

7 Transforming Myanmar's rice marketing

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Creating a rice¹ marketing system to serve the national interest has been one of the central policy issues for the Myanmar government since independence. It is no exaggeration to say that agricultural policy in Myanmar has been synonymous with rice policy.

Under the socialist government, a comprehensive system of controls over rice marketing was established for the first time, which introduced a rice rationing system for consumers along with a compulsory delivery system for procuring paddy directly from farmers to support the rationing system. At the same time, the exportation of rice became a state monopoly and served as the regime's main source of foreign exchange. These were the pillars of agricultural policies in the socialist period.²

The liberalisation of agricultural marketing in Myanmar began in the late 1980s, starting with the domestic agricultural market in 1987. This move signalled the start of Myanmar's transition to a market economy. In 1988, the ban on the private export of agricultural produce was lifted, and thereafter the marketing of some crops enjoyed full liberalisation. Rice marketing, however, which was originally the main target of agricultural reform, remained under state control. The rice rationing

system was maintained for public servants, and the paddy procurement system, which had been terminated in 1987, was revived in 1989. Further, rice exporting continued to be a government monopoly. This sequence of reform can be called the first liberalisation.

In April 2003, 16 years after the first liberalisation, another liberalisation of rice marketing was suddenly announced. Under this second liberalisation, the rice rationing system for public servants and the paddy procurement system were abolished. Initially, the private export of rice was also incorporated into the reform plan; however, this part of the plan was not implemented when abolition of the rice rationing system was announced in January 2004. The aftermath of the second liberalisation also shows that the government is still not ready to undertake full-scale rice export deregulation.

The rationale of these two liberalisations was not found in improving efficiency of the rice marketing sector. Rather it was to keep the rice price at a low level, mainly for the sake of political stability. By examining the transformation of Myanmar's rice marketing closely, this paper attempts to show how this characteristic of policy and liberalisation influenced the development process of the rice marketing sector—state and private—in Myanmar, as well as the overall economy.

The state marketing system after the first liberalisation

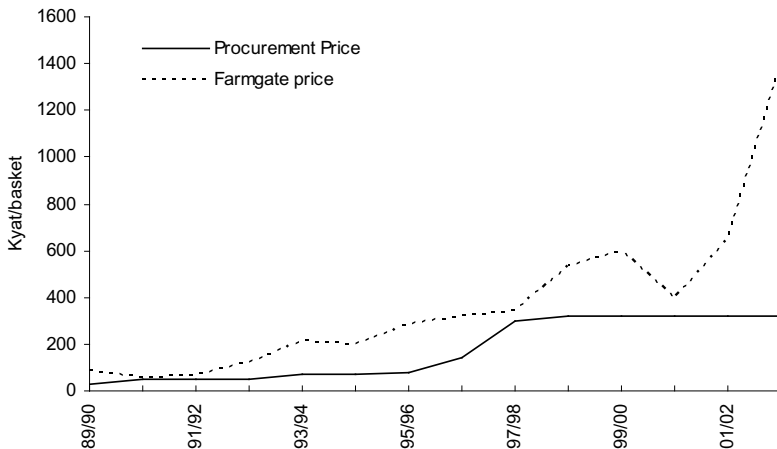
The procurement of paddy

Under the first liberalisation, with the decrease in the volume of rationed rice compared with the socialist period, the paddy procurement system that supplied the rice was scaled back. Initially, it was planned to collect paddy for the rationed rice supplies in the form of land revenue from farmers and commercial taxes from traders. The new collection system, however, became caught up in the political upheaval of 1988 and did not function well, with the result that the amount collected fell far short of requirements. The next year, the government revived the paddy procurement system, which had a strong institutional base under the socialist government.

In a determined effort to achieve its procurement goals, the government sought to placate farmers by reducing the pressure on them. A procurement quota was set for paddy produced in the monsoon season (monsoon paddy), but it was decreased to 10–12 baskets³ per acre from the 30–40 baskets per acre of the socialist period. This meant that the volume of rice procured by the government as a share of total rice production decreased by one-third after liberalisation (Table 7.1).

Despite the official assertion that the burden of the paddy procurement system on farmers was eased, there were various problems in the procurement process. First, the amount procured was fixed on a per acre basis; thus farmers with lower productivity or less marketable surplus were at a disadvantage. Unlike the system in the socialist period, which absorbed the farmers' entire marketable surplus, the new system had the merit of inducing farmers to increase production. The disadvantage, however, was that it did not reflect the disparity in the

Figure 7.1 Changes in procurement and farm-gate prices, 1999–2002



Sources: Author's survey. Myanmar Agricultural Produce Trading, 1991. *MAPT in Figures* (in Burmese). Takahashi, A., 2000. *Myanmar's Village Economy in Transition: changing rural life in a market-oriented economy*, University of Tokyo Press, Tokyo.

