

## PROSPECTS FOR ECONOMIC DEVELOPMENT IN BURMA USING THE NEOCLASSICAL MODEL

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### Abstract

*This paper examines the prospects for economic development in Burma using the Neo-classical growth model. From 1988-1997, the State Law and Order Restoration Council implemented market-oriented economic policy reforms. However, following the Financial Crisis in 1997, Burma reverted to controlled market policies, exacerbating its economy. In light of Burma's new civilian government, I offer recommendations to the new President U Thein Sein for harnessing equitable economic growth by using the Neo-classical growth model. Section I introduces the paper, Section II gives an overview of the Neo-classical Model, Section III evaluates Burma's economic policies from 1988-2007<sup>1</sup>, Section IV gives a brief analysis of the policies, Section V offers recommendations based on the Neo-classical model, and Section VI concludes the paper.*

### I. INTRODUCTION

Civil war, egregious human rights abuses, corruption, and political instability have plagued Burma's economy since the ruthless junta took over Burma's government in 1962. From 1962-1997, the military regime implemented the "Burmese Way to Socialism," making Burma one of the most isolated nations in the world. Extreme poverty, poor health and education, economic stagnation, and instability resulted from this period of extreme nationalization, or Burmanization, of industries inciting students to take to the streets in what was known as the 8888 uprising on August 8, 1988. After these demonstrations, the State Law and Order Restoration Council took over from 1988-1997 and implemented a series of liberalizing market-oriented economic policy reforms – leading to economic growth. However, underlying inadequacies in the government and economy caused the Burmese government to reorganize again following the devastation of the Asian Financial Crisis in 1997. Under the new name of the State Peace and Development Council, controlled market policies were utilized, reverting away from the previous open-door policies. Recent economic growth has primarily been attributed to the exploitation of natural gas reserves (export wealth which does not trickle down to the general population) and economic policy reform has been stagnant.

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As of late March 2011, Burma's military junta leaders stripped their uniforms in an effort to appear more legitimate. President U Thein Sein recently announced new market economic policies in hopes to bridge the economic and development gap between the rich and the poor. With the recent advent of Burma's new civilian government, it is of due importance that the international community direct Burma's government into achieving sustainable economic development so that the repressed peoples of Burma can receive their deserved right to health, education, security, food, and happiness. Economic development is an essential prerequisite for greater prosperity, equality, stability, and better livelihoods.

Given Burma's brief period of economic growth from the liberalization of policies in the 1990s before its reversion to a centrally planned economy, this paper analyzes the effectiveness of the Neo-classical growth model as a prospect for sustainable economic development in Burma for the future through the analysis of Burma's economy from 1988-20097. The following section analyzes the theories of the Neo-classical model. The third section gives an overview of Burma's major economic policy reforms from 1988-20079. The fourth section briefly analyzes these policy reforms. The fifth section offers recommendations to Burma's new government based on its economic history and the Neo-classical growth model, and finally, the sixth section concludes the findings of this research.

## II. THEORY: NEO-CLASSICAL GROWTH MODEL

The 1980s was characterized by the advent of the neoclassical counterrevolution in economic theory and policy in reaction to the conservative nationalistic governments. Led by Lord Peter Bauer, Deepak Lal, Ian Little, Harry Johnson, Bela Balassa, Jagdish Bhagwati, and Anne Krueger, these neo-classicalists disagreed with the dependency theorists and said that free markets and laissez-faire economics within the context of permissive governments allow the invisible hand of market prices to guide resources allocation and stimulate economic growth. State intervention in economic activity slows the pace of growth, which leads to the central argument that underdevelopment comes from poor resource allocation due to incorrect pricing policies and excessive state intervention by developing nation governments. Only with competitive free markets can efficient and economic growth be stimulated by:

- ❖ Privatizing state-owned enterprises
- ❖ Promoting free trade and export expansion
- ❖ Welcoming foreign investors
- ❖ Eliminating the plethora of government regulations and price distortions in factor, product, and financial markets

The Neo-classical theory has gained overwhelming prominence in organizations such as the World Bank and International Monetary Fund, much to the angst of Least Developing Country (LDC) delegates of the International Labor Organization (ILO), UN Development Program (UNDP), and UN Conference on Trade and

Development (UNCTD). However, the vibrant economies of South Korea, Taiwan, and Singapore exemplify how free markets and liberalization have sparked dramatic economic growth in the past.

There have been several approaches and outgrowths of the Neo-classical model throughout the years. I will briefly go over three component approaches and then focus on those pertinent to this paper: the traditional model which includes aspects of the Harrod-Domar model, Solow growth model, Cobb-Douglas production function, and Heckscher-Ohlin model.

The free-market approach of the neoclassical model argues that markets alone are efficient. The public choice or new political economy approach argues that governments are the root of the problem; it argues for minimal government because of their inability to do anything right, leading to the misallocation of resources and reduction in individual freedoms. Finally, the market friendly approach is a compromise of the first two approaches. Utilized by the World Bank and its economists, it recognizes the government's key role in facilitating the market through nonselective interventions by investing in infrastructure, healthcare, education, and providing a suitable climate for private enterprise because of the imperfections in developing country markets.

The traditional model of the neoclassical model is an outgrowth of the Harrod-Domar and Solow growth models. According to this component of the Neo-classical model, the rate of capital accumulation increases with additional domestic and foreign investment, which comes from the liberalization of national markets. Liberalization raises the domestic savings rate which enhances capital-labor ratios and per capita incomes in capital-poor developing countries, eventually contributing to GDP growth. Based off the premise of the Harrod-Domar model:

- ❖ Assume consumption (C) is the expenditures by consumers on final goods and services. The main determinant of consumption is national income or GDP (Y).
- ❖ As Y increases, C is expected to go up because:
  - $C = cY$
  - Where c = fraction of GDP used for consumption=average propensity to consume
- ❖ Assuming consumption and savings (S) are the 2 uses of income,
  - $S = Y - C$
  - $S = sY$  Savings Function
  - Where s = saving rate=average propensity to save, thus:
  - $s = 1 - c$
- ❖ Consider Investment (I) as the expenditure by producers on:
  - (a) Purchase of machinery, tools, and equipment, or
  - (b) Construction activities, or
  - (c) Increase in inventories.
- ❖ Investment (I) is the increase in the capital stock (K) of the economy
  - $I = \Delta K$

- ❖ Define capital output ratio as  $K/Y = j$  and assume this ratio is constant.
- ❖ Since  $j$  is a constant,
  - $\Delta K / \Delta Y = j$
  - Then,  $\Delta K = j\Delta Y$
  - So,  $I = j\Delta Y$
- ❖ If we assume that the interest rate ( $r$ ) is fully flexible, then  $S = I$ .
  - If  $S = I$ , then  $sY = j\Delta Y$
- ❖ Therefore:
  - $(\Delta Y/Y) = s/j$ , where  $\Delta Y/Y$  = per cent increase in GDP or economic growth.
- ❖ Thus this model states that economic growth is decided by the savings rate ( $s$ ).

In closed economies, *ceteris paribus*, savings rates are lower, and thus these economies experience slower economic growth in the short run and tend to converge at lower per capita income levels. On the other hand, open economies, which are open to trade and foreign investment, have higher income convergence because of their higher savings rate and the capital flow from international trade from rich to poor countries with higher returns on investment. Thus, “by impeding inflow of foreign investment, the heavy-handedness of LDC governments will retard growth in economies of the developing world” (Todaro 122).

According to the model, output growth comes from one of three factors: increase in labor quantity and quality (population growth and education), increases in capital (savings and investment), and improvements in technology. The Solow expansion of the neoclassical growth model indicates the diminishing returns to capital accumulation and labor, attributing sustainable economic growth to what is known as “Solow’s Residual.” The Solow model states that the accumulation of capital is not an engine of long-term economic growth because of diminishing returns of capital and labor. Given that economies have the same rate of saving, depreciation, labor force growth, and productivity growth, economies will conditionally converge to the same level of income. The model uses a standard aggregate production function, also known as the Cobb-Douglas Production Function:

$$Y = f(K,L) \text{ or } Y = K^\alpha(AL)^{1-\alpha} \quad (1)$$

Where:  $Y$  = Gross Domestic Product

$K$  = stock of capital (human and physical capital)

