

ASSESSING THE ECONOMIC SITUATION AFTER THE 2001–2002 BANKING CRISIS

6 Myanmar's economy in 2006

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Myanmar was likely to experience moderate but superficial economic growth through 2006. The country's ruling military regime, the self-styled State Peace and Development Council (SPDC), has claimed GDP growth rates in excess of 10 per cent per annum for almost a decade. If true, this would make Myanmar one of the world's fastest and most consistently growing economies. These claims are without foundation, but a growth rate of between 1.5 and 4 per cent was not beyond reach for 2006. Such growth, however, would primarily be a consequence of the high prices Myanmar can now command for its exports of natural gas, and from greater export volumes of gas from new fields currently being brought on stream.

In every other respect, Myanmar's economy will continue to under-perform, in terms of its own potential and relative to that of its neighbours and peers. Indeed, to a large degree, Myanmar's probable rising gas exports will bring about unfortunate consequences for the country—allowing the SPDC to postpone the economic and political reforms the country needs if its people are to enjoy any measure of economic security. Myanmar, in short, will likely experience a 'gas curse'

every bit as inimical to good economic policymaking as has often been a by-product of oil elsewhere.

Myanmar is one of the poorest countries in Southeast Asia, yet, only 50 years ago, it was one of the wealthiest. The dramatic turn around of Myanmar's fortunes is the product of a state apparatus that for decades has claimed the largest portion of the country's output, while simultaneously dismantling, blocking and undermining basic market institutions. The excessive hand of the State—which for many years was wedded to a peculiar form of socialism—has manifested itself in a number of maladies that are the direct cause of Myanmar's current poverty.

- Myanmar's military regime has, in the 40 years it has been in power, systematically dismantled the fundamental economic institutions—effective property rights, contract enforcement, the measures that define the 'rules of the game' for efficient economic transactions—that history tells us are necessary for sustainable long-term growth.
- Macroeconomic policymaking in Myanmar is arbitrary, often contradictory and ill-informed.
- The government's claim on Myanmar's real resources greatly exceeds its ability to raise revenue through taxation. As a consequence, like many such regimes around the world and throughout history, the SPDC resorts to the printing press to 'finance' its own expenditure. Inflation and monetary chaos have been the predictable consequences.
- Myanmar has a currency, and a financial system, that is widely distrusted. People in Myanmar store their wealth in devices designed as a hedge against inflation and uncertainty. As a result, financial intermediation is underdeveloped and the allocation of capital is distorted. In 2006, Myanmar was still recovering from a major banking crisis that took place in 2002–03.
- Rent seeking through state apparatus offers the surest route to prosperity in Myanmar, at the expense of enterprise. Myanmar's leading corporations are mostly owned and operated by individuals

‘connected’ to the government, and often serving and retired military officers. Corruption is endemic.

- Important sectors of Myanmar’s economy are starved of resources. Negligible spending on education and health have eroded human capital formation, and reduced economic opportunities. Agriculture, which provides the livelihood for the majority of the people of Myanmar, is chronically starved of critical inputs.
- The military regime’s economic mismanagement means that Myanmar attracts little in the way of foreign investment. What does arrive is concentrated in the gas and oil sectors, and other extractive industries. Little employment is generated from such investments, and there is little in the way of technology or skill transfer.

Such then are some of the broad factors that inform Myanmar’s current economic circumstances. This chapter details more closely specific sectors of Myanmar’s economy, their current condition and immediate prospects.

Economic growth

In February 2006, Myanmar’s Minister of National Planning and Economic Development, Soe Tha, announced that his country’s growth rate for 2005 would be 12.2 per cent.¹ This topped even 2004’s stellar growth of 12 per cent and made Myanmar (certain small oil-producing countries excepted) the fastest growing economy in the world.

Table 6.1 Claimed annual GDP growth rates, 1999–2005 (per cent per annum)

	1999	2000	2001	2002	2003	2004	2005
GDP growth	10.9	13.7	11.3	10.0	10.6	12.0	12.2

Sources: Asian Development Bank, 2004. *Asian Development Outlook 2004*, Asian Development Bank, Manila; Asian Development Bank, 2005. *Asian Development Outlook 2005*, Asian Development Bank, Manila.

Stating anything definitive with respect to economic growth in Myanmar is fraught with the difficulties characteristic of a country in which the official statistics are notoriously unreliable, and where collecting routine data otherwise is difficult. Myanmar does not publish national accounts statistics and the only growth data that are made available are those that accompany ministerial statements such as the one above. Nevertheless, we can be sure that economic growth in Myanmar is well below the minister's claims. His boast is greatly at odds with even the most cursory glance at the economic circumstances on the ground in Myanmar, circumstances that point to ever deeper levels of poverty for the average citizen, and to an economy that at worst is on the verge of collapse, and at best cycles through bare subsistence.

Table 6.2 Economic growth estimates, 2001–2006 (per cent per annum)

	2001	2002	2003	2004	2005	2006
Growth estimates	5.3	5.3	-2.0	-2.7	3.7	1.8

Source: Economist Intelligence Unit, 2006. *Burma (Myanmar): country report*, May, Economist Intelligence Unit, London:5.