Table 7.1 Estimated volume of domestically marketed rice (in terms of paddy), 1970–2001

	A Production				Deduction			C-A-B Marketed volume			D Export	
		Procure- ment	Ratio (%)	Seed	Waste	Home consumption		Ratio (%)	Milled rice	Conver- ted to paddy	Share in the procu- re-ment (%)	Share in production (%)
1971–72	8,189	2,245	27.4	514	514	7,528	(1,585)	C/A	831	1,240	d/b	d/A
1976–77	9,335	2,889	30.9	524	524	7,538	(2,140)	(31.9)	646	964	55.3	15.1
1980–81	13,340	4,259	31.9	530	530	7,384	637	(22.9)	703	1,049	33.4	10.3
1985–86	14,341	4,156	29.0	506	506	7,354	1,818	4.8	594	887	24.6	7.9
1986–87	14,150	4,263	30.1	500	500	7,363	1,523	12.7	604	901	21.3	6.2
1987–88	13,658	564	4.1	482	482	7,402	4,728	10.8	320	478	21.1	6.4
1988–89	13,186	1,672	12.7	494	494	7,447	3,080	34.6	48	72	84.7	3.5
1989–90	13,826	1,482	10.7	504	504	7,551	3,785	23.4	169	252	4.3	0.5
1990–91	13,748	1,851	13.5	511	511	7,579	3,296	27.4	134	200	17.0	1.8
1991–92	12,993	2,095	16.1	499	499	7,589	2,312	24.0	183	273	10.8	1.5
1992–93	14,603	2,222	15.2	530	530	7,648	3,672	17.8	199	297	13.0	2.1
1993–94	15,500	1,939	12.5	587	587	7,694	4,693	25.1	261	390	13.4	2.0
1994–95	17,908	2,034	11.4	613	613	7,737	6,911	30.3	1,041	1,554	20.1	2.5
1995–96	17,669	1,934	10.9	634	634	7,772	6,695	38.6	354	528	76.4	8.7
								37.9			27.3	3.0

1996-97	17,397	1,522	8.7	607	607	7,810	6,852	39.4	93	139	9.1	0.8
1997-98	16,391	1,601	9.8	597	597	7,829	5,765	35.2	28	42	2.6	0.3
1998-99	16,808	2,200	13.1	607	607	7,869	5,524	32.9	120	179	8.1	1.1
1999-2000	20,159	2,212	11.0	649	649	7,908	8,741	43.4	69	103	4.7	0.5
2000-01	21,359	2,126	10.0	657	657	7,948	9,972	46.7	257	384	18.0	1.8

Notes: Seed and waste are assumed to be two baskets per acre. Home consumption is calculated as the number of households multiplied by 5.5 (the average number of people per household in 1999) by 15 baskets. For 1998-99 to 1999-2000, since the data for farm households were not available, it was estimated using the average increase rate of households. Export includes white and broken rice. The paddy conversion rate for export is assumed to be 67 per cent

Sources: Government of Union of Myanmar. *Review of the Financial, Economic and Social Conditions (REFS)*, various issues, Yangon. Government of Union of Myanmar, 2001. *Myanmar Agricultural Statistics (1989-90 to 1990-2000)*. Central Statistical Office, Yangon. *Myanmar Statistical Yearbook*, Central Statistical Office, Yangon. Central Statistical Office, 1998. *Myanmar Statistical Yearbook*, Central Statistical Office, Yangon. Tin Htut Oo and Kudo, T.T., 2003. *Agro-Based Industry in Myanmar: prospects and challenges*, Institute of Developing Economies, Japan External Trade Organization, Chiba: Table 15.

productivity of individual farmers or take into consideration reasons for fluctuations in yield, such as weather.

Second, (Figure 7.1) there was a persistent disparity between the procurement and market prices. Even though it was paid in advance to meet some of the cultivation costs, the procurement price paid under this system was kept at 40–60 per cent of the prevailing free-market price. This suggests that the real burden on farmers was not lessened to the extent that the government asserted.

Finally, there was the problem of the quality of procured paddy. In response to the government's low procurement price, farmers tended to deliver to the depots their lower-quality paddy (such as that which was not fully dried or had been intentionally mixed with foreign matter) and sold their better paddy on the free market. Another factor affecting quality was that paddy delivered to the depot was supposed to be separated into varieties, but in practice this separation was loosely controlled and different varieties became intermixed. Thus good-quality paddy could become mixed with poor-quality paddy, leading to a lower grade of milled rice. Subsequently, the quality of procured paddy became a big problem, much as it had been in the socialist period (Takahashi 1992).