$L$  = Labor

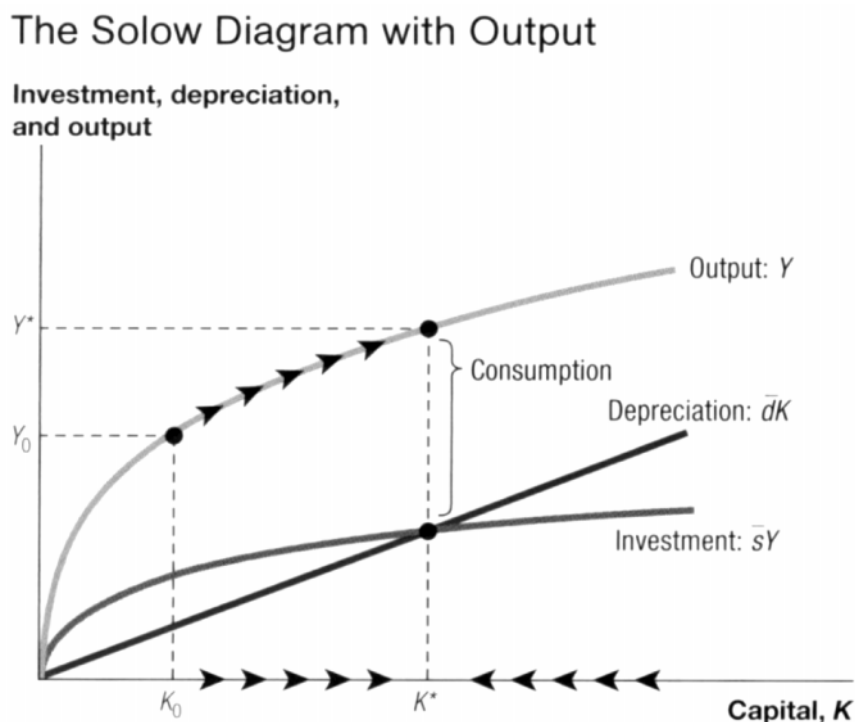
$A$  = Solow’s residual or the productivity of labor which grows at an exogenous rate (growth comes from non-traditional inputs other than  $K$  &  $L$ )

$\alpha$  = elasticity of output with respect to capital,  $0 < \alpha < 1$

When labor and capital are considered separately, they exhibit diming marginal productivity; however, if they are increased together, they exhibit constant returns to both factors. Since alpha is less than one and private capital is assumed to be

paid its marginal product so that external economies are nonexistent, this theory yields diminishing returns to both capital and labor. When depreciation and new investment eventually offset each other, the economy will settle down to a constant level of output per person – this is known as the steady state as depicted in the figure below.

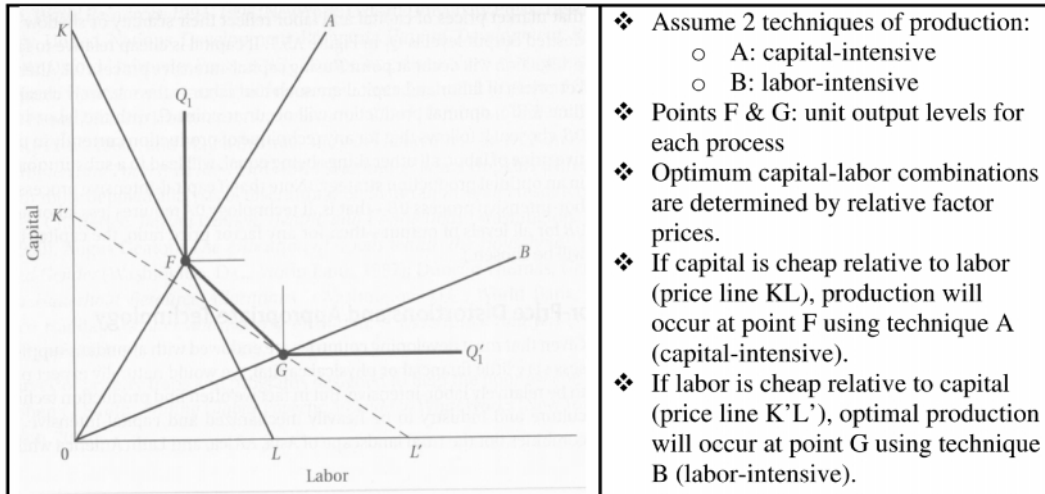
**Figure 1: The Solow Diagram with Output; Source: Jones, 107**



Another offshoot of the neoclassical model is the price incentive model (similar to Heckscher-Ohlin's model or factor endowment trade theory), which argues that a country should economize on the use of the expensive factor. Essentially, the model is based on the following logic:

- ❖ If the price of capital is very expensive relative to the price of labor, a relatively labor-intensive process should be chosen.
- ❖ If labor is relatively expensive, the economizing firm or farm should pursue a more capital-intensive method of production.

Essentially, like the Heckscher-Ohlin theorem, a country should specialize in that production and export to the rest of the world that which uses a country's abundant factor intensively. Least-cost capital-labor combinations are thus determined by relative factor prices in a country as the following graph depicts:

**Figure 2: Price Incentive Model: Source: Todaro, 256**

The cost of factor-price distortion, or in other words, the cost of not utilizing one's capital and labor effectively and efficiently is substantial. It can lead to unemployment and unproductivity – factors which all contribute to hindering a country's economic growth. If effective government policies were in place to eliminate factor-price distortions, employment in the country will be maximized and it will lead to “the overall utilization of scarce capital resources through the adoption of more appropriate technologies of production” (Todaro 257).

### III. BURMA'S ECONOMIC HISTORY: 1988-2007

In this section, economic policies of 1988-2009 will be analyzed to determine whether Burma should adopt the Neo-classical model for economic growth. According to the Solow Growth Model, capital and labor do not lead to sustainable economic growth because of marginal diminishing productivity. Economic growth comes from 'A' or Solow's residual which includes all non-traditional inputs besides capital and labor. If this model holds true, then an increase in non-economic inputs will lead to an increase in economic growth, or GDP.

In August of 1988, the military-run government, the State Law and Order Restoration Council (SLORC), took over the failed socialist regime, the Burma Socialist Programme Party (BSPP). This marked the end of the *Burmese Way to Socialism* and the beginning of a series of major economic reforms instituted to promote a market-oriented economy. The SLORC's regime rule endured from 1988 until the Asian Financial Crisis of 1997. After the crisis, the State Peace and Development Council (SPDC) took over, reverting Burma to a more controlled market economy. As a result, the economic reforms of the SLORC were stalled and cronyism within the government apparatus increased. Because of this clear split in economic systems, I will analyze Burma's economy in two time periods, 1988-1997

**Figure 3: Economic Reforms 1988-1997; Source: Kudo, 6**

<i>Year</i>	<i>Economic Reforms</i>	<i>Significance</i>
1988	<ul style="list-style-type: none"> <li>• Foreign Investment Law</li> </ul>	<ul style="list-style-type: none"> <li>• Increased investment of private foreign capital</li> </ul>
1989	<ul style="list-style-type: none"> <li>• Decontrol of prices</li> <li>• Regularization of border trade</li> </ul>	<ul style="list-style-type: none"> <li>• Liberalization</li> <li>• Increased privatization</li> </ul>
1990	<ul style="list-style-type: none"> <li>• State-Owned Economic Enterprises Law</li> <li>• Myanmar Tourist Law</li> <li>• Permission for 100% retention of export earnings</li> <li>• Private Industrial Enterprise Law</li> <li>• Central Bank of Myanmar (CBM) Law</li> <li>• Financial Institutions of Myanmar Law</li> <li>• Myanmar Agricultural &amp; Rural Development Law</li> <li>• Commercial Tax Law</li> </ul>	<ul style="list-style-type: none"> <li>• Encourage foreign exchange and investment</li> </ul>
1991	<ul style="list-style-type: none"> <li>• Industrial Zones formed in Yangon</li> <li>• CBM Rules &amp; Regulations</li> <li>• Promotion of Cottage Industries Law</li> <li>• Reestablishment of Chambers of Commerce and Industry (UMFCCI)</li> </ul>	
1992	<ul style="list-style-type: none"> <li>• Announcement to lease out inefficient state-owned factories; denationalization sawmills; and establishment of 4 private banks</li> <li>• Tariff Law</li> <li>• Savings Bank Law</li> </ul>	<ul style="list-style-type: none"> <li>• privatization</li> </ul>
1993	<ul style="list-style-type: none"> <li>• Intro. of US\$ denominated Foreign Exchange Certificate (FEC)</li> <li>• Myanmar Insurance Law</li> </ul>	<ul style="list-style-type: none"> <li>• Trying to increase foreign currency supply through tourists</li> </ul>
1994	<ul style="list-style-type: none"> <li>• Myanmar Citizens Investment Law</li> <li>• Licensing of representative offices of 11 foreign banks</li> </ul>	
1995	<ul style="list-style-type: none"> <li>• Science &amp; Technology Dvlpmt. Law</li> <li>• Formation of Privatization Committee</li> <li>• Permission to est. joint venture banks b/w local private banks * foreign banks</li> <li>• Opening of licensed foreign exchange center for FEC trading in Yangon</li> </ul>	
1996	<ul style="list-style-type: none"> <li>• Local private banks allowed to conduct F.E. business &amp; pay interest on foreign currency deposits</li> <li>• Establishment of Myanmar Securities Exchange Centre Co. Ltd. (MSEC)</li> <li>• Development of Computer Knowledge Law</li> <li>• Official E.R. for levying custom duties changed to K100/USD and reduction of tariffs</li> </ul>	<ul style="list-style-type: none"> <li>• Liberalization of trade</li> </ul>
1997	<ul style="list-style-type: none"> <li>• Announcement of paddy procurement through tender bid system (not implemented)</li> </ul>	<ul style="list-style-type: none"> <li>• n/a</li> </ul>



and 1998-2007, and then explore the utility of the Neo-classical growth model for Burma's economic growth.

