) compared with an average of 5% in the previous 5 years. The report suggests that the pickup reflects business optimism buoyed by the government's steps since 2011 to liberalize

the economy and prospects for further reform. Myanmar has also witnessed increases in industrial output and services. The ADB Outlook also estimates the GDP to grow to 6.5% and 6.7% in 2013 and 2014 respectively.

**Figure 2: Myanmar GDP Growth**



Source: ADB Outlook 2013; International Monetary Fund, ADB Estimates

The business confidence is also rising in the country, both from external investors as well as indigenous businesses. The number of foreign firms granted investment approval rose to 1758 as of February 2013, and another 1139 in partnership and joint ventures. Of these approvals, manufacturing constitutes the largest sector which changes the past trend of business investments in energy and natural resource (mining). (Table 2)

Similar openness is witnessed in the capital market where the Central Bank of Myanmar has started to implement a unified and managed floating exchange rate in 2012 which is aimed at eliminating the informal currency market. Introduction of Automatic Teller Machines is an added incentive towards the liberalisation of the

**Table 2: Foreign Investment of Permitted Enterprises (By Sector), As of 28-2-2013**

Sl. No	Particulars	Permitted Enterprises		
		Number	Approved Amount(US\$ Million)	%
1.	Power	6	19237.921	45.70
2.	Oil and Gas	115	14372.272	34.14
3.	Mining	67	2829.694	6.72
4.	Manufacturing	235	2138.325	5.08
5.	Hotel and Tourism	46	1364.811	3.24
6.	Real Estate	19	1056.453	2.51
7.	Livestock and Fisheries	26	329.958	0.78
8.	Transport and Communication	16	313.906	0.75
9.	Industrial Estate	3	193.113	0.46
10.	Agriculture	9	182.751	0.43
11.	Construction	2	37.767	0.09
12.	Other Services	10	38.452	0.09
<b>Total</b>		<b>554</b>	<b>42095.423</b>	<b>100.00</b>

*Source: Directorate of Investment and Company Administration, MNPED*

banks. For the development of a foreign exchange market in Myanmar, the Central Bank of Myanmar granted permission in July 2012 to open current accounts with foreign currency at private banks having authorized dealer license. Equally, the roadmap for capital market development is being developed in accordance with the time frame of ASEAN Capital Market Forum (ACMF). It is anticipated that Yangon Security Exchange and Mandalay Security Exchange will be established in 2013 and 2015 respectively.

Agriculture is the key sector of Myanmar's economy. It provides employment to two thirds of the population and contributes 26% to the

county's GDP. However, the agricultural potential is under-realised in comparison with other South and Southeast Asian countries. The sector suffers from low yields, input use, irrigation coverage despite ample water resources and low cropping intensity.

Myanmar is a net exporter of both rice and pulses. Small but positive export quantities of these two products suggest that consumption and output may follow the same trend. Pulses could be termed as the success story of Myanmar. As rice remains the life and nucleus of Myanmar's political and economic wellbeing, the country is attempting to increase its productivity and yield. ( Table 3)

**Table 3: Production Quantity (Thousand Tons)**

	2000	2005	2006	2007	2008	2009	2010
<b>Paddy</b>	19,808	24,361	27,246	30,435	30,954	32,059	32,166
<b>Pulse</b>	1,716	3,290	3,743	4,198	4,736	5,024	5,241

*Source: CEIC Data, Myanmar*

#### 4. A Globally linked Growth-Oriented Strategy

Myanmar has been a mixed bag of economic performance. Based on regional research on connectivity, Myanmar can be a test case of improved growth through global and regional connectivity. Located at the middle ground between ASEAN, China and India, Myanmar can sharply improve its competitiveness by offering its production capacities to the existing production network in the region. Myanmar's connectivity with the rest of ASEAN and India and China is the key to its joining the regional production network first, and then the global supply chains.