The milling of officially procured paddy

The paddy collected from farmers was milled either at rice mills owned by the government's Myanmar Agricultural Produce Trading (MAPT) enterprise or private mills contracted to MAPT. As of 2000–01, MAPT owned 68 mills, mainly in the major rice-producing areas. Most of these were constructed in the 1980s with official development assistance from Japan or international organisations. Many of MAPT's mills were large scale with a capacity of 100 tonnes of milled rice a day, while most private mills had a capacity of less than 50 tonnes a day. There was far more paddy procured than MAPT could handle at its own mills, so it contracted with private mills. After liberalisation began in 1987, the share for MAPT mills was only 32 per cent, on average, indicating the government's great dependency on private mills (Table 7.2).

Table 7.2 Changes in milled rice by MAPT-owned and MAPT-contracted mills , 1988–2001

Fiscal year	Procurement (basket)	MAPT mills		MAPT contracted mills		Share of MAPT mills (%)	Share of milled rice in the total procured amount (%)
		Paddy (basket)	Milled rice (tonne)	Paddy (basket)	Milled rice (tonne)		
1988–89	85.10	14.70	0.18	46.10	0.58	24.18	71.4
1989–90	63.00	19.10	0.24	59.20	0.78	24.39	124.3
1990–91	72.10	19.60	0.24	40.40	0.53	32.67	83.2
1991–92	74.70	20.30	0.25	45.90	0.59	30.66	88.6
1992–93	76.50	25.00	0.31	57.70	0.75	30.23	108.1
1993–94	92.30	27.00	0.34	50.90	0.67	34.66	84.4
1994–95	97.30	32.10	0.40	76.50	0.97	29.56	111.6
1995–96	92.90	27.40	0.35	67.10	0.85	28.99	101.7
1996–97	73.00	22.60	0.28	49.90	0.65	31.17	99.3
1997–98	44.70	21.70	0.27	37.20	0.48	36.84	131.8
1998–99	105.30	26.20	0.33	46.00	0.61	36.29	68.6
1999–2000	105.83	30.90	0.38	53.30	0.69	36.70	79.6
2000–01	101.74	28.10	0.35	51.80	0.67	35.17	78.5

Source: Tin Htut Oo and Kudo, T.T., 2003. *Agro-Based Industry in Myanmar: prospects and challenges*, Institute of Developing Economies, Japan External Trade Organization, Chiba:114. MAPT documents

One reason for the high dependency on private rice mills after liberalisation, even with the decrease in the volume of procured rice, was the run-down condition of MAPT's mills. These facilities could not be maintained or repaired after the halt of overseas development assistance after 1988. Also, the chronic shortage of electricity greatly lowered their rate of operation, as most of MAPT's mills were powered by electricity. Some mills operated only six to 10 hours a day because of blackouts, although they had 24-hour operating capacity.

Rice rationing for the budget group

The rice rationing system targeting general consumers was abolished with the first liberalisation, and the system was limited to targeting the

so-called Budget Group, which consisted of public servants and military personnel. The government could not abandon the whole rationing system in the midst of the tense political situation in 1988; it had to be maintained at least for the public servants to secure the political base of the regime. The number of people targeted for rice rations reduced the volume of rationed rice to 6–800,000 tonnes in normal years. This was a decrease of one million tonnes compared with the volume rationed in the socialist period (Table 7.3).

Table 7.3 Changes in volume of rationed rice, 1980–2002 ('000 tonnes)

	Procurement volume of paddy	Rice	Rationed rice Converted in paddy	Share of rationed volume in the procurement (%)
1980–81	4,259	1,618	3,236	76.0
1983–84	4,145	1,709	3,418	82.5
1987–88	564	574	1,148	203.5
1988–89	1,672	556	1,112	66.5
1989–90	1,482	869	1,738	117.2
1990–91	1,851	751	1,502	81.1
1991–92	2,095	616	1,232	58.8
1992–93	2,222	770	1,540	69.3
1993–94	1,939	711	1,421	73.3
1994–95	2,034	744	1,487	73.1
1995–96	1,934	769	1,539	79.5
1996–97	1,522	822	1,643	108.0
1997–98	1,601	773	1,546	96.6
1998–99	2,200	668	1,336	60.7
1999–2000	2,212	616	1,232	55.7
2000–01	2,126	585	1,169	55.0
2001–02	2,119	569	1,137	53.7

Note: The conversion rate from rice to paddy is 50 per cent.