### **State Law and Order Restoration Council: 1988-1997**

The SLORC regime initiated Burma's transition toward a market-oriented economy using an open-door policy. They sought to stimulate private sector participation in the national economy to increase competition and productivity by initiating the following economic reforms: decentralization of control of economic activities, relaxation of price controls, deregulation of export and import restrictions, opening of border trade, reduction of government subsidies, announcement of full-fledged privatization of all SEEs, streamlining of taxes and duties, establishment of industrial zones, and improvement of infrastructure (Kudo 5). The following table indicates the exact reforms during this time period:

#### ***Privatization***

From 1988-1997, the regime implemented 27 new business-related laws committed to promoting a market-oriented economy. The first two of these were pillar laws established within the first year: the Foreign Investment Law (FIL) in November 1988 and the State-owned Economic Enterprises Law (SEEs Law) in March 1989. The FIL sought to resume the investment of private foreign capital after a 25-year hiatus, and the SEEs Law broke the state's monopoly on the entire market, permitting private enterprises for the first time since 1962 to partake in the market again in all but 12 industries. The 12 industries that private enterprises were prohibited from entering were those enterprises that the SEE would continue to monopolize:

1. the extraction and sale of teak
2. the cultivation and conservation of forest plantation
3. extraction, exploration, and sale of petroleum and natural gas
4. exploration, extraction, and export of pearls, jade, and other precious stone
5. breeding and production of fish and prawns in reserved fisheries
6. postal and telecommunications service
7. air and railway transport service
8. banking service and insurance service
9. broadcasting service and television service
10. exploration, extraction, and export of metals
11. certain electricity generating services, and
12. the manufacture of security and defense products (Kudo 23).

Despite these 12 restrictions, the private sector was at least now "allowed in principle" versus "banned in principle" to participate in the market (Kudo 23).



These liberalizing laws created a strong positive reaction by businesses as witnessed by their increased active participation in the private sector of the economy. Real GDP by the private sector increased by 19.9% from 1986 to 1998 and the number of private business entities registered in 1998 was 16 times that in 1986. Mining, construction, and financial institutions had the most significant increases in private ownership. In the mining sector, the share of private sector made a dramatic 80.2% change, from 8.0% in 1986 to 88.2% in 1998. In construction, the share of private sector ownership increased from 10.8% in 1986 to 54.0% in 1998, a 43.2% change overall, and the share of private sector ownership of financial institutions increased from 0% in 1986 to 30.7% in 1998. Although private enterprise involvement in the banking service was under one of the 12 prohibited industries of participation by the private sector, the July 1990 Financial Institutions of Myanmar Law changed this; since 1992, 20 private banks were established (Kudo 27). The lifting of barriers and restrictions on private businesses has also caused an almost 16-fold increase from 1989 to 1997 in the number of registered private businesses indicating active participation in the private sector. Overall, the increase in the private sector's share of GDP and the increase in the number of private businesses as a result of the SLORC's market oriented policies have created a healthier and more competitive environment for achieving economic development.

### ***Relaxed Controls***

Burma's market-oriented reform also benefited the agricultural sector through new liberal economic policies which relaxed price and market controls; however, intrinsic problems with Burma's government and unstable market conditions become apparent. The application of these liberal policies was not uniform for agricultural goods. The production, procurements, sales, and export of beans and pulses were liberalized, leading to dramatic increases in export and production, but the state maintained its monopoly over the production, procurement, sales, and export of rice, leading to lower productivity and income. With rice, price quotas set below the market price along with compulsory delivery did not yield as dramatic increases in production and exports as beans and pulses did because farmers had no price incentive. Furthermore, corruption and the limited credit available to farmers to invest in new technologies and farming techniques due to inflation and Burma's multiple exchange rates highlight the fact that reduced controls alone are insufficient to promote sustainable growth.

### ***Increased Exports & Imports***

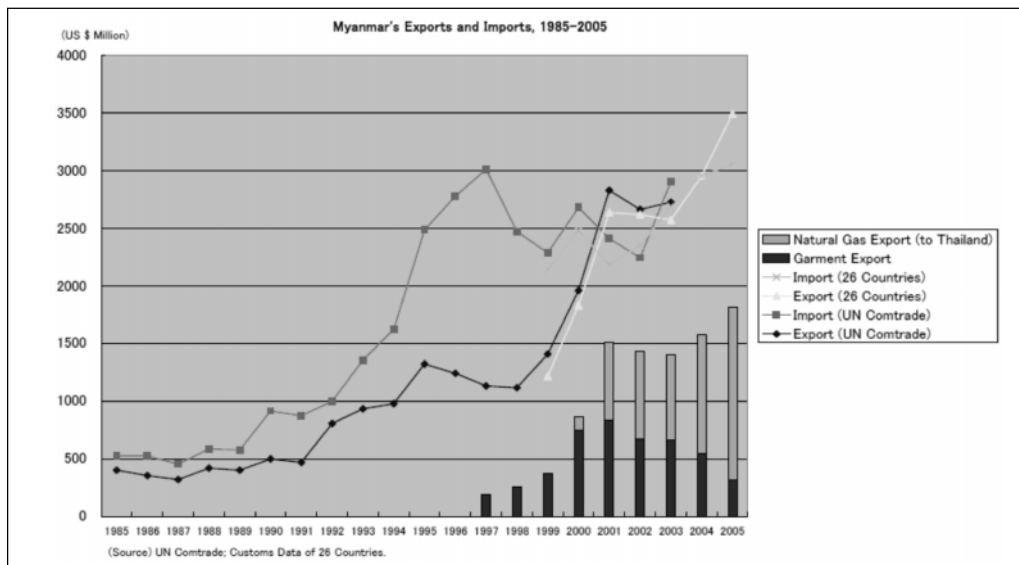
The effect of liberalization from 1988-1997 is also reflected in the increased number of exports and imports. Exports rose every year from \$147 million in 1988 to \$846 million in 1995 and consisted primarily of primary commodities like beans and pulses and sesame, and fish and prawns.

**Table 1**  
**Foreign Trade 1988-1995; Source: World Bank, (Kyi 24)**

<i>Year (Base year = 1980)</i>	<i>Volume of Exports</i>	<i>Unit Value of Exports</i>	<i>Exports (US\$)</i>	<i>Imports (US\$)</i>	<i>Balance of trade (Million US\$)</i>	<i>Trade Deficit/ Surplus as % of Import</i>
1988	53	92	147,436,220	243,948,840	-96.51	-39.6%
1989	72	111	214,521,720	201,236,810	13.28	6.6%
1990	100	100	325,226,580	269,995,060	55.23	20.5%
1991	96	101	419,471,140	645,946,240	-226.48	-35.1%
1992	108	88	536,548,830	651,163,410	-114.61	-17.6%
1993	149	81	582,717,010	813,958,070	-231.24	-28.4%
1994	145	87	770,520,420	885,768,390	-115.25	-13.0%
1995	150	136	846,356,790	1,334,587,700	488.23	-36.6%

Imports, too, grew, and at a much faster pace than exports because of the huge pent-up demand for consumer goods that were in short supply during the socialist regime. Exports experienced slower growth than imports because of the government's monopoly on restrictions on some major export items excluded to the private sector such as teak and rice, Burma's two main exports. This uneven growth of exports led to consequences for Burma's economy later, especially since many preliminary import-substitution industries heavily dependent on imported machinery and raw materials materialized (Kudo 6). By 1997, Burma reached an enormous trade deficit of \$1879.9 million. In addition to pent-up consumer demand

**Figure 4: Burma's Exports and Imports, 1985-2005; Source: UN Comtrade (Kudo 30)**



being released, this huge deficit can also be attributed to the multiple exchange rate, growing inflation, and remaining controls on the market. The figure below depicts the surge in exports in the late 1990s that were unfortunately set off by the higher volumes of imports.

### ***Increased Engagement with the International Community***

Another characteristic of Burma's open door policy from 1988-1997 was Burma's strengthened trade relations with neighboring countries: China, Thailand, India, and Bangladesh, listed in order from highest to lowest share of trade. Burma also joined regional cooperation schemes, indicating its desire to open up. These include: the Greater Mekong Sub-region Economic Cooperation in 1992, the Association of Southeast Asian Nations (ASEAN) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) in 1997 (Kudo 11).

### ***Foreign Investment***

The 1988 Foreign Investment Law – which permitted 100% ownership by foreign companies – contributed greatly in increasing foreign capital investment. With this greater flow of foreign capital investment, Burma aimed to develop its natural resource sector as well as engage in the export of capital-intensive goods to stimulate its economy – both of which require high amounts of foreign capital investment for infrastructure, equipment, and other inputs. However, in comparison to other newly liberalizing countries at the time, like Vietnam, FDI flows were not nearly as voluminous. The significantly smaller FDI flows into Burma may be attributed to poor operating conditions such as convoluted bureaucratic government structures, excessive controls and counter-controls, lack of coordination between ministries leading to delays and additional costs, failure to timely inform foreign investors about changing rules on currency, import restrictions, and other trade practices – all leading to higher transaction costs and susceptibility to corruption. The parallel exchange rate system also adds another obstacle to the growth of foreign investment. Burma has an official exchange rate which is about 6.5 kyat per dollar, and it also uses an unofficial exchange rate in the free market which is about 900-1,000 kyat per dollar. The instable exchange rate contributed to the high inflation rate, creating a highly unstable environment for foreign investors. Thus, foreign investment was concentrated in the least risky sectors – oil and gas, mining, hotel and tourism, and construction.