More substantially, however, we can dispute the minister's claims through various proxy measures and indicators of economic growth. For instance, if Myanmar were truly growing along the lines claimed by the SPDC, one would expect to see it using more productive resources: energy, land, labour, capital and so on. We do not see this. Indeed, as the Asian Development Bank (ADB 2005:30) notes, electricity usage in Myanmar fell by 32.4 per cent in 2004–05. Among other indicators, in the same period, cement output fell 8.5 per cent, sugar production fell by 2 per cent and credit extended to the private sector (Table 6.3 below) was recovering only fitfully from its collapse the year before (and accordingly was lower than in years of slower claimed growth). In 2005, it was likely that manufacturing as a whole—the sector contributed just more than 10 per cent of GDP—contracted, not a result one would

expect to see for an economy growing in double digits (Economist Intelligence Unit 2006:18).

In addition to these 'internal' proxies, however, if Myanmar were growing at the rates claimed by the SPDC, we would also presume to see certain patterns in its economy that history tells us to expect of rapidly growing economies (Bradford 2004). We should see less reliance on agriculture, greater reliance on industry and even the emergence of services. Of course, these are long-term patterns, but shorter-term trends are generally at least consistent with them in countries that truly have enjoyed high growth (and for which the Asian 'tiger' economies and China are exemplary). Myanmar displays none of these structural dynamics. Indeed, as demonstrated by Bradford (2004), agriculture has assumed a greater role in Myanmar's economy in recent years. In short, either Myanmar's claimed economic growth numbers are greatly at odds with reality, or the country has truly found a unique path to economic prosperity.

An alternative set of growth numbers (Table 6.2), more consistent with my critique here (and with Myanmar's recent economic history), has been estimated by the Economist Intelligence Unit (Economist Intelligence Unit 2006:5).

As can be seen from the growth estimates, moderate economic growth returned to Myanmar in 2005 and this was likely to continue through 2006. Such growth is driven by the increasing global demand for energy that has pushed up the price of natural gas. Myanmar currently exports natural gas only to Thailand in sizeable quantities, but new projects are being brought on stream via a series of deals with Chinese, Indian and South Korean investors. Increasing gas prices and export volumes caused Myanmar's trade balance to turn positive in 2005 (Economist Intelligence Unit estimate: 4.4 per cent of GDP), and it was this contribution that was responsible for the country's estimated positive rate of economic growth overall. Contributions from agriculture remain flat (despite relatively good harvests), while other sectors of the economy—manufacturing, transport, services and tourism—are likely to detract from economic growth. These sectors faced particular

downside risks through 2006, ranging from high oil prices, potential avian influenza outbreaks and political unrest at home and abroad (especially Thailand) to capricious policy changes, consumer boycotts and the possibility of increased economic sanctions.

Macroeconomic policy

Fiscal policy

Macroeconomic policymaking in Myanmar is coloured by one overwhelming fact: the irresistible demands of the State on the country's real output. These demands far exceed the State's ability to raise taxation revenue and, accordingly, have led to a situation in which the State 'finances' its spending by the simple expedient of selling its bonds to the central bank. This policy (in economics parlance, 'printing money') distorts every other aspect of policymaking in Myanmar. Fiscal policy is concerned simply with the raising and spending of funds, monetary policy likewise with keeping interest rates sufficiently low (as will be examined, negative in real terms) to minimise financing costs. Neither plays a counter-cyclical or developmental role.

The demands of the State on Myanmar's financial resources swamp all others (Table 6.3). Central bank lending to the government is the favoured device for financing government expenditure. Yet, as can also be seen from the data above, the State is a borrower from Myanmar's commercial banks. The latter provide the private sector with little more than one-quarter of the funds that Myanmar's financial system provides to the central government. The small amount of government bonds held by the general public, an infinitesimal proportion—substantially less than 1 per cent—of the bonds sold to the central bank, is indicative of the confidence they hold in such state-created financial assets.

In recent years, the SPDC has introduced dramatic increases in the taxes it levies. This was especially the case with respect to customs duty revenues, which rose by more than 500 per cent in 2004–05, and on current trends would increase further in 2006. The rise in customs duty revenues came via a mix of factors—including increases in duty rates

Table 6.3 State share of Myanmar's financial resources, selected indicators, 1999–2006 (kyat millions)

	Central bank lending to government	Commercial bank lending to government	Commercial bank lending to private sector	Public holdings of government bonds
1999	331,425	12,460	188,149	378
2000	447,581	36,159	266,466	463
2001	675,040	40,985	416,176	504
2002	892,581	43,248	608,401	563
2003	1,262,588	35,546	341,547	544
2004	1,686,341	89,217	428,391	505
2005	2,165,154	100,358	570,924	**446
2006*	2,281,046	125,983	563,769	n.a.

Notes: * as at end February ** as at end June (2006 data unavailable) n.a. not applicable

Sources: International Monetary Fund (IMF), 2006. *International Financial Statistics*, various issues, International Monetary Fund, Washington, DC. Myanmar Central Statistical Office (MCSO), 2006. *Selected Monthly Indicators*, Myanmar Central Statistical Office, Rangoon. Available from <http://www.csostat.gov.mm>

Table 6.4 Customs duty revenues, 2002–2006 (kyat millions)

	Duty revenues ('normal' trade)	Duty revenues ('border' trade)	Total customs revenue trade
2002	5,826.9	29.9	5,856.8
2003	4,554.3	136.9	4,691.2
2004	3,941.0	90.1	4,031.1
2005	11,822.5	9,030.5	20,853.0
2006*	3,941.2	636.6	4,577.8