Sources: Government of Union of Myanmar. *Review of the Financial, Economic and Social Conditions (REFS)*, various issues, Yangon. Ko Ko Gyi, 1994. Public and private marketing channels for food grains situation and improvements needed, Paper presented at the FAO/AFMA/Myanmar Training Workshop, 21–25 November: Table 5. MAPT 2003:222–3. MAPT documents

The quality problem of procured paddy, pointed out earlier, also affected the rice rationing system. Although this system was beneficial for recipients in terms of volume and price,⁴ it was not sufficient to overcome the inferior quality of the rice, which led recipients to sell it to traders as feed for livestock rather than consume it at home. Consequently, the rice rationing system no longer worked as a benefit for its recipients, as the government originally intended.

Rice exports

Rice exporting remained the monopoly of the government, and the main agency for this was MAPT, even after 1988. The government monopoly on rice exporting was utilised as a measure to control the price of rice for the general consumer, who was excluded from the rice ration system after the first liberalisation. A general deregulation of private exporting was announced only two months after the peak of the democracy movement. In other words, the government wanted to maintain a stable rice price for general consumers for fear of further instability, and it regarded the preservation of its monopoly on rice exporting as one means to this end. Consequently, private rice exporting was not allowed.

The government's priority was on securing rice for rationing, and only the rice remaining in government hands after rationing was released for export. Consequently, only an extremely small amount of rice was exported compared with during the socialist period (see Table 7.1).

Due to the inferior quality of procured paddy, the destinations for exported Burmese rice were limited. A breakdown of Myanmar's rice exports (Table 7.4) shows that most went to South Asia, Africa and Southeast Asia, representing a large proportion of the world's low-income countries where demand for low-quality rice was high. But Burmese rice has failed to generate stable export demand because of its export regime, which depends greatly on the state marketing sector.

Through its monopoly over rice exports, however, the government was successful in separating the domestic and international markets, which led to a huge disparity between the domestic and international

Table 7.4 Direction of Myanmar's rice exports, 1990–2001 (percentage by volume)

	1990–91	1991–92	1992–93	1993–94	1994–95	1995–96	1996–97	1997–98	1998–99	1999–2000	2000–01
Southeast Asia	11.2	25.7	2.0	6.1	61.0	73.7	50.5	3.6	55.0	36.4	18.3
South Asia	49.3	26.2	37.7	18.8	9.5	7.3	21.5	96.4	15.8	41.8	69.3
Rest of Asia	-	4.9	-	3.1	-	5.1	-	-	0.8	-	-
Africa	29.9	43.2	57.3	66.7	26.5	6.5	26.9	-	25.8	-	10.0
Middle East	2.2	-	3.0	1.1	-	-	-	-	-	-	-
North and South America	7.5	-	-	-	1.4	7.3	-	-	-	-	-
Europe	-	-	-	4.2	1.5	-	1.1	-	2.5	21.8	2.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Central Statistical Office, 1997. *Myanmar Statistical Yearbook*, Central Statistical Office, Yangon.; Central Statistical Office, 2001. *Myanmar Statistical Yearbook*, Central Statistical Office, Yangon.

prices for rice. The domestic rice price at the free-market, foreign-exchange rate was 60 per cent of the international price, on average, after the first liberalisation. It even fell to 40 per cent of the international price when the domestic price collapsed in 2000–01. The international price for rice has been trending downwards in the past two decades, but the Myanmar government has kept the price of domestic rice well below even the declining international level.

The private rice marketing sector after the first liberalisation

Development of the private marketing sector

The rice ration system and its supporting procurement system were scaled back after the first liberalisation and the private sector came to play a larger role in supplying rice to the general consumer. The first liberalisation abolished the restrictions on private millers and traders as well as the geographical restrictions on rice trading that existed in the socialist period.

The shrinking of the state marketing sector along with the government's policy in the 1990s of raising rice production brought a steady increase in the volume of rice on the free market. The volume reached 30–40 per cent of total production by the end of the 1990s (see Table 7.1)—and rice came to be marketed widely in the country, supported partly by the development of transport infrastructure.

Responding to the increase of the marketable surplus of rice, private rice millers and traders actively entered the market. The number of private rice mills increased throughout the 1990s; there was a particularly sharp rise in the number of small mills in the villages (often called huller mills, the capacity of which was below 15 tonnes a day). The exact number of these small rice mills is not available, but there are normally one to five of them in each village tract. Assuming that there are two rice mills in a village tract in the major rice-producing areas (for example, Ayeyarwaddy, Bago, Yangon and Mandalay Divisions and Mon State), the total number of these small mills could be as high as

14,240. Needless to say, this is a rather conservative estimate. Most of these mills handle paddy for home consumption in the villages, while some engage in milling for sale on the free market.