### **State Peace and Development Council: 1997-2007**

Although the liberalization of economic policies throughout the 1990s generated positive effects such as reduced controls, improved livelihoods in the agricultural sector, increased exports, reduced controls, and increased foreign investment - several negative outcomes were also manifested, indicating the multitude of intrinsic deficiencies in Burma's government and economy. These negative outcomes – inflation, severe shortage of foreign currency, growing deficit – made Burma's

economy extremely vulnerable and illuminates why Burma was impacted profoundly by the Asian Financial Crisis of 1997.

As a result of the Financial Crisis of 1997, Burma's military regime decided to reorganize. Known as the State Peace and Development Council (SPDC), the SPDC implemented many controls on the economy, straying away from the SLORC's open-door policies of the 1990s, in order to deal with the consequences of the financial crisis. The formation of the Trade Policy Council (TPC) in July 1997 marked the beginning of policy changes which strengthened state controls and increased state intervention in private economic activities in order to protect domestic industries and capture foreign exchange earnings for balancing the large budget deficit. Some of these new policies included: an export-first policy, limits on non-essential imports, 10% export tax, advanced purchase of beans and pulses for export, advanced purchase of cotton, market-price-based taxation on imported vehicles, import restrictions on motor vehicles, monthly grants for palm oil imports, reduced Foreign Exchange Certificate limits on overseas bank transfers, strengthened revenue collection from the Myanmar Investment Commission-approved projects, and inspection of under-priced import invoices (Kudo 8).

The new export-first policy restricted industries severely; the importer could only import against export earnings, rigorously restricting the import of non-essential and luxury goods. The share of essential or obligatory imports had to represent over 80% of total imports and the share of non-essential or luxury goods could not exceed 20% of total imports. Furthermore, the central bank set a number of foreign currency controls. The overseas foreign currency transfers of private firms were limited to \$50,000 USD per month, which was eventually tightened several times to \$10,000 USD per month by August 2000. Private sector banks were prohibited from participating in foreign transactions, giving three government-owned banks a monopoly. These new restrictive trade policies were detrimental to the private factories which relied on imported machinery and raw materials, essential inputs for the development of import-substitution industries (Kudo 8).

The TPC's new policies effectively decreased imports and improved Burma's trade balance after its period of stagnation from 1998-2001. By the 2000s, import controls were relaxed and imports recovered by 2005, allowing some industrialization to occur, mostly in the garment and natural gas sectors. Between 2000 and 2007, the processing and manufacturing sector's share in nominal GDP increased by 7.7 percentage points while the agriculture sector's share of nominal GDP decreased.

This industrial growth in the processing and manufacturing sector can be attributed to the growth of private enterprises. However, the garment sector's export boom was short-lived due to the 2003 American sanctions of all imports from Burma due to human rights abuses. Gas exports compensated for this decline; in 2005 gas exports amounted to \$1,497.4 million USD, over 40% of total exports (Kudo 9). In effect, foreign currency reserves increased significantly to the benefit of the public

sector's administrative organizations and state owned enterprises. In 2005, the public sector experienced a trade surplus of \$1,321.1 million USD, helping to stabilize the kyat (Kudo 9).

#### IV. ANALYSIS

Based on Burma's economy from 1988-2007, the open door policies of the 1990s increased real GDP, the number of private sector enterprises, and volume of exports and imports. However, in comparison to other newly liberalizing countries around the same time such as Vietnam, Burma's economic growth was not as fast as it could have been. Factors such as inflation, political instability, shortage of foreign currency, international trade sanctions, limited manufactures industry sector, and state controls on certain main sectors of the economy greatly hindered Burma's government because Burma did not fully liberalize like the Neo-classical model suggests for sustainable growth. However, it must be noted that the liberalization policies from 1988-1997 did function to push Burma's economy towards the right direction even though the market-controlling policies from 1997-2007 led to the stagnation of economic reforms – indicating the great potential for Burma's economy to experience dramatic economic growth if Neo-classical growth model policies are fully implemented. Sustained economic growth cannot occur with partial liberalization as was proven by the multitude of macroeconomic problems that were manifested a few years later.

Certain factors highlight the inefficiencies of Burma's partially liberalized economic policies. For example, the continuance of state control and monopoly over the production, sale, and export of key industries like rice and timber contributed to the suppressed economic growth Burma experienced in comparison to Vietnam. Market controlling policies like quotas and strict import controls from 1997-2001 severely hampered the growth of the manufacturing and industrial sector – infant industries from acquiring key imports needed as inputs. De-privatization of the banking sector adversely led to more controls by the government, less competition, and reduced credit. Parallel and fixed exchange rates led to volatility, growing inflation, undermining of price liberalization, and less FDI – hampering the growth of the manufacturing sector as all FDI flows were funneled towards natural gas and tourism sectors.

All of these factors and more served to limit economic growth in Burma. As witnessed by the burgeoning government from 1988-1997 from liberalized policies, Burma should wholly adopt the Neo-classical growth model as it has already exhibited positive effects from the few years it engaged in freer trade and reduced controls. According to the Neo-classical growth model, the traditional inputs of capital and labor do not contribute to sustained economic growth because of diminishing marginal productivity. Assuming this holds true, economic growth will occur with the increase in non-traditional inputs such as liberalization, reduced administrative bottlenecks, and reduced controls. Thus, in order to achieve economic growth based on the Neo-classical model, the following non-traditional inputs or recommendations in the following section need to be implemented.

## V. RECOMMENDATIONS

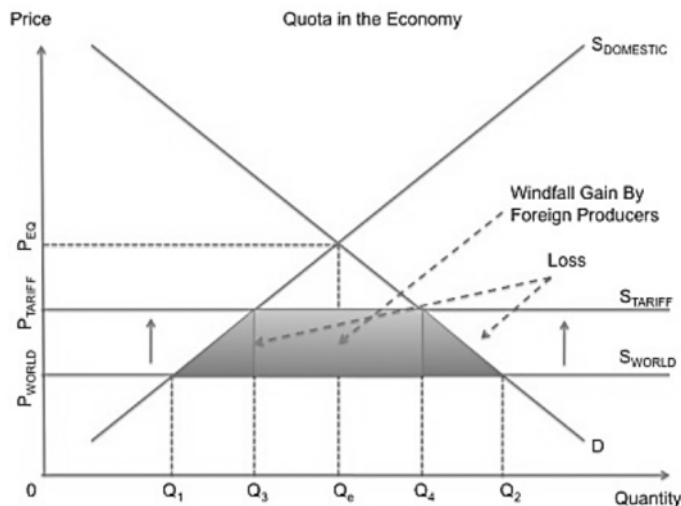
1. Good governance needs to be in place. In order for the rest of the recommendations to be implemented, the Burma's government must act as a more legitimate power. Corruption, rent-seeking, and human rights abuses all need to be stopped immediately. Not only do they inhibit prospects for economic growth, but the gross human rights abuses are condemned by international law and the international community through economic trade sanctions. If none of these are rectified, true economic development in Burma is impossible. Good policies can be easily written by anybody, but to implement these new policies, a legitimate, sound, transparent, and accountable government is imperative for effecting real and positive change.
2. Burma needs to eliminate controls. This includes eliminating price quotas, access to the market, other barriers to trade, and engage in freer trade. The benefits Burma's economy felt during the 1990s when the SLORC instituted an open door policy indicate Burma's need to further open its doors and eliminate remaining controls without reversion.

For example, the agricultural sector experienced an increase in its share of nominal GDP, a substantial increase in production and export of some products, and an improvement in their terms of trade ratio from 1988-1997. The liberalization of policies allowed prices to increase to normal market value, allowing farmers to increase their share of nominal GDP substantially. With increased prices, farmers could afford key inputs like fertilizer and farmers had a greater price incentive to increase production for export. As a result of increased exports, the terms of trade improved for the farmers, elevating their welfare. Prior to the liberalization of policies in 1988, farmers were forced to sell their goods to government officials at a price lower than market value and at a set quota; these restrictive market conditions greatly burdened the livelihood of farmers. The farmers did not receive a return from selling their goods to the government; the agricultural export earnings were monopolized by the state and used for import substitution industries – to the benefit of the urban sector.

According to the free trade argument, eliminating barriers to trade will lead to greater economic welfare. In Burma's case, the elimination of quotas on rice, for example, will lead to better prices, incentives, profits, and competition for farmers. The graph below indicates the losses entailed by instituting a quota. When the government imposes a quota at a below the market level price on farmers for rice, the quantity supplied to the rest of the world by the farmers is reduced and the price they must sell the rice at in order to profit must be raised – making the rice uncompetitive to other countries' rice without forced quotas. As a result, world demand for Burmese rice falls. This government imposed quota on farmers at below market prices is synonymous to that of a large export tax on farmers because farmers must increase their prices to make up for their losses to the government.