Note: * April to June

Source: Myanmar Central Statistical Office (MCSO), 2006. *Selected Monthly Indicators*, Myanmar Central Statistical Office, Rangoon. Available from <http://www.csostat.gov.mm/>

and relevant exchange rate formulae (more on which below), as well as a crack-down on corruption (real and imagined) within the Customs Department.² The effect on duties raised from so-called 'cross-border' trade (mostly with China and Thailand) was particularly dramatic. Notwithstanding the phenomenal increases in customs duty revenues, however, total central government tax revenue in the fiscal year 2004–05 (of K278,024 million) continued to fall well short of government expenditure (Economist Intelligence Unit 2006:17). The SPDC does not publish data on its spending, but given that new advances to the government from the central bank came to K378,697 million in roughly the same period, it is reasonable to assume that taxes account for little more than 40 per cent of government spending.

Finally, the sudden decision by Myanmar's government in April 2006 to increase the salaries of civil servants dramatically (more on which below) will only exacerbate the country's chronic fiscal imbalances. The decision seems to have been made with little concern for how these pay rises might be paid for. A similar series of pay increases, likewise made with little consideration for Myanmar's fiscal position, were granted in April 2000.³

Monetary policy

Monetary policy in Myanmar is formally the responsibility of the Central Bank of Myanmar (CBM). A number of factors, however, determine that it is incapable of exercising effective influence over monetary conditions in Myanmar. The first and most simple of these is that Myanmar has in place interest-rate controls that cap lending rates at 18 per cent per annum, and do not allow deposit rates to fall below 9 per cent per annum. These rates, and the rate at which the CBM will provide funds to the commercial banks (the so-called 'Central Bank Rate', currently at 12 per cent), had not changed for a number of years until they were suddenly increased on 1 April 2006 (more on which below). Given that Myanmar's inflation rate was (conservatively) put at just more than 20 per cent in 2005, this implies that 'real' interest rates in Myanmar remain substantially negative (Economist Intelligence

Unit 2006:5). The motivation for locking in such rates (which result in substantial distortions in capital allocation) is to minimise the interest rates to be paid on government debt. Currently, three and five-year Burmese government bonds have fixed yields of 8.5 and 9 per cent respectively (MCSO 2006). The distrust of Myanmar's currency, the kyat, has created parallel foreign currency spheres in Myanmar, and these are also beyond the influence of the CBM. Finally, it perhaps goes without saying that the CBM does not enjoy operational independence from the State.

As noted above, in April 2006, the CBM suddenly announced that it would increase the Central Bank Rate to 12 per cent per annum, and in so doing allow the commercial banks to charge up to 18 per cent on loans, and pay no less than 9 per cent on deposits (in practice, most charge 17 per cent on loans, and pay 12 per cent on deposits). The CBM does not make statements on monetary conditions in Myanmar, but the timing of the move is revealing, coinciding precisely with the equally sudden increase in civil servants' salaries noted earlier. Simply—and although Myanmar's primitive financial system makes irrelevant the standard 'tool-box' of central bank monetary policy devices (open market operations, rediscount facilities, repurchase agreements and so on)—the increase in the Central Bank Rate does seem to have been in order to 'signal' that the government did not want to see an acceleration in inflation. Of course, since the move is devoid of substance, it will have little impact.

In the absence of standard monetary policy instruments, Myanmar's monetary authorities (the CBM in reality is subservient to the Ministry of Finance and Revenue, as well as to senior members of the SPDC) have resorted once more to less orthodox measures in the attempt to control inflationary pressures in the economy. These include rationing (of gasoline and critical foodstuffs), increased government subsidies on certain commodities critical in household expenditure, and arbitrary fines on traders deemed to be profiteering. Equally representative of Myanmar's inflation strategy are the issuing of orders and exhortations. In May 2006, for instance, Minister of National Planning and Economic

Development, Soe Tha, declared that Myanmar's 'inflation rate should not be allowed to increase into double digits and we should make an effort to see to it that inflation is no more than 5 per cent'.⁴ Such a declaration, commonplace in the era of the 'command economy' in Myanmar (from 1962 up to about 1988), sits rather oddly with the SPDC's erstwhile objective of creating a market economy.

Exchange rate

Myanmar has a fixed exchange rate policy that officially links the kyat to the US dollar at a rate of approximately K6:US\$1.⁵ This official rate, however, is just one of a number of exchange rates applicable to Myanmar's currency. The most important of these rates, and the only one relevant to the people 'on the street' in Myanmar, is the black market or unofficial rate. In September 2006, this rate stood at about K1,350:US\$1, more than 200 times below the official standard. This rate is, of course, subject to daily, even hourly, fluctuation according to the perceptions of informal currency dealers regarding Myanmar's prospects. Wild swings in the unofficial rate are reasonably frequent, to which the SPDC's counter is invariably to order the rounding up of a cohort of foreign exchange dealers. As a consequence of United States sanctions imposed on Myanmar, the SPDC has employed various coercive measures to try to discourage the use of the US dollar, in favour of the euro, the Singapore dollar, the Thai baht and the Japanese yen. These measures have had limited success, and the US dollar remains a highly prized store of value (especially, in this context, 'new' US\$100 bills).⁶

Table 6.5 Indicative (unofficial) exchange rates, 1997–2006 (kyat/US\$1)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Exchange rates	240	340	350	500	650	960	900	1,000	1,300	1,240*

Notes: * as of November (estimates based on information supplied to the author by bankers in Yangon)

Source: Author's calculations

In addition to its sometimes wild fluctuations, the unofficial value of the kyat has been in decline for some time, and in this sense it acts as something of a barometer of the state of Myanmar's macroeconomy. Table 6.5 records its declining value *vis-à-vis* the US dollar in the past decade.