As well as the rice millers, a large number of traders entered the rice market. According to the author's survey of 47 wholesalers in eight major rice markets in 2002, 39 wholesalers (84.8 per cent) began rice trading after liberalisation in 1987; only five (10.9 per cent) were doing so before then. By far the greater share of rice traders entered the market after liberalisation. The formation of marketing networks over wide areas of the country as well as the increase in the volume of marketed rice produced by farmers encouraged the entry of traders, especially in the late 1990s.

Problems the private rice marketing sector has faced

As pointed out earlier, there was a remarkable increase in the number of small rice mills in rural areas in Myanmar. In contrast, however, medium and large-scale rice mills (mills with a milling capacity of more than 16 tonnes of rice a day) decreased in number. Changes in the number of MAPT-registered mid-size and large rice mills shows a sharp decrease in the number of these rice mills in only two years (Table 7.5).⁵

The majority of these big rice mills were established during the British colonial period or the socialist period. Those opened during the colonial period played a primary role in making Myanmar one of the giant rice exporters of the world. When rice exporting became a government monopoly in the early 1960s, however, these mills were required to mill the government-procured paddy at the official fixed rate—although they were not nationalised in the strict sense. After the first liberalisation in 1987, these medium and large-scale mills were also allowed to operate in the private rice market, but business was not easy.

One reason for this is that the mills failed to utilise their capacity fully because of the scale of their facilities. Behind this lies the decreasing demand for milling at medium and large-scale rice mills. The rapid increase in the number of small mills in the villages after the first liberalisation reduced the need to transport paddy to the distant big mills

and their rate of operation declined. Before liberalisation, the rice for rural household consumption was milled primarily at big mills located in towns. During the 1990s, however, this rice came to be processed mostly at the newly established village mills, and the big town mills lost business. Given the downward trend in the demand for milling at medium and large-scale rice mills, and in an effort to raise their rate of operation, some of these big mills shifted from specialising in custom milling and started normal milling, whereby the mills bought and milled paddy at their own expense and then sold the rice themselves. This was another indication of the unfavourable business conditions facing the big rice mills.

A second problem for medium and large-scale rice mills was that the milling of MAPT paddy often became a burden—financially and physically. Even though MAPT bore the cost of labour for the milling of its paddy, big mills contracted by MAPT still often found that milling for the organisation did not pay: the milling fee paid to contracted

Table 7.5 Number of private mills registered with MAPT, 1998–2001

State/Division	1998–99	2000–01 (%)	1998–99 (%)	2000–01
Ayeyarwaddy	489	369	47.2	53.7
Bago	208	133	20.1	19.4
Yangon	123	69	11.9	10.0
Mon	66	32	6.4	4.7
Rakhine	5	4	0.5	0.6
Sagaing	49	41	4.7	6.0
Mandalay	68	11	6.6	1.6
Magwe	6	0	0.6	0.0
Kachin	8	10	0.8	1.5
Tanintaryi	2	2	0.2	0.3
Kaya	11	16	1.1	2.3
Total	1,035	687	100.0	100.0

Sources: MAPT documents, Tin Htut Oo and Kudo, T.T., 2003. *Agro-Based Industry in Myanmar: prospects and challenges*, Institute of Developing Economies, Japan External Trade Organization, Chiba: Annex 7.

private mills was one-half to one-third of the prevailing free-market rate. For example, in 1998–99, the market milling fee was 20–30 kyats a basket, while MAPT paid only 10 kyats a basket. This meant that the farmers and the private millers were burdened by the rice rationing system. Further, the mills also needed to handle all the cumbersome procedures to abide by the requirements that MAPT prescribed. There were also cases where MAPT required these mills to store paddy or milled rice without payment. All these difficulties made the big rice mills reluctant to contract with MAPT. Table 7.6 shows the change in the number of mills contracted by MAPT to mill government-procured paddy. This number has been declining in the past decade, which can be interpreted as reflecting the general reluctance of private rice mills to contract with MAPT.