**Figure 5: Quota in Economy**



In this graph,  $S_{\text{world}}$  represents the market price for rice and  $S_{\text{tariff}}$  represents the increased price from the quota. The quota decreases the quantity demanded by the world from  $Q_2$  to  $Q_4$ , which decreases the volume of rice imported by the world from  $Q_1Q_2$  to  $Q_3Q_4$ . Burma does not gain from this situation, which is why forced quotas should be eliminated.

The detrimental effect of quotas on certain goods in the agricultural sector and the need for Burma to reduce its controls on the economy is also exemplified by comparing the production and export volumes of pulses and rice. Pulses were fully liberalized after 1988 whereas the production, sale, and export of rice were still held under the state's control.

**Figure 6: Production of Paddy (rice) and Pulses from 1987-1997; Source: Kyi, 44**

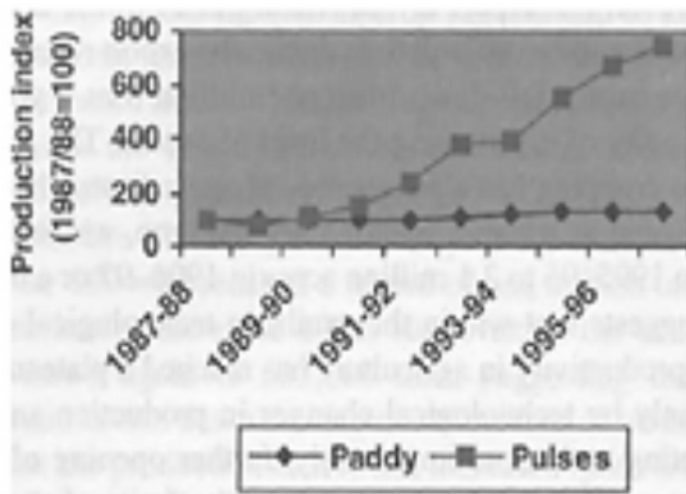
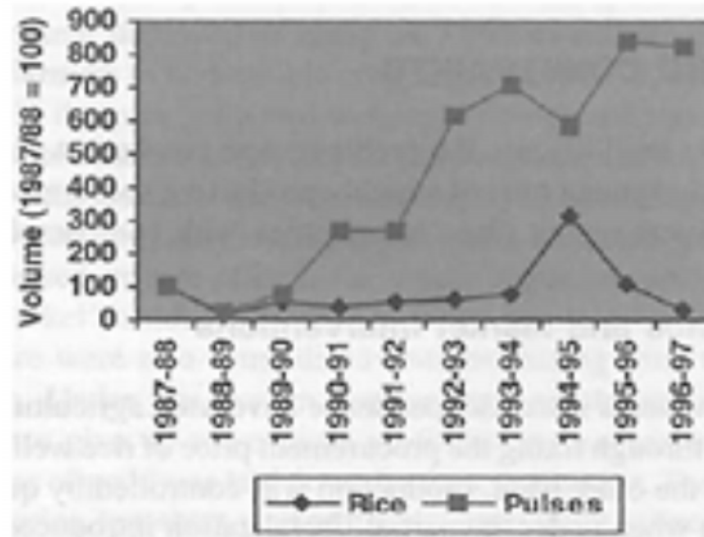




Figure 7: Exports of Rice and Pulses from 1987-1997; Source: Kyi, 44



In Figure 6, production of pulses increases exponentially in comparison to that of paddy production. In Figure 7, the export volume of pulses increases almost 9 fold from 1987-1997 while the net growth in export volumes of rice is for the most part stagnant; there was one peak in exports from 1994-1995. This peak around 1995 indicates the increase in rice production by 37% from that in 1985 (Dapice 5). It is obvious that fewer controls and fewer barriers to trade are necessary and will be beneficial for the welfare of farmers, especially in increasing paddy production and export. Bringing up price levels to world levels by eliminating forced quotas would increase profits, lead to higher application of fertilizer, and thus a higher volume of production and exports.

Liberalization of economic policies during the 1990s has also led to increased privatization and productivity, supporting the argument for the need for Burma to fully eliminate controls in its economy in accordance with the Neo-classical growth model. The table below signifies the changes in shares of real GDP by the private sector from 1986-2007.

From 1986 to 1998, the shares of private sector secondary industries increased from 42.6% to 62.4%, a 46.4% increase, demonstrating the effects of liberalizing economic policies and allowing private sector participation in the market again. Overall, the share of real GDP by the private sector, in all three industries, increases dramatically from just 68.6% in 1986 to 90.7% by 2007. The benefits that come with increased privatization are less governmental controls, freer markets, greater competition, and increased productivity – all contributing to the overall health of an economy. For Burma to hone all these benefits that come along with reduced

Table 2  
Private Sector Changes in Shares of Real GDP from 1986-2007; Source: Kudo 24 \*see  
Appendix for larger image of this table

	FY1986						FY1998						FY2007						Changes in Shares of Private Sector		
	Share		Co-operative		Private		Share		Co-operative		Private		Share		Co-operative		Private		Changes (FY98-FY96)	Changes (FY98-FY07)	Major Factors for Changes
	Share	Co-operative	Private	Share	Co-operative	Private	Share	Co-operative	Private	Share	Co-operative	Private	Share	Co-operative	Private						
I Goods	61.3	11.9	5.3	82.7	59.6	11.4	1.4	87.2	63.5	-	-	-	63.5	-	-	-	4.5	4.5	-	-	-
1 Agriculture	40.3	0.1	6.4	93.4	34.5	0.2	1.9	97.9	35.6	0.4	2.4	97.2	35.6	0.4	2.4	97.2	4.5	4.5	-0.7	Decrease of fish of agricultural produce	
2 Livestock & Fishery	7.3	1.3	2.6	96.2	7.2	0.3	1.1	98.6	7.5	0.1	0.7	99.2	7.5	0.1	0.7	99.2	2.5	2.5	0.2	Development of private enterprises	
3 Forestry	1.3	38.0	4.4	57.6	1.0	46.2	0.6	53.2	0.5	50.0	0.3	49.7	0.5	50.0	0.3	49.7	-4.4	-4.4	-3.5	Strengthened conservation of forests	
Primary Industry	49.0	1.3	5.8	92.9	43.7	1.3	1.8	97.0	43.7	-	-	-	43.7	-	-	-	4.1	4.1	-	-	
4 Energy	-	-	-	-	0.2	0.1	0.0	0.2	0.2	0.1	0.0	0.2	0.2	0.1	0.0	0.2	14.4	14.4	14.4	Entry restriction by SEE; Law	
5 Mining	0.9	89.8	2.2	8.0	1.6	10.8	1.0	88.2	0.5	2.9	0.2	96.9	0.5	2.9	0.2	96.9	80.2	80.2	8.7	Provision of mining concession	
6 Process & Manufacturing	9.2	41.6	4.2	54.2	9.2	28.2	0.9	70.8	13.0	9.2	0.2	90.6	13.0	9.2	0.2	90.6	16.6	16.6	19.7	Development of SME	
7 Electric Power	0.5	100.0	0.0	0.0	1.0	99.9	0.1	0.0	0.7	79.5	0.3	70.7	0.7	79.5	0.3	70.7	0.0	0.0	20.7	Entry restriction by SFE; Law	
8 Construction	1.7	88.3	1.0	10.8	4.9	45.8	0.2	54.0	4.0	60.1	0.0	39.9	4.0	60.1	0.0	39.9	43.2	43.2	-14.1	Entry of SMEs and NPT construction	
Secondary Industry	12.4	54.0	3.4	42.6	16.9	36.9	0.7	62.4	19.8	-	-	-	19.8	-	-	-	19.9	19.9	-	-	
II Services	13.5	60.6	2.5	36.9	19.3	34.5	2.6	43.0	14.8	14.8	0.1	83.0	14.8	14.8	0.1	83.0	6.1	6.1	42.1	Development of private enterprises	
1 Transportation	3.6	36.0	4.9	59.1	4.3	29.8	1.0	69.2	10.9	1.5	0.1	98.4	10.9	1.5	0.1	98.4	10.1	10.1	29.3	Development of private enterprises	
2 Communication	0.5	100.0	0.0	0.0	1.9	100.0	0.0	0.0	0.1	100.0	0.0	0.0	0.1	100.0	0.0	0.0	0.0	0.0	0.0	0.0	Entry ban by SEE; Law
3 Financial Institutions	2.6	98.9	1.1	0.0	2.0	54.8	14.4	30.7	0.1	68.9	3.8	27.3	0.1	68.9	3.8	27.3	30.7	30.7	-3.4	Lift of entry ban by LAW	
4 Social & Admin Services	4.8	98.8	1.2	0.0	6.8	88.8	0.5	10.7	0.9	76.9	0.2	22.9	0.9	76.9	0.2	22.9	10.7	10.7	12.2	New entry to social services	
5 Retail & Other Services	4.1	9.0	3.2	87.8	4.3	3.9	2.9	93.3	1.6	0.4	0.4	99.1	1.6	0.4	0.4	99.1	5.4	5.4	5.9	Development of private enterprises	
III Trade	23.1	33.9	13.5	52.6	21.1	21.3	2.4	76.3	21.6	5.0	2.4	92.7	21.6	5.0	2.4	92.7	23.7	23.7	16.4	Development of private enterprises	
Tertiary Industry	38.7	44.6	9.1	46.3	40.4	37.2	2.5	60.3	36.5	-	-	-	36.5	-	-	-	14.0	14.0	-	-	
Gross Domestic Product	100.0	24.6	6.8	68.6	100.0	21.8	1.9	76.3	100.0	7.8	1.5	90.7	100.0	7.8	1.5	90.7	7.7	7.7	14.4	14.4	-