In addition to the official and unofficial exchange rates, there are other, semi-official rates that apply depending on the counterparties and circumstances. For instance, a rate of K450:US\$1 applies formally for all funds brought into Myanmar by UN agencies and international non-governmental organisations (INGOs).

Like many other economic decrees in Myanmar, however, this one is honoured primarily in the breach, and the affected institutions have devised a number of innovative schemes to get around the formal rule, which otherwise penalises them and reduces their available resources. Until June 2006, this exchange rate also applied for the purposes of excise calculation on imports into Myanmar. In June, however, this 'dutable' exchange rate was suddenly increased to K850/US\$1, nearly doubling Myanmar's effective import tax even though the nominal tax rate remained unchanged (at 25 per cent on most items) (Lwin 2006).

Myanmar's multiple and divergent exchange rates are the public face of the country's macroeconomic malaise. They also provide extraordinary opportunities for rent seeking and opportunistic currency deals. It is clear, for instance, that having access to foreign currency at anything close to the official exchange rate presents the recipient with the potential of immediate windfall gains. Reforming and unifying Myanmar's exchange rate regimes, which should mean allowing the kyat to 'float', should be a first-order priority in any future reform program. Such reforms have been advocated regularly by the International Monetary Fund (IMF) in its 'Article IV' consultations with Myanmar, seemingly to no avail.⁷

'Capricious' policymaking

One of the most damaging features of macroeconomic policymaking in Myanmar (of all types), is that it is often made in ways that, to observers and those directly affected, appears highly capricious, arbitrary, selective

and even simply irrational. Examples of such decision making are legion, and the following are but a small but indicative recent sample.

- Effective from 1 April 2006, Myanmar's Ministry of Finance and Revenue suddenly announced salary increases for the nation's civil servants and military personnel of between 500 and 1,200 per cent. The announcement did not say how the pay increases were to be funded. In expectation that inflation was likely to accelerate as a consequence of these pay rises, traders in Yangon and elsewhere pre-empted matters and began lifting prices as soon as the announcement was made. There was also a flight from the kyat and hefty increases in the price of gold, foreign currencies and other traditional inflation hedges.
- In October 2005, the SPDC suddenly announced an eightfold increase in the retail price of gasoline.
- Various announcements were made throughout 2005 that exporters/importers in Myanmar were to henceforth use the euro rather than the US dollar in their transactions.
- The (numerous) changes to tax and duty levies on commodities included, in 2004, not only dramatic hikes in import duties on certain (mostly consumer) goods, but changes in the exchange rates applicable for their calculation. As noted earlier, in June 2006, the import duty exchange rate once more suddenly increased—to K850/US\$1.
- There have been reflexive cycles of relaxation and restriction on border trade, sometimes in connection with 'purges' of corrupt officials.
- A sudden announcement was made in 2005 that Myanmar's administrative capital would relocate from Yangon to Pyinmana (Naypyitaw). There is little to suggest that the economic dislocation costs of the move (to the government itself, and those who must deal with it) were seriously considered.

External sector

Trade

It is only from the external sector that any growth in Myanmar's economy is apparent—or likely. Driven by rising gas export prices and volumes, Myanmar recorded a trade surplus in 2004 of more than

Table 6.6 Myanmar's external sector, selected indicators, 1999–2005 (US\$ million)

	Goods exported	Goods imported	Current account balance
1999	1,293.9	2,181.3	–284.7
2000	1,661.6	2,165.4	–211.7
2001	2,521.8	2,443.7	–153.5
2002	2,421.1	2,022.1	96.6
2003	2,709.7	1,911.6	–19.3
2004	2,926.6	1,998.7	111.5
2005*	836.6	364.5	296.6

Note: * as at end of first quarter

Source: International Monetary Fund, 2006. *International Financial Statistics*, various issues, International Monetary Fund, Washington, DC.

Table 6.7 Composition of exports, 2002–2005 (kyat million)

Export type	2002	2003	2004	2005 (as of end of April)
Gas	4,247	5,919	3,334 ⁸	3,461
Teak and other woods	1,880	1,874	2,149	810
Pulses	1,898	1,744	1,407	503
Garments and textiles	2,985	2,973	1,298	368
Shrimp and fish products	829	829	1,003	230
Metal and ore	288	288	503	220
Rice	754	633	112	90
Rubber	76	89	81	61

Sources: Economist Intelligence Unit, 2004. *Burma (Myanmar): country profile*, Economist Intelligence Unit, London. Economist Intelligence Unit, 2005. *Burma (Myanmar): country profile*, Economist Intelligence Unit, London. Economist Intelligence Unit, 2006. *Burma (Myanmar): country report*, May, Economist Intelligence Unit, London. Myanmar Central Statistical Office, 2006. *Selected Monthly Indicators*, Myanmar Central Statistical Office, Rangoon. Available from <http://www.csostat.gov.mm>

US\$900 million. For the first three months of 2005—the latest data publicly available—the surplus in this item stood at nearly US\$470 million (IMF 2006). With gas prices rising in 2005 and greater volumes likely to have been shipped, a large trade surplus slightly in excess of US\$1 billion for the year as a whole was expected. For 2006, this trend was likely to continue, with the Economist Intelligence Unit (EIU) (2006:5) predicting an annual trade surplus of US\$1.2 billion. It will be noted from Table 6.8 below, however, that imports into Myanmar have been falling in recent years. This seems unlikely to continue for much longer, especially as Myanmar's imports required infrastructure to develop the new gas fields that have been the subject of recent deals (Table 6.6). To a considerable extent, Myanmar's trade surpluses are offset by deficits in services and in income payments—all of which diminish the overall surplus on current account. This trend likewise will continue into the future—driven by the repatriation of profits by the (largely foreign) firms investing in Myanmar's energy sector.