Finally, the biggest problem facing the medium and large-scale mills was the dilapidated condition of their facilities and equipment. Important parts of these mills, such as engines, have been in use since

Table 7.6 Number of private mills contracted for procurement of paddy, 1999–2001

Division/state	1991–92	1995–96	1998–99	2000–01
Ayeyarwaddy	220	208	144	138
Bago	173	136	100	51
Yangon	75	61	49	38
Mon	40	37	30	43
Rakhine	19	15	12	0
Sagaing	101	81	78	68
Mandalay	56	66	38	39
Magwe	32	19	20	15
Kachin	20	25	14	14
Tanintharyi	19	14	12	17
Kayin	9	1	1	0
Kaya	1	1	1	0
Total	765	664	499	423

Source: MAPT documents, Tin Htut Oo and Kudo, T.T., 2003. *Agro-Based Industry in Myanmar: prospects and challenges*, Institute of Developing Economies, Japan External Trade Organization, Chiba:Annex 5.

the 1930s; the most recent are from the 1960s. The cost of running and maintaining these old, second-hand mills with their worn-out equipment can be very high, but no support for maintenance or efficiency improvements has been forthcoming from the government, despite its dependence on the big mills for milling state-procured paddy.

In the view of most of the owners of the big rice mills, any substantial investment to upgrade facilities and improve quality will not pay, given that the market is still dominated by trading in medium and low-quality rice. Replacing their steam engines with electric motors would in all likelihood lower their rate of operation because of the chronic shortage of electricity. The limited supply of spare parts for reasonable prices and of sufficient quality has also detracted from the willingness of millers to undertake new investment. The majority of medium and large-scale millers say that they are ready to undertake new investment once private rice exporting is allowed and the market for high-quality rice expands. This clearly indicates that the present condition of Myanmar's rice market, characterised by government restrictions on exporting and the dominance of low and medium-quality rice, has narrowed the business opportunities for big rice millers, and this in turn has narrowed their business perspective.

The first liberalisation gave rice traders the freedom to deal in the domestic rice market, and this new market environment encouraged the entry of new rice traders. This freedom was, however, granted only on the condition that their dealings did not jeopardise the government's rice policy. Herein lay the main characteristic of the first liberalisation: rice traders were not entirely free from government intervention, which introduced an element of constant unpredictability into the sector.

The Myanmar government tended to intervene in the domestic rice market in three situations. One was when rice transactions were made with remote regions. In general, after the first liberalisation, there were no longer any restrictions on the marketing of rice over a wide area of the country; however, transactions with some remote regions bordering neighbouring countries were an exception. These regions

were Shan, Chin and Rakhine States and Tanintharyi (Tennasserim) Division. For any rice transactions with these regions, permission from the local authorities was necessary. In some cases, the monthly quota for the volume of rice to be transacted was prescribed by the authorities. The ostensible rationale for this regulation was, of course, to keep the domestic rice price stable. With Myanmar's domestic rice price kept far below the international price, if sizeable amounts of rice were exported (even informally) to neighbouring countries, upward pressure on the domestic rice price would inevitably follow. To prevent this, every effort was made to regulate strictly the volume of rice transacted with these remote regions. This regulation, however, made the people in these regions, which are rice-deficit areas, pay a high price in relative terms for the rice they consumed.⁶

The second situation was when the volume of procured rice fell below the government's target. There was an unwritten rule, even when the harvest was normal, that traders could not buy paddy or rice from farmers who had not met their procurement quotas for that year. When procurement was not progressing well in an area, however, the government often prohibited all private sales of paddy or rice in that area. In the rice-deficit remote regions discussed above, the government generally did not permit such sales during the procurement season.

The third situation was when there was an abrupt rise in the rice price. The government was noticeably wary about depending on the private sector for the marketing of rice. Whenever the authorities judged that the rice price had gone above the level they could tolerate, orders were issued to start inspecting rice traders in various parts of the country, in rural and urban areas. As a result, compared with all other commodities, the rice market in Myanmar faces a much higher risk of sudden, unexpected intervention by the government. One rice trader commented, 'If you want to make a profit, don't go into rice trading; choose some other business.' Rice traders have to accept such interventions because the government maintains absolute vigilance against an unstable rice price.

The second liberalisation and its consequences

In the second liberalisation in April 2003, the government was pursuing three distinct policy agendas: one was to open up rice exports to the private sector; the second was to abolish the paddy procurement system; and the third was to retain the rice rationing system for the Budget Group by procuring rice from traders, not from farmers. In January 2004, however, private rice exporting was suddenly halted at the same time as the announcement of the abolition of the rice rationing system. Eventually, therefore, the second liberalisation encompassed only the liberalisation of the domestic rice-trading market.