In order to explore its full potential and achieve high growth through enhanced regional connectivity, physical

infrastructure alone is not sufficient. The growth strategy requires a multi-functional approach towards connectivity. This strategy would include infrastructure for physical connectivity, such as roads, ports, airports, gas pipelines, and power grids. A modest level of connectivity would bring in manufacturing activities which would allow the country to participate in the production networks of South East and East Asia. With enhanced connectivity, different regions of Myanmar are expected to expand their economic activities, such as agriculture, mining and tourism, based on their own location advantages including the endowment of natural resources, lower wages and rents. Myanmar is fortunate to be endowed with natural and mineral resources such as natural gas, precious stones, coal and has potentials as

**Table 4: Connectivity Related Indicators in ASEAN**

	Railway density	Road density	Paved road	Passenger cars	Air passengers carried	Port container freight	Asian Highway	
							Total	Below class III
	(2010)	(2010)	(2010)	(2010)	(2010)	(2010)	(2010)	(2010)
Brunei	-	564	77.2	485	1,263	0.09	-	-
Cambodia	3.7	216.7	6.3	18	455	0.22	1,347	0
Indonesia	1.9	262.9	59.1	45	52,283	8.37	4,091	0
Lao PDR	n.a.	171.4	13.5	2	444	-	2,857	306
Malaysia	5.1	300.5	82.8	313	30,997	18.25	1,673	0
Myanmar	<b>5.1</b>	<b>41.3</b>	<b>11.9</b>	<b>5</b>	<b>396</b>	<b>0.17</b>	<b>3,009</b>	<b>1,064</b>
Philippines	1.6	670.9	9.9	8	21,024	4.95	3,367	451
Singapore	n.a.	4794.3	100	121	26,709	29.18	19	0
Thailand	8.7	352.4	98.5	57	27,162	6.65	5,111	2
Viet Nam	7.6	516.3	47.6	13	14,407	5.98	2,597	264
Unit	per 1000 km <sup>2</sup>	per 1000 km <sup>2</sup>	%	per 1,000 population	1,000	million TEU	km	km

Source: UNESCAP Database (2012)

agricultural production base or tourism destination. These opportunities would not be materialized without efficient and reliable connectivity with neighbouring regions.

## **5. Myanmar and ASEAN**

The growth story of Myanmar can move at a great speed by adhering to institutional connectivity with the other countries of ASEAN and even East Asia. In this regard, Myanmar is blessed with two different but fortuitous events. The ASEAN Economic Community (AEC) is coming into being in 2015. Myanmar being a member of the same can aspire to great levels of institutional connectivity in form of free movements of goods, services, investments and labour and a good deal of people to people interaction. While there is a general fear of the unknown among the nascent economic players in Myanmar, the country could well participate in the AEC by playing upon its competitive strengths, such as low wages, quality human resource, rich minerals and gas and agriculture. Second, it has the latecomer's advantage that would allow it to jump start its growth strategy by avoiding the mistakes of neighbouring countries that were at the similar economic ladder in the past. Myanmar's chairmanship of the ASEAN and related summits in 2014 would be a major opportunity to showcase its development initiatives to the region as well as to the world. As a year round activity, businesses and policy makers will be a close witness to Myanmar's readiness

to join the growth story of the ASEAN and East Asia. There is reason to believe that this year would be a kick start year of Myanmar's integration into the region.

However, the growth story of Myanmar could be clouded by its internal disturbances. As a multi ethnic state, Myanmar's primary duty is towards good governance and inclusive growth. The peace processes initiated by the government are still in their initial phases, but there is a clear momentum towards ending long-running conflicts with armed ethnic groups. The conflict ridden parts of Myanmar require a stake in the growth of the country. Conversely, it is only peace that will bring investors into the country. The three tenets of the FESR, namely peace, growth and democracy may well be at the core of the growth strategy of Myanmar, along with the important element of connectivity.

## **6. Inclusive and Balanced: Equity and Poverty Reduction Strategy**

There are no quick starts to economic reforms, or even political reforms, as they are undertaken to bring a shift in the structure of the polity and economy. The turnaround time varies from sector to sector.

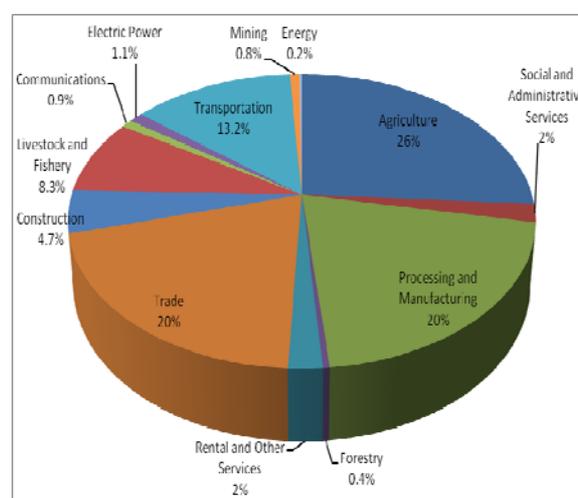
Agriculture being the mainstay of the economy, reform and revitalization of this sector is directly beneficial to the population as it addresses the poverty reduction issue. Near-term measures to improve access to finance and inputs, small irrigation projects, and agricultural