Gas exports exceeded that of the whole of 2004 by the end of the first quarter of 2005. So far, most of this gas is sourced from the existing Yadana and Yetagun fields (almost all of which is exported to Thailand), but this will shortly be joined by gas piped from sites soon to come on stream, including that of the (offshore) Korean/Indian/Burmese ventures in Rakhine State (more on which below). The vast bulk of Myanmar's exports are from extractive industries of various types (Table 6.7).

Worryingly, as the EIU (2006:24) notes, exports of Burmese teak are likely to be substantially understated when one considers the pervasiveness of illegal logging in the country. Myanmar's exports of garments and textiles have contracted substantially in the past two years, a function of economic sanctions, consumer boycotts and, not least, by the ending of the Multi-Fibre Agreement that saw China increase its share of the global garment industry at the expense of countries such as Myanmar (Turnell 2006).

Foreign investment

Myanmar is not a large recipient of foreign direct investment (FDI). The country is regarded as a highly risky destination for foreign investment and a difficult location in which to do business. In a recent report on economic freedom, the Washington-based Heritage Foundation ranked Myanmar third from the bottom (in front of only Iran and North Korea) with regard to restrictions on business activity. According to the foundation, ‘pervasive corruption, non-existent rule of law, arbitrary policy-making, and tight restrictions on imports and exports all make Myanmar an unattractive investment destination’ (Miles et al. 2006:125).

Recent FDI in Myanmar was directed overwhelmingly to the gas and oil sectors (Table 6.8). Very little FDI made its way to industry, and even less to agriculture (which received FDI of a mere US\$34.4 million

Table 6.8 Foreign direct investment flows, sector and source, 2003–2005 (US\$ million)

	2003	2004	2005 (as of end April)
Sector			
Gas and oil	44.0	54.3	142.6
Real estate	-	-	31.3
Mining	3.4	1.5	6.0
Manufacturing	13.2	2.8	3.5
Transport	-	30.0	-
Agriculture and fisheries	26.4	2.6	-
Source country			
China (including Hong Kong)	12.9	2.8	126.6
Thailand	-	22.0	29.0
Japan	-	-	2.7
Malaysia	62.2	-	-
South Korea	0.3	34.9	-
United Kingdom	-	27.0	-

Sources: Economist Intelligence Unit, 2004. *Burma (Myanmar): country profile*, Economist Intelligence Unit, London; Economist Intelligence Unit, 2005. *Burma (Myanmar): country profile*, Economist Intelligence Unit, London; Economist Intelligence Unit, 2006. *Burma (Myanmar): country report*, May, Economist Intelligence Unit, London.

since the 'opening' of Myanmar 17 years ago).⁹ In terms of source countries, the traditional largest investors in Myanmar—Singapore and Thailand—have in recent times been overshadowed by China. This trend is likely to continue, albeit with China joined by greater investment in Myanmar's gas sector by Indian and Korean investors.

New gas ventures

In the past few years, several significant Myanmar–foreign joint ventures concerned with exploring and exploiting Myanmar's large reserves of natural gas have been announced. Thus far, most of the funds spent by foreign investors in this context have been for exploration and preliminary drilling. With the results of this exploration proving highly positive, however, and in the face of growing demand and rising prices for natural gas, these ventures are now moving towards active exploitation and production.

The most lucrative of Myanmar's new gas fields are the so-called '*Shwe*' ('gold' in Burmese) and '*Shwephyu*' ('white-gold') fields, offshore from Sittwe, in Rakhine (Arakan) State. In the terminology applied by Myanmar's Ministry of Energy, these fields (which are located in Myanmar's far northwest, adjacent to the Bay of Bengal) are referred to collectively as the 'A1-Block'. They are currently being explored by a consortium that comprises Myanmar's state-owned Myanmar Oil and Gas Enterprise (MOGE), South Korea's Daewoo International Corporation (which owns 60 per cent of the foreign component of the venture), the Korean Gas Corporation (10 per cent), the Gas Authority of India Limited (GAIL)—majority owned by the Indian government, which owns 10 per cent, and the Oil and Natural Gas Corporation (ONGC) Videsh, also from India, which holds the remaining 20 per cent. Under the joint venture, MOGE is entitled to 50 per cent of the gas extracted. In early 2004, the consortium reported that it believed the field had between 14 and 20 trillion cubic feet of recoverable gas reserves.¹⁰ For some time, however, the A1 venture has been embroiled in a controversy about the ultimate destination of the subsequent gas exports. India was long the presumed customer, but a problem emerged

in that the shortest route for a pipeline to the country would have to pass through Bangladesh, which demanded certain trade and other concessions before construction could proceed. Negotiations between the two countries proceeded for a time, before apparently breaking down irrevocably. In late December 2005, the Indian government announced that any proposed pipeline would now bypass Bangladesh, coming onshore at Sittwe and passing through Myanmar's Chin State, before terminating in Kolkata—a route some 250 miles longer than that via Bangladesh (EIU 2006:22–3).¹¹