What, then, was the background to and objective of the second liberalisation? First of all, the government's original objective was probably to earn a larger amount of foreign exchange through rice exporting. Evidence suggests that from the late 1990s, the government sought to export larger volumes of rice. Corroborating this, official data show that while the volume of ration rice was rather constant, the paddy volume procured from farmers was increasing (see Tables 7.1 and 7.3). This effort did not work as planned, and apparently the government decided to try another way, which was to earn more foreign exchange by increasing rice exports via the private sector. In order to give effect to this new approach, private rice millers and wholesalers were also allowed to become members of the Rice Trading Leading Committee, which the government had placed in charge of implementing the reform.

The original reform plan for exports was as follows: the government would open up rice exporting to private traders, by issuing export licences; the licences would enable the export of rice within a quota set annually by the government, with the government taking half of the foreign exchange earnings (it was equal to 45 per cent of the total earnings after the deduction of the 10 per cent export tax). In turn, the government would pay the marketing cost—equivalent to 45 per cent of exported rice—in local currency. After the second liberalisation, export licences were issued for 500,000 tonnes of rice, of which 270,000 tonnes were exported.

Secondly, the paddy procurement system was abolished as it no longer yielded the benefits to match the cost of retaining it. This was an indirect effect of the low rice price as a result of increased rice production. Because of the depressed domestic market price, rice production in general deteriorated in profitability. It became increasingly difficult to maintain the procurement system because the government had to procure paddy at a price even lower than the depressed market price. While it was true that after the first liberalisation the government had been able to preserve the procurement system by reducing the burden for farmers, the situation had reached a deadlock, though not in the form of the sort of farmer discontent observed in the mid 1980s. Worse still, even with greater government effort to procure rationed rice, recipients were finding little merit in it because of the generally low quality of this rice—a problem hampering the expansion of exports as well.

Added to this was MAPT's operating deficit, which had begun to widen again from the late 1990s. Soon after the first liberalisation, the procurement system deficit shrank remarkably when compared with that in the socialist period. According to MAPT, the deficit was 350 million kyats in 1986–87, which turned into a surplus of 310 million kyats by 1989–90. According to later MAPT documents, however, it appears that the deficit increased again from the mid 1990s, and especially at the end of the 1990s. It is possible that this increase was because of a rise in the procurement volume. The situation was beginning to resemble the adverse conditions for the rice sector at the end of the socialist period in the late 1980s.

As opposed to the liberalisation of rice exports and procurement of paddy/rice, the rice rationing system for the Budget Group of recipients was retained. This reflected the government's commitment to underpinning its political base. As the procurement system was to be abolished, procurement of the required amount of rice was arranged to take place through rice traders who were to be paid at the market price. Just before procurements were to start, however, the government realised that it would be difficult to cover the whole cost of rice procured at the market price and, in early 2004, it suddenly announced that the rice

rationing system would also be abolished. To compensate government personnel for the loss of rationed rice, each person would receive a payment of 5,000 kyats a month.

This decision to abolish rice rationing and replace it with fixed cash payments had ramifications. If these payments were the only compensation for the cost of rice, it was likely that discontent would break out among public servants if the price of rice went up even by a small amount. This was a real concern for the authorities because there were signs that price increases would accompany export liberalisation. This possibility unnerved the government and it decided to freeze private rice exporting.⁷ The reform plan was thus modified without discussion with the private sector. In the end, the stable supply of rice at a low price had top priority. The fundamental rationale of government rice policy prevailed over earning a larger amount of foreign exchange.

The significance of the second liberalisation in deregulating domestic rice marketing cannot be over-emphasised, as the domestic rice market was finally liberalised completely 42 years after the establishment of Myanmar's socialist government. MAPT, long the main organisation responsible for the rice procurement and rationing systems, lost its purpose for existing. Sizeable reduction of MAPT personnel began, and its rice mills were put up for sale.

The second liberalisation is expected to have three effects. First, the profitability of rice production and thus farmers' incomes are expected to improve. The sale of rice on the market is expected to increase by 10–20 per cent and rice production will become more market oriented. This will make farmers more concerned about the quality of rice they produce. In marginal rice-producing areas, where rice is grown mainly for home consumption, it is expected to lead to the reduction of rice purchased on the market. The second effect of this liberalisation will be a reduction in the number of situations in which the government can abruptly intervene in the market. This will reduce transaction costs for private rice traders.

The failure to open rice exporting to private traders after the second liberalisation was, however, a big set-back for the rice marketing sector

in Myanmar from a mid to long-term perspective. Rice traders had been anticipating export deregulation and were greatly disappointed when it failed to take place. More than 20 export companies were set up in preparation for liberalisation, but these efforts were for nothing. The government's fickleness on the export issue has intensified rice traders' lack of confidence in the government, and traders are increasingly taking a risk-averse attitude towards new investment in facilities and the expansion of business. Without doubt, this is dampening the future outlook for the rice marketing sector in Myanmar.