extension would contribute to inclusive growth and food security. Rural indebtedness is chronic and needs to be addressed by the government, especially the multiple debt issue. Appreciation of Kyat has also affected the paddy prices and its export. But more importantly, agriculture production appears to be flat, indeed going down in the case of rice. The goal of inclusive growth can be met through improved and increased investments in raising the productivity of farming. Concurrently, a balanced agricultural growth would require stimulation of non-farm sectors, so that they could absorb labor leaving agriculture. Another policy factor could be diversification of cropping pattern. Introduction of new crops and improved varieties of seeds, particularly in the dry zones would lead to higher earnings and increased agricultural productivity. The government must take measures to stimulate these agriculture related issues otherwise farm size would fall over the time, landlessness would increase, and pressure on natural resources would intensify.

The economy greatly relies on the resource-based industries because the most contributed sectors to the GDP are extractive industries, especially oil and gas, mining, and forest products. The peace process offers a window of opportunity to make the mineral and natural resources sector more consultative and less exploitative. This is expected to bring broad-based development to the borderlands as well as to the interior parts

of Myanmar. There are visible signs of increased business interests in these areas. A peaceful Myanmar would allow the growth of businesses in natural and mineral resources taking economic benefits directly to people.

**Figure 3: Sectoral Contribution to GDP (2011-2012)**

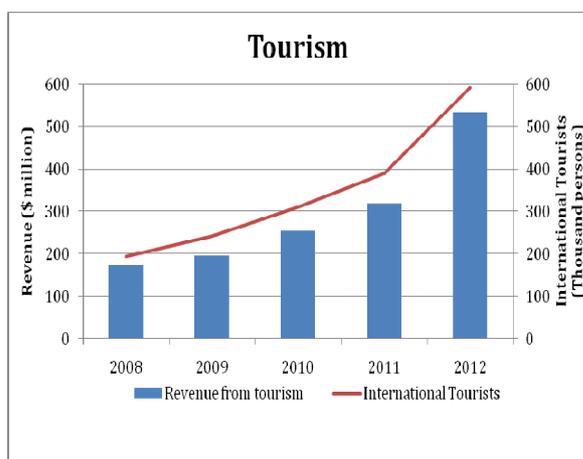


*Source: Ministry of National Planning and Economic*

Manufacturing and other modern facilitating sectors, which Myanmar must exploit in order to catch-up with the growth status of its neighbors, contribute a small portion to the economy. A growing economy which can take growth closer to its people requires upgradation or investments in manufacturing, transportation, communications, power generation etc. Improvements to infrastructure would include rehabilitating roads, upgrading power systems to reduce transmission and distribution losses and developing a sound regulatory framework for independent power producers and

public-private partnerships. Tourism has proved to be a substantial potential to spur employment and inclusive growth, especially with simpler visa requirements.

**Figure 4: Tourism**



*Note: Border Tourism Not Included*  
*Source: Ministry of Hotel and Tourism, Myanmar*

In order to achieve these, Myanmar has to facilitate investments, in both physical and institutional infrastructure. Allowing greater participation by private banks and with prudent regulation would increase private sector access to credit. There is also a need for reforms in the legal system pertaining to land ownership, labor, and foreign investment, as well as measures to simplify business registration. The Foreign Investment Law, 2012 is the right step in this direction. Put together, this balanced approach to growth would not only improve the business environment but also keep the people as the direct beneficiary of development.

Democracy and inclusive growth have been declared by the government as the cornerstone of development in

Myanmar. But lack of capacities in the institutions can overwhelm the growth story and create a chasm between people and development. Myanmar has embarked on economic reconstruction and political reform simultaneously, setting up a major challenge for itself. However, freedom of expression, an increasingly independent media and freedom of association have made it easier for people to participate in the decision making process. The democratic developments will allow for a more equitable distribution of the results of growth. Improvement in the capacities of decision making institutions, including bureaucracy, would make this development inclusive and sustainable. The current reform process provides the rare opportunity to put these inclusive institutions in place.