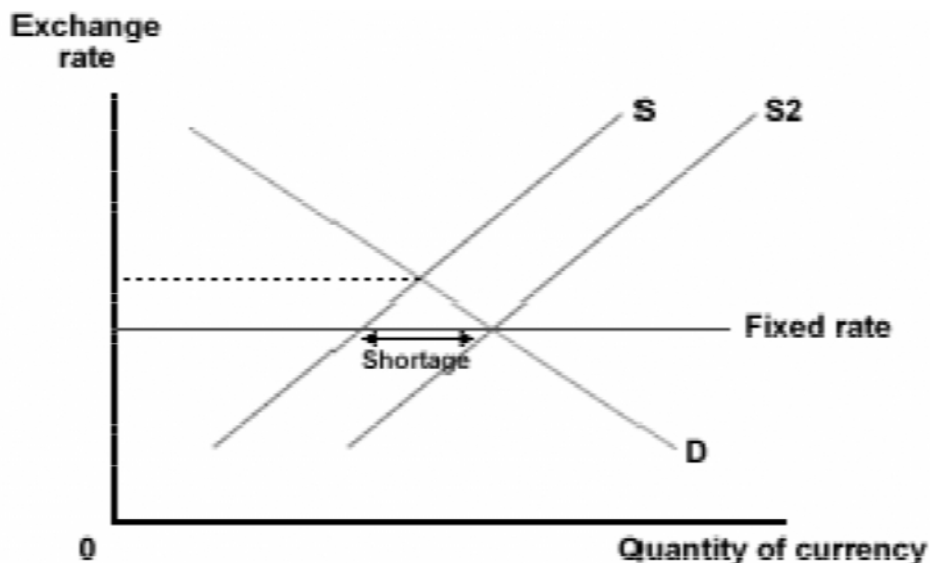
(Source) MNVED, Review (various issues), and CSO, Statistical Yearbook (various issues).

controls, quotas need to be eliminated, farmers should have open access to the world market, and privatization should be increased.

3. Burma needs to improve its macroeconomic environment in order to look more attractive to foreign investors. A major factor that has caused much volatility in Burma's market is its use of a multiple exchange rate. Severe shortage of foreign exchange, inflation, printing of money, undermining of price liberalization, devaluation of the kyat, lack of credit, and decreased foreign investments encompass many of the deleterious consequences of Burma's multiple exchange rate regime. Burma needs to unify its exchange rate if it expects long-term sustainable developments in its economy.

Burma's multiple exchange rate system consists of an official exchange rate and several other parallel exchange rates such as the *money changer rate*, the *custom rate*, and the *hotel rate*. The official exchange rate - highly overvalued - is pegged at about 6.5 kyat (K) to the US dollar whereas the open market exchange rate ranges from about K900 to K1000 to the US dollar (Soe 60). The official exchange rate is used for accounting purposes, settlement of external transactions, and exports in the public sector only. The volume of public sector exports is determined by the level of the official exchange rate since public sector exporters are obligated to surrender 100 percent of their export proceeds to the government. Since the official exchange rate is extremely overvalued, demand for public sector imports is greater than the foreign exchange available to purchase these imports. The following graph highlights the shortage of foreign exchange as a result of overvaluing the official exchange rate.

Figure 8: Exchange Rate versus Quantity of Currency



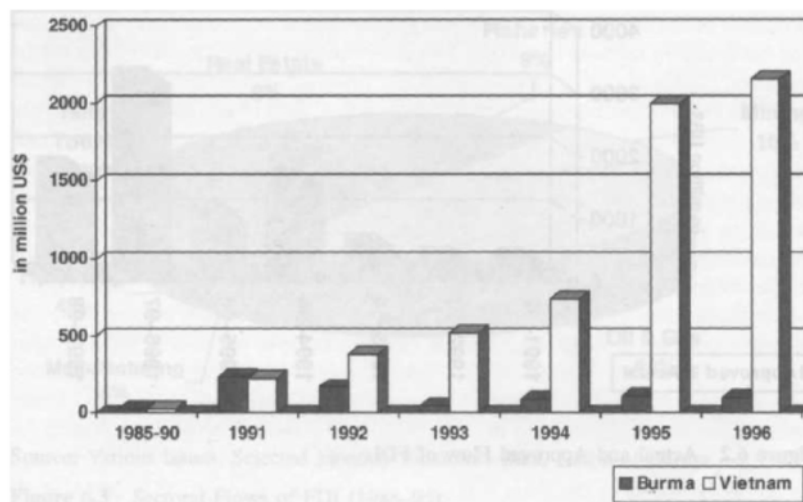
There is a shortage because the fixed exchange rate, which is a gross overvaluation, is set below the equilibrium exchange rate, causing the quantity of foreign exchange demanded to be exceptionally greater than the supply of foreign exchange. To overcome this shortage, the government must restrict demand and enhance supply by encouraging tourism, increases exports of goods and services, and through increased foreign investments in financial assets and real assets. However, most least developed countries like Burma respond to an extreme shortage of foreign currency by printing money – leading to inflation, depreciation of the currency, and a variety of other taxing costs compromising to Burma’s fiscal position and macroeconomic environment. Other repercussions attributed by the multiple exchange rates include corruption; dollars can be easily bought at the official rate and sold at the market rate. The following table displays the unofficial (market) exchange rates from 1999-2008.

**Table 3**  
**Indicative (Unofficial) Exchange Rates, kyat/\$1 USD; Source: Turnell, 10**

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008*
350	500	650	960	900	1,000	1,300	1,450	1,300	1,000

The market value of the kyat against the US dollar has declined by about 185% in less than a decade, indicating the inefficiencies of Burma’s multiple exchange rates. These inefficiencies in Burma’s market have been manifested by the amount of foreign direct investment (FDI) in Burma and the sectors where most FDI has been funneled into. In the mid-to-late 1980s, both Burma and Vietnam began to liberalize their economies; however, FDI flows into Vietnam far outstripped those into Burma despite Burma’s relatively favorable foreign investment incentives.

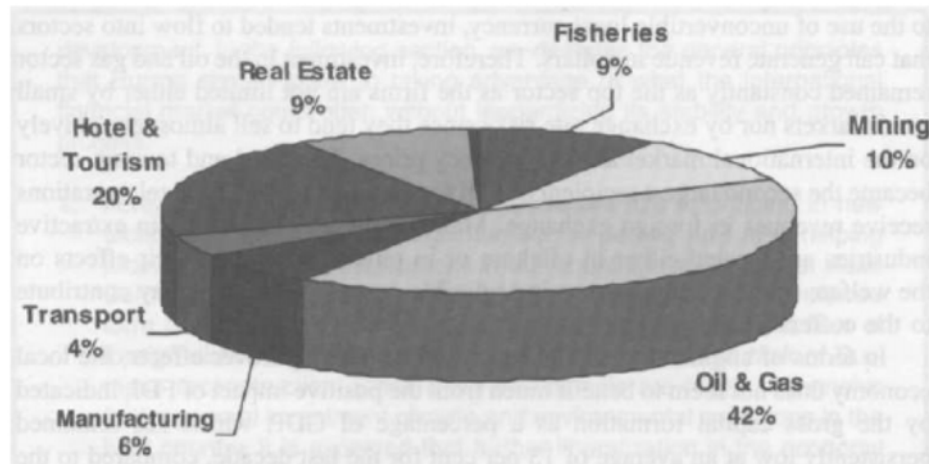
**Figure 9: Comparison of FDI Flows into Burma and Vietnam; Source UN World Investment Report 1997; (Ky 111)**



Although Burma offers relatively favorable tax incentives and comprehensible legal codes in comparison to Vietnam, volatile and unstable operating conditions have deterred foreign investors, highlighting the importance and need for Burma to develop a sound macroeconomic environment.

Sectoral FDI figures also indicate the need for Burma to adopt a unified exchange rate to improve operating conditions. As exhibited in the pie graph below, the largest FDI flows are funneled into the oil and gas sector (42%) and the hotel and tourism sector (20%), whereas the lowest amount of FDI is invested in the transport and manufacturing sectors.