Conclusion

The stable supply of rice at a low price continued to be the principal rationale of the rice marketing system in Myanmar even after the two liberalisations. The transition from comprehensive state control over rice marketing that began with the first liberalisation and continued with the second can be seen as an *ad hoc* transformation of the marketing system in response to the changing economic and political situation. It eventually took the form of gradual rice price deregulation. After the two liberalisations, Myanmar's rice-marketing system shifted from being one supported by the rice procurement and ration systems and export controls to one solely dependent on rice export controls to achieve the low rice price policy.

This policy orientation determined the development of the private rice marketing sector. The whole sector was allowed to develop only in the remaining sphere of the rice marketing sector and on condition that it did not jeopardise the stable supply of rice at a low price. This was the inevitable consequence of Myanmar's rice marketing policy. In the liberalisation process, however, the private rice marketing sector was able to achieve self-sustaining development. The government's policy to promote rice production and cut-backs in the volume of rice procurement increased the amount of rice sold in the market, which induced more traders to enter the rice-marketing business. This was a clear manifestation of the latent willingness of Myanmar's

traders to grasp whatever small opportunities arose to increase profits, opportunities that had been closed for more than one-quarter of a century during the socialist period. The rice traders who expanded business while avoiding conflicts with the government rice policy were the ones who were able to survive during the 1990s.

By the end of the 1990s, however, the private rice marketing sector had reached a crossroads as the domestic rice market approached total saturation. This problem was most evident in the tough business conditions facing medium and large-scale rice millers. The worn-out state of their mills grew apace, but they could not risk venturing into new investments under the existing market structure where low and medium-quality rice was in greatest demand. Even in the milling of lower-quality rice, the big mills were losing out to the growing number of small-scale rice mills in the villages. Thus, by the time of the second liberalisation, medium and large-scale rice mills were facing a crisis in their operations.

What are the implications of this transformation of the rice sector in accordance with the low rice price policy to the development of Myanmar's national economy? The first implication is the poor prospects for the development of the rice industry. It cannot be denied that the commercial and processing industries of Myanmar's rice marketing sector continue to be the base of the rural economy. In neighbouring Thailand, rice millers turned to exporting and, with the accumulated capital, expanded their businesses to other industries with great success. In Myanmar, one would hope that the same scenario could play out for private rice traders and millers. In reality, however, there is little prospect that private rice exporting will be allowed in the near future. The present government is unlikely to change its rice policy, which prioritises a low price for the sake of political stability. Since export controls become the sole direct policy tool that the government has for keeping the price of rice low, it will remain reluctant to undertake any rapid deregulation of rice exports. This means that the private rice marketing sector will have to survive within the confines of the present domestic market, which limits demand largely to low and medium-

quality rice. Thus the government's rice policy has again thwarted the development of Myanmar's rice industry and denied it the potential to stimulate growth in the economy as a whole.

The second implication, which could be more serious than the first, is the absence of a clear scenario to utilise the low rice price for development led by industrialisation (Fujita and Okamoto 2006). Generally speaking, the low rice price policy itself is not unique to Myanmar, and has been adopted in various developing countries, especially in the early stages of economic development. The purpose is to promote industrialisation using cheap labour, backed by the low price of rice. Any clear vision for this type of industrialisation has, however, been barely observed for Myanmar in the past 19 years. The low rice price policy has not gone beyond the purpose of maintaining the regime and it is likely to continue that way for some time.

Notes

- 1 In this chapter, rice means paddy and milled rice. When a distinction is necessary, the terms paddy or milled rice are used.
- 2 See Saito 1981, Takahashi 1992 and Tin Soe and Fisher 1990 for analyses of the procurement system in the socialist period.
- 3 One basket of paddy equals 20.9 kilograms.
- 4 Rice provisions were 25 kilograms a month for an unmarried public servant and 28kg for a married public servant. The price was kept at 21 per cent of the market price, on average, from 1988 to 2001.
- 5 During the author's survey in 1999 in a township in Yangon Division, there were 13 mid and large-scale rice mills, but only seven were operating. The other six had closed down.
- 6 According to the author's survey in 2001, the retail rice price in these remote regions was higher by 10–20 per cent compared with the average rice-deficit area in Upper Myanmar.
- 7 Along with rice, exports of chillies, onions, maize and sesame were also banned. This also reflected the high priority that the government put on self-sufficiency in important crops.

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