Throughout the protracted pipeline negotiations, the Myanmar government warned that other potential customers for the output of the A1-Block were ready to step in. So it proved, and in February 2006 it came to light that a memorandum of understanding had been signed (some time in November 2005) between PetroChina and MOGE to sell China 6.5 trillion cubic feet of gas from MOGE's share of the block (Fullbrook 2006). This move prompted a response from the Korean and Indian joint-venture partners to ensure their share of gas delivery. In January 2006, Daewoo International announced it had secured 3.6 trillion cubic feet of gas from the A1-Block, and would invest US\$120 million in developing the necessary infrastructure.¹² In March 2006, during a visit to Myanmar by India's President, A.P.J. Abdul Kalam, a memorandum of understanding was signed between the two countries under terms for final gas exports identical to those reached with China (*The Economic Times* 2006). In August 2006, in what will by no means be the last word from prospective suitors for the output of the Shwe fields, Thailand's state-owned PTT Exploration and Production oil and gas firm entered the fray, seeking a 20-year supply deal from the A1-Block to complement its Yetagun and Yadana arrangements. The first gas exports from the A1-Block are due to flow from 2009.

In addition to the A1-Block, other gas fields off Rakhine State are being explored. The most significant of these, the so-called 'A3-Block', are being surveyed by MOGE and three of the four foreign joint-venture partners involved in the A1-Block (Daewoo, GAIL and ONGC Videsh,

with stakes of 70, 10 and 20 per cent respectively). The A3-Block is estimated to have gas reserves of three trillion cubic feet (*Xinhua News* 2006; *Oil and Gas Journal Online*, 2006a).

Together, the A1 and A3 Blocks off Rakhine State are significantly larger than the Yadana and Yetagun fields, which currently provide the bulk of Myanmar's gas exports. The latter fields, located in the Andaman Sea, have proven gas reserves of 6.52 trillion cubic feet and 3.2 trillion cubic feet respectively (*Oil and Gas Journal Online* 2006b). In other words, they are approximately half the size of the fields discovered off Rakhine. Yadana was a joint venture between MOGE and Total Oil (France), Unocal (United States) and PTT Exploration and Production (Thailand). The Yetagun fields were developed by MOGE, Premier Oil (United Kingdom, now replaced by Petronas of Malaysia) and Nippon Oil (Japan).

Foreign exchange reserves

Myanmar's trade surpluses and (to a lesser degree) the flows of FDI have swelled the country's official foreign exchange reserves—from US\$265 million in 1999 to more than US\$770 million today (Table 6.9). The latter number, however, is still very low by global or even regional standards. Table 6.9 contains a sample of countries with which, for a

Table 6.9 Foreign exchange reserves, selected countries, 2000–2005 (US\$ million)

	Myanmar	Thailand	Cambodia	South Korea	Vietnam
2000	223	32,016	502	96,131	3,417
2001	400	32,355	587	102,753	3,675
2002	470	38,046	776	121,345	4,121
2003	550	41,077	815	155,284	6,224
2004	672	48,664	943	198,997	7,042
2005	770	50,728	939	210,317	8,602

Source: International Monetary Fund, 2006. *International Financial Statistics*, various issues, International Monetary Fund, Washington, DC.

variety of reasons, Myanmar might be compared. It can be seen that Myanmar has, by some margin, the lowest level of reserves ‘comfort’, even when compared with tiny and poor Cambodia. Of course, Myanmar’s foreign assets must also be set against its foreign liabilities. These currently stand at about US\$7 billion (or about 10 times the size of the country’s reserves), and consist for the most part of defaulted loans to the World Bank and other multilateral lenders (IMF 2006).

Monetary and financial sector

Myanmar’s financial system—a mix of state-owned institutions, 15 surviving privately owned banks in varying degrees of health and a dominant informal sector—is failing to meet the country’s need for capital. As noted in Table 6.3, the largest claimant on credit creation in Myanmar is the State. Private-sector trade and industry in Myanmar can access some credit from the private banks, but the macroeconomic instability of the country means that much of this is of a short-term nature only, and is concentrated in such inflation-hedging sectors as real estate and precious metal and stone trading. Long-term credit for industrial development is almost completely non-existent. Personal credit in Myanmar is available from formal financial institutions for a handful of well-connected élites, but for the average person in Myanmar credit is supplied by friends, relatives or, less agreeably, the local money-lender—for time immemorial, a ubiquitous presence in the country (Turnell 2006). For agriculturalists in Myanmar, the availability of credit is especially dire. According to a recent Food and Agriculture Organization (FAO) survey (2004:141), 80 per cent of Myanmar’s agriculturalists were without access to formal credit of any kind.