## **7. Green and Sustainable: Environment-Friendly Strategy**

Myanmar faces the dilemma common to all emerging economies, who want to fast track their development. The dilemma is to balance economic growth with sustainable development. Indeed Myanmar is blessed with natural resources, both over and under the ground. Forests cover nearly half of Myanmar whereas it possesses minerals, precious stones, gas and oil in ample quantity. But in fast tracking the growth in a country like Myanmar, which has a lot of 'catching up' to do, it must follow a green growth strategy. An environmentally friendly growth strategy will recognise that focusing

on GDP as a measure of economic progress may not be the best way forward. There are economic and social costs of economic transition which are reflected in the wealth, health and wellbeing of the people, especially those at the lower ends of development. For Myanmar, the quality and composition of growth should be as important as the quantity and its affect on people's wealth and welfare.

The growth strategy can start at the most obvious environmental point, namely forests, which have a direct bearing on the livelihood of people. The conservation of forests should be high in agenda of the government as it is the predominant owner of forest land. This would include a stop to indiscriminate logging of rich timber. Many developing countries have developed their growth plans by making forests sustainable. In the current reform agenda, Myanmar can easily break the political economy nexus that have degraded the rich forests in the country and upgrade its eco systems. A working plan of logging and afforestation of the forests would help in the long term sustainability of forest and forest products. Community participation in forestry has been enabled by the Community Forestry Instructions of 1995 and it should be used to protect the forests along with sustaining the livelihood of people.

Myanmar operates its extractive industries at the lowest end of the value chain. Investments in clean technology, moving upward in the value chain (towards finished or at least, intermediate

product) would both sustain its environment and raise the livelihood standards of the population engaged in these industries. Indiscriminate extraction should be replaced with planned ones and afforestation and reclaiming of discarded mines should be given priority in the plans. Rehabilitating and protecting the natural resource base, however, is a cross-sectoral issue and will require a coherent and integrated approach. This will require an enabling framework for policy formulation and implementation that promotes environmentally sustainable development at national, regional and local levels.

Myanmar's tight rope walk is to balance between growth and environment protection. There are lessons abound in its neighbourhood where some countries have chosen high growth at the expense of environment. But there are instances of planned industrial growth which protects the water, air and soil quality and lessens the cost of development on human health and wealth. Myanmar starts at the low end of manufacturing and industries such as garments and leather, which are more polluting than high technology industries. Industrial waste and water pollution are a direct outcome of these industries. There will be a need for industrial planning which locates these industries in identified zones with dedicated land and water supply. Pollution of river water would be life threatening for industries like fisheries and even livestock, which are a major part of the economy in the coastal areas as well

as in the hinterland. As Myanmar grows, it may well incorporate environmental safety aspects in its growth plans for both industries and natural resources.

Policy makers may face a dilemma between environmentally sustainable growth and fast growth. But the cost saved on human health and nation's resources would offset the cost of factoring in the environmental costs of development in Myanmar. This would complete the triangle of development, which will now have economic growth, poverty reduction and sustainable development as three connected sides of the growth triangle in Myanmar.

#### **8. Addressing the Weak Links in the Reforms Process**

It would be naïve to believe that the development process in Myanmar would be easy for both government and the people. There are challenges in the road to reforms and there will be costs of transition. The absorption capacities of institutions may lead to a loss of effectiveness of the reforms, or, at the very least, the efficiencies may be impacted. Bureaucracy is the traditional tool of development in all developing economies. Development of capacities in the bureaucracy is a time taking process and these might cast a long shadow on the development agenda of the government. The lack of institutionalization in Myanmar also raises a valid question as to how much of reforms are intuitive and good intentioned and how much are a product

of an institutionalized decision making process. These words of caution are not meant to be a dampener on the progress, or even the speed of development related reforms in Myanmar. The important message is to check the weak links in the reforms process and to address them even as the country moves towards openness and stability. At the end, a people centered development seeks balance and stability on both political and economic front. Shocks and surprises, whether internal or external, may not bode well for the development and opening of Myanmar. A sustained growth in the livelihood of people may well be the best cushion against any challenge to the development process in Myanmar.

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