**Figure 10: Sectoral Flows of FDI (1988-1995); Source: *Various Issues, Selected Monthly economic Data, Union of Burma, (Kyi, 113)***



Foreign investment was concentrated in the least risky sectors because of the short-run profits it offers in US dollars. Manufacturing – although it is a sector in dire need of more FDI – is a long-run investment which does not offer profits in the US currency. However, the manufacturing sector offers many positive spillover effects to the general population unlike the oil and gas sector. If Burma wants to achieve economic growth, it must unify its exchange rate to foster favorable conditions for foreign investments in other sectors of the economy beneficial to the general population.

Unifying Burma's foreign exchange rate will help to decrease the demand for imports, increase FDI flows, increase credit to the agricultural sector, and create more favorable conditions to funnel more FDI into the manufacturing sector, foster fiscal and monetary stability, reduce the severe foreign currency shortage, control inflation, and attract more foreign investors to increase Burma's economic growth. According to the model the International Monetary Fund developed for Burma's foreign exchange markets to measure the efficiency costs accrued by Burma's multiple exchange rate system, the would-be equilibrium exchange rate under a



must be employed in conjunction with developing the industrial sector to spur on economic development.

As of 2007, almost half of Burma's GDP comes from agriculture while a mere 13% comes from the manufacturing and processing sector. Compared with other regional countries, Burma is lagging behind in the development of its manufacturing sector.

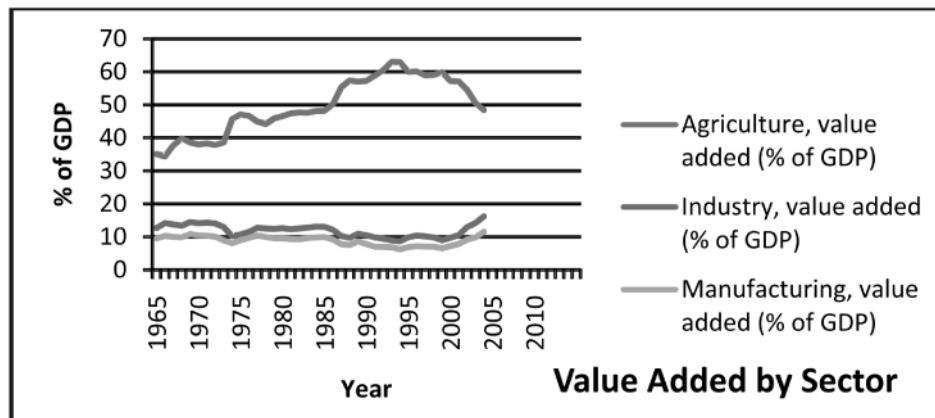
**Table 4**  
**Sectoral Structure of Burma's Economy Contribution to GDP (%) in 2007;**  
**Source: Turnell, 4**

<i>Sector</i>	<i>Burma</i>	<i>China</i>	<i>Thailand</i>	<i>Vietnam</i>	<i>Cambodia</i>	<i>Bangladesh</i>
Agriculture						
Livestock, Fishing and Forestry	47	13	10	21	33	19
Manufacturing and Processing	13	42	35	21	22	16
Services; Trade						
Communications	27	40	46	38	38	55
Finance						

*Source:* ADB (2007)

Value added techniques in agriculture are also limited; these values have actually declined since the 1990s as depicted in the figure below. Price quotas, restrictions to the world market, lack of credit because of inflation, and state-ownership of major crops like rice have reduced farmers' profits as explained earlier, making it harder for them to purchase vital inputs such as fertilizer and machinery to increase crop yields and induce a 'green revolution' which has had a strong presence in other Southeast Asian countries like Thailand.

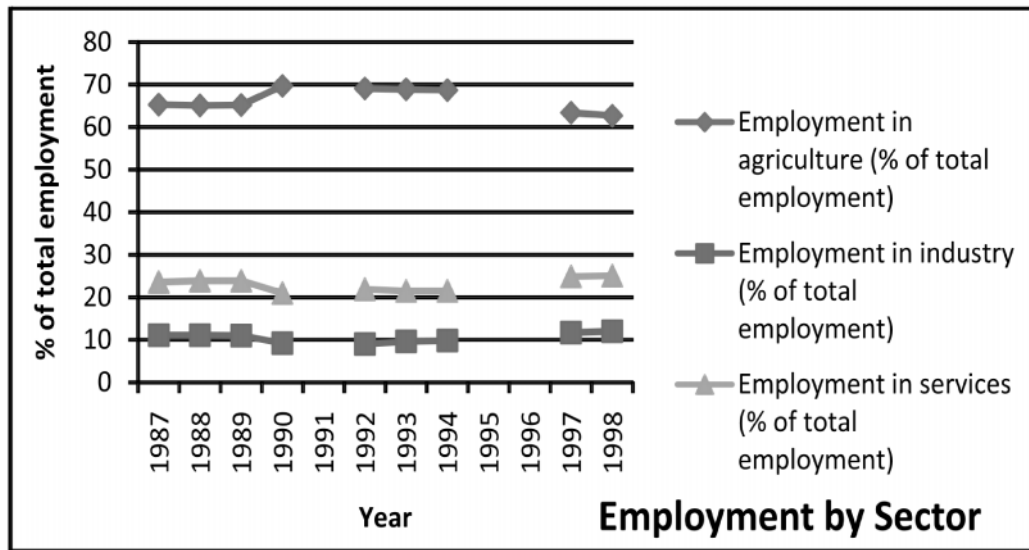
**Figure 12: Value Added by Sector; Source: World databank**





Employment in the industrial sector has increased slightly in the 1990s, but not nearly as fast enough as most developing and newly industrializing countries experience during the initial industrialization phases, indicating Burma’s need to prioritize the promotion of labor-intensive industries capable of producing goods for export.

Figure 13: Employment by Sector; Source: World databank



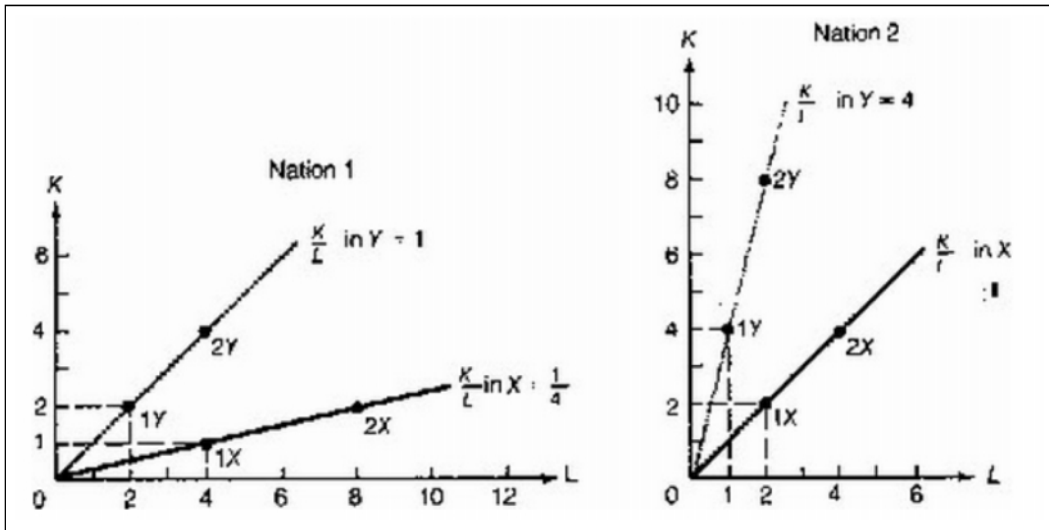
The sluggish convergence of employment may be attributed to Burma’s focus on exploiting natural gas supplies and its attempt to engage in capital-intensive industries instead of taking advantage of its labor abundance by engaging in labor-intensive industries. According to the Heckscher-Ohlin Theorem - one of the foundations for the Neo-classical growth model - a country should specialize in the production of and export to the rest of the world a product which uses its abundant factor intensively. The theory is based on capital-labor ratios of factor abundance and factor intensity to determine a country’s comparative advantage. The figure below delineates the theory’s argument given the fact that Burma is labor abundant. Assume that the world is explained by a 2 nation (Burma and Singapore), 2 goods (X and Y), and 2 factors of production (capital, K, and labor, L) model. Also given the application of this model to Burma’s economy, Nation 1 will represent Burma, which is labor abundant, and Nation 2 will represent capital abundant Singapore.