As recently as 2002, however, it was possible to entertain some optimism with regard to the financial system in Myanmar, particularly with respect to the private banks. These had emerged only since 1990 and the implementation of certain financial-sector reforms (principally the Financial Institutions of Myanmar Law and the Central Bank of Myanmar Law, both promulgated in 1990). By 2002, the private banks appeared to be growing strongly and, among the largest of them,

the creation of a degree of trust and even 'brand recognition' seemed apparent. Beneath the surface, however, all was not well. Myanmar's interest rate restrictions (noted above) greatly hampered the private banks in traditional intermediation (taking in deposits and making loans), forcing them into activities of high risk and questionable legitimacy. That said, some of the private banks were established in the first instance precisely to conduct and disguise unorthodox and criminal activity (regarding the latter, the laundering of narcotics money especially), while others were little more than corporate cash boxes for various entities connected with the regime. In 2002, all of this bubbled to the surface as a financial crisis engulfed Myanmar.

At the centre of Myanmar's 2002–03 financial crisis was a banking collapse that was almost archetypal of such phenomena. Beginning in November 2002, long lines of anxious depositors formed outside the banks, a spectacle that rapidly swelled into a classic bank run. From this moment on, the response of the relevant monetary authorities in Myanmar (principally the CBM) was almost wholly destructive. Late

Table 6.10 Selected financial indicators, 1999–2006 (kyat million)

	Demand deposits	Time, savings and foreign currency deposits	Money and quasi money (M2)
1999	72,707	216,549	562,224
2000	119,746	335,574	800,542
2001	206,349	450,560	1,151,713
2002	290,520	541,307	1,550,778
2003	82,948	386,298	1,572,402
2004	139,880	594,169	2,081,824
2005	209,324	697,736	2,651,111
2006*	233,765	699,953	2,772,768

* as at end of February

Sources: International Monetary Fund, 2006. *International Financial Statistics*, various issues, International Monetary Fund, Washington, DC. Myanmar Central Statistical Office (MCSO), 2006. *Selected Monthly Indicators*, Myanmar Central Statistical Office, Rangoon. Available from <http://www.csostat.gov.mm>

and inadequate liquidity support to the banks by the CBM was negated overwhelmingly by the imposition of ‘withdrawal limits’ on depositors that escalated into an outright denial of access for depositors to their money. Even worse, loans were ‘recalled’ with little consideration given to the capacity to repay. More serious breaches of trust in banking would be difficult to imagine. With a full-scale banking crisis in play, the usual symptoms of such events followed: bank closures and insolvencies, a flight to cash, the cessation of lending, the stopping of remittances and transfers, and other maladies destructive of monetary institutions. By mid 2003, the private banks had essentially ceased to function. In 2004, selected banks reopened, some of the largest closed completely (including the Asia Wealth Bank and the Myanmar Mayflower Bank, then the largest and third largest respectively of Myanmar’s private banks) and an anaemic recovery began.

Demand as well as less liquid deposits have bounced back, though the former are still below the levels of late 2002 (Table 6.10). Taken together, in February 2006, total bank deposits of K933,718 million were a mere 33.7 per cent of the total money supply (M2)—indicating that the State remains by far the dominant actor in Myanmar’s financial sector (see also Table 6.3).

Of course, the data in Table 6.10 can also be profitably employed once more to critique the SPDC’s growth claims in recent years. For instance, the regime claimed that Myanmar’s economy grew a vigorous 10.6 per cent in 2003, a year in which new lending to the private sector ceased, loans financing existing activities were recalled and all measures of private monetary assets declined dramatically. In short, if one was to believe Myanmar’s official statistics, the country has been able to grow strongly not only without the increased use of energy and other ‘real’ factors of production, but seemingly without money.

Money laundering

The shadow of money laundering continues to linger over Myanmar’s financial sector, even though the country has finally now been deemed a ‘cooperative’ jurisdiction with respect to money laundering by the

Financial Action Task Force (FATF). The FATF, an associate body of the Organisation for Economic Cooperation and Development (OECD), is the world's premier agency for dealing with money laundering globally. Myanmar had been named as a non-cooperating country in each of the FATF's annual reports since the organisation's inception in 1998, and was named again in 2006—the last country so designated.¹³ In October, however, the FATF reported that, due to its 'good progress in implementing its anti-money laundering system', Myanmar would be removed from the 'non-cooperative' list.¹⁴ At the same time, the FATF advised that Myanmar would continue to be monitored to ensure further progress, and that the country had been urged to 'enhance regulation of the financial sector...and to ensure that dealers in precious metals and precious stones follow anti-money laundering requirements'.¹⁵

Agriculture

Myanmar remains an overwhelmingly agricultural country. Agriculture accounts for about 57 per cent of Myanmar's GDP and engages more than 70 per cent of its labour force (FAO 2004:5). Nevertheless, for many years it has been a sector of profound neglect and routine exploitation by the government. Critical inputs such as fertiliser are unavailable to most farmers at prices they can afford, and more than 80 per cent of Myanmar's land under cultivation lacks irrigation of any form (Dapice 2003; EIU 2006:22). As noted earlier, credit from formal institutions is unavailable to most farmers in Myanmar, and at present less than 3 per cent of bank lending in Myanmar is extended to agriculture. Most of this is advanced by the state-owned Myanmar Agricultural Development Bank (MADB), which is inexorably 'decapitalising' in the face of continuing losses and Myanmar's chronically high inflation. Illogically, the private banks are forbidden to lend for farming (FAO 2004:13). Recent experiments in micro-finance under the auspices of the United Nations Development Programme (UNDP) show promise, but are at great risk from the lack of legal recognition accorded to them by Myanmar's government, as well as recent SPDC controls applying to the movements of UN agency and NGO staff (Turnell 2005).¹⁶

In 2003, Myanmar formally liberalised the trade in rice, internally and externally,¹⁷ but in practice great interference by the State in the basic decisions taken by farmers—what, how and how much to produce—continued unabated. Of course, in many areas of Myanmar a final blow is the exaction of Myanmar's military forces, the *Tatmadaw*, forced by the country's strained finances to 'live off the land' (Vicary 2003, 2004). In recent years, the SPDC has adopted a number of programs designed to increase the amount of land under cultivation in Myanmar. Such efforts, which include the so-called 'summer paddy program', and various schemes designed to reclaim land in the Irrawaddy Delta, have invariably failed to achieve their desired outcomes because of the lack of the critical inputs noted above.¹⁸ Farmers without sufficient fertiliser to prepare new fields, or without credit to allow the construction of dykes, fences and other land improvements, have been unable to make effective the exhortations for more extensive production (Okamoto et al. 2003; Thawngmung 2004). In perhaps a sign that this problem has been recognised, while simultaneously pressing for greater scale in agricultural production, in December 2005, the SPDC announced it had signed a memorandum of understanding with Thailand that would allow Thai investors to cultivate some seven million hectares of vacant agricultural land in Myanmar. This author cannot but agree with the EIU on the venture, however, and its scepticism that 'it remains to be seen whether the junta will have any success in attracting significant Thai investment into the sector' (2006:22).

The end result of all of these supply-side problems (just some of which are noted above) is that Myanmar's agricultural sector, once the jewel of its economy (the famed rice bowl of Asia) is operating well below potential. According to the FAO (2004:28), 'the available data appears [sic] to indicate stagnant (agricultural) productivity growth and rising rural poverty since the mid 1990s.' The UNDP (2006:7) concurs with this bleak assessment, noting that the average household in Myanmar spends in excess of two-thirds of its income on food, a ratio that is high by international standards and the highest in the region. Meanwhile, a survey conducted by UNICEF in 2003 found that one-third of children in Myanmar suffered from malnutrition.¹⁹

Conclusion

In 2006, Myanmar's possession and exploitation of prized natural resources continued to flatter the appearance of the country's economic circumstances. Behind this façade, however, is a narrative of chronic failure that is the consequence of a political economy that is yet to create the institutions necessary for long-term economic development. Such institutions, which include effective property rights, freedom to contract and a modicum of macroeconomic stability, are created out of domestic constituencies possessing incentives to bring about change. The economic rents that are accruing from Myanmar's offshore energy deposits could further weaken these constituencies. Optimism with regard to Myanmar's economy accordingly must remain, for the moment, suspended.

Notes

- 1 Quoted in *The Myanmar Times*, 16(305), 20–26 February 2006.
- 2 As noted below, such revenue should further increase from June 2006 as a consequence once more of a revision in the 'dutiabale' exchange rate applied to imports.
- 3 The author is grateful to Trevor Wilson for this point.
- 4 The minister's plea was reported in *The Myanmar Times* 2006.
- 5 Technically, the kyat is fixed to the IMF's 'Special Drawing Rights' at a rate of K1:SDR8.5085—which yields a more or less constant K6:US\$1 (IMF 2006).
- 6 The author can confirm that the US dollar also remains the favoured medium through which larger Burmese businesses continue to conduct their activities.
- 7 The IMF's Article IV consultations, which take place (usually annually) with all of the IMF's member countries, are concerned with appraising members' economic, financial and exchange rate policies. The IMF's findings and recommendations are subsequently submitted to the governments concerned. The latest Article IV consultations with Myanmar took place in October 2006. A press release giving a brief outline of the talks is available at <http://www.imf.org/external/np/sec/pr/2006/pr06216.htm>
- 8 This figure, based on official Burmese data, is lower than that suggested by Thai import data. Accordingly, it probably understates Myanmar's gas exports in 2004.

- 9 This figure for agricultural investment, which is consistent with other sources, was rather surprisingly reported in the Yangon-based *Weekly Eleven News* in December 2005. The report was reproduced the same month in the online edition of *The Irrawaddy*. Available from <http://www.irrawaddy.org>
- 10 This figure is consistent with that estimated by British Petroleum (BP) in a review of global gas reserves: see *The Economic Times* 2006.
- 11 This saga was reported widely in the press at the time, representative of which are the accounts of *The Irrawaddy* magazine.
- 12 'Daewoo unlocks Burma's giant gas reserve', *The Irrawaddy*, online edition, January 2006.
- 13 The FATF's annual report for 2006 can be found at <http://www.fatf-gafi.org/>
- 14 The FATF press release announcing Myanmar's removal from the 'non-cooperative' list can be found at <http://www.fatf-gafi.org/dataoecd/45/25/37546739.doc>
- 15 <http://www.fatf-gafi.org/dataoecd/45/25/37546739.doc>
- 16 See Trevor Wilson's chapter in this volume on Myanmar's foreign relations for an explanation of these restrictions.
- 17 See Ikuko Okamoto's chapter in this volume on the liberalisation of Myanmar's rice-trading system.
- 18 For more on the failure of these schemes, see the chapter by Mary Callahan in this volume on developments in the military, and Ikuko Okamoto's chapter noted above.
- 19 UNICEF report cited in UNDP (2006:7). Other recent accounts attesting to the increasingly desperate circumstances in rural Myanmar include FAO 2004; Aung Din Taylor 2002; and Dapice 2003.

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