In Burma (Nation 1), the capital-labor  $\frac{K}{L}$  ratio of good X is  $\frac{1}{4}$  whereas the  $\frac{K}{L}$  ratio of good Y is 1. Since  $\left(\frac{K}{L}\right)_X > \left(\frac{K}{L}\right)_Y$ , good X is labor intensive and good Y is

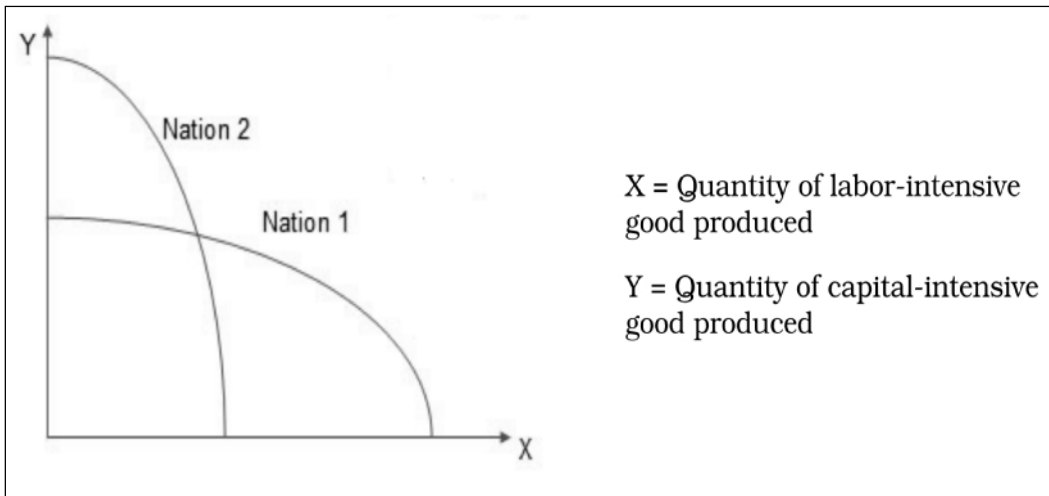
capital intensive in Burma. In Singapore (Nation 2),  $\left(\frac{K}{L}\right)_X = 1$  and  $\left(\frac{K}{L}\right)_Y = 4$ .

Since  $\left(\frac{K}{L}\right)_X < \left(\frac{K}{L}\right)_Y$ , good X is labor intensive and good Y is capital intensive in Singapore.

**Figure 14: Hypothetical Capital-labor Ratios of Factor Endowments for Nation 1 and Nation 2**



**Figure 15: Hypothetical Factor Endowments of Nation 1 and Nation 2**



Given that Burma is labor abundant and Singapore is capital abundant, Burma should specialize in the production of X and Singapore should specialize in the production of Y. The graph indicates that Burma can produce more of good X and Singapore more of good Y. Assuming there are no barriers to trade, Burma and Malaysia have a beneficial trade relationship if both utilize their abundant factor intensively and Burma exports good X to Singapore and Singapore exports good Y to Burma.

Following this logic, Burma should first engage in developing labor-intensive industries, a prerequisite for economic development before moving onto capital-intensive industries. Developing the manufactures industry will add to human capital, skills, proper infrastructure, and other positive spillover effects to establish a solid foundation for sustainable development. On the other hand, engaging in capital-intensive industries, which Burma is attempting to pursue, will result in unemployment of surplus labor and returns only to the owners of capital, hindering economic growth. If Burma wants to pursue capital-intensive industries, it will have to either import skilled labor or somehow improve its human capital, which is unlikely given that only about 1% of its GDP is dedicated to education.

During the late-1990s and early 2000s, Burma began to diversify its exports into garments, sugar, fish, and natural gas. The sugar and fish industries have been profitable and have exhibited growth, yet they constitute capital-intensive industries. Given that Burma should be engaging in labor-intensive industries because of its factor endowments, concentrating in fish and sugar production is not efficient nor does it exploit Burma's comparative advantage of cheap labor. Capital will be used up at a faster rate than labor, contributing to the already large and growing deficit, unemployment, and making it uncompetitive on the world market in comparison to if Burma engaged in labor-intensive manufactures. The garment industry is a labor-intensive industry that has offered great possibilities for leading to long-term economic development for Burma. Unfortunately, further growth of this industry has been truncated by economic sanctions by the US in 2003 due to Burma's political situation and human rights abuses. Finally, natural gas has the potential to provide a large flow of foreign exchange that could be used for government spending, investment, and debt repayment, however, this industry has been known to promote rent seeking, wasteful spending, and slow growth with little distribution to the general population.

Overall, as exhibited by employment by sector, value-added by sector, and contribution to GDP by sector, Burma has a lot of underutilized labor and has a lot of room for industrialization. Employment and contribution to GDP is derived overwhelmingly from the agricultural sector still, and value-added in this sector has been declining. Burma must fully engage its resources in exploiting its abundant factor by promoting exports of labor-intensive manufactures as was exhibited by the Heckscher-Ohlin Theory in order to stimulate development.

## VI. CONCLUSION

Filled with past memories from its successes as “one of the most cohesive and dominant socioeconomic entities of Southeast Asia,” Burma’s economy at one point in time outperformed its neighbors. Richly endowed, geo-strategically located, and the people’s desire for growth, prosperity, and substantial change indicate Burma’s great potential to experience economic growth. It is known that countries with a low level of development experience the fastest growth in the early stages of development because of the unused or underutilized resources that have yet to be tapped with simple institutional changes. Burma must exploit its potential and advantageous endowments equitably – however, this can only be accomplished if its new civilian government, headed by U Thein Sein, is fully dedicated to legitimate change. Before any economic policy reforms can be expected to transform Burma’s economy, the government must end all human rights abuses, become more transparent, open up to the world, and be more democratic. In this paper, the economic policy changes from 1988-2007 were analyzed. It was apparent early on that the factors mentioned above led to many obstacles; however, I am optimistic because the partial liberalization of policies in the 1990s led to a 5% growth rate (Kyi 26).

I divide my analysis of Burma’s economic policies into two time periods due to their disparate goals, policies, and actors. From 1988-1997, the economy of Burma showed the most significant improvements in reaction to the liberal market policies. The number of private enterprises shot up dramatically, FDI increased, and both exports and imports increased. However, despite these liberalized policies, the Asian Financial Crisis of 1997 revealed the structural inadequacies of Burma’s economy and government. Inflation soared, there was a severe shortage of foreign currency, and the budget deficit was increasing dramatically. As a result, from 1997-2009, the SPDC took a more controlled-market approach with the economy. This helped to protect the government’s overwhelming budget deficits and foreign currency shortage from spiraling out of control, however, the growth of private enterprises was truncated by the new restrictive policies, and the state publicized several key industries such as the banking sector. These policies among other entrenched factors hindered industrialization – a prerequisite for developing an economy.

Based on the Neo-classical growth model, I make four key recommendations for Burma’s new civilian government, given the President’s stated dedication to improving the economy through a proper market economy:

“We will have to work harder than ever and make amendments to financial and tax policies as necessary for evolution of the market economy and improvement of the socioeconomic status of the people. We will practice the market economy as the economic policy for achievements in the economic programmes. The theme of the economic programmes is evolution of the market economy. In the process we will make sure that all the economic forces such as the State, regional organizations, cooperatives and private enterprises can work in harmony in the framework of the market economy. In addition, we will give all-round encouragement to small and medium enterprises that play an important role in the economy of Myanmar, a developing country. Regarding the market

economy, we will open doors, make reforms and invite investments as necessary for development of the nation and the people” (U Thein Sein)

The first recommendation is to improve governance by putting an end to the system of cronyism and ending all human rights abuses which includes forced labor and extrajudicial killings. Cronyism and human rights violations have led the people to not trust their government nor seem them as a legitimate power. Human rights abuses have also hindered Burma’s economic growth through the international community’s use of trade sanctions. The second recommendation to eliminate barriers to trade such as forced price quotas in the agricultural sector will help increase the livelihoods of farmers by giving them a greater price incentive in the world market. Increased privatization is also encouraged to promote a vibrant and competitive market. The third recommendation is to gradually unify Burma’s multiple exchange rates. The official rate is way overvalued, which has contributed to Burma’s monstrous trade deficit, increasing inflation, currency depreciation, corruption, decreased foreign investment, and the undermining of price liberalization. According to the IMF, Burma’s inefficient multiple exchange rate regime has led to a loss equivalent to about 14-17% of Burma’s GDP in 2006-2007. Unifying Burma’s exchange rate, on the other hand, increases GDP as well as trade openness by around 20-23% (Hori 19). The foreign exchange rate is so vital in affecting the livelihoods of farmers because if the currency depreciates, farmers face difficulties in buying key inputs like fertilizer, leading to decreased production, decreased export, and lower profit. The fourth recommendation is to engage in more export production through value-added techniques in the agricultural sector and horizontally diversifying manufactures into labor-intensive industries. Utilization of a country’s factor abundance intensively is an imperative prerequisite for sustained long-term development. However, this recommendation can only manifest given the first three recommendations are in place.

Like everything else, liberalization and adopting these recommendations must be done gradually and with caution so to avoid major shocks to the economy. Although dependency and anti-globalization theorists and arguments such as infant industry protectionism are skeptical of Neo-classicalists, liberalization, and the opening up of markets to world forces – Burma’s situation is unique. Burma has had a deep history of repression and corruption, and substantial actions must take place to reduce the control of the untrustworthy government. It may be assumed that making Burma’s welfare subject to market forces is less risky and has a greater potential to yield positive results, than if Burma’s economy is kept under the hand of its suspect government despite its new civilian title. Thus, based on the Neo-classical model, Burma’s government should adopt the listed recommendations if it is determined to experience long term sustainable economic development.

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