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Burma's Recent Experience With Economic Development 8 pages

Robert B. Bangs

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Burma's Recent Experience With Economic Development Robert B. Bangs

Burma's recent difficulties with an ambitious program of economic development, undertaken originally with no reliance on foreign financial aid and with insurgency still widespread, illustrate some of the problems small one crop agricultural nations may encounter in their efforts to diversify and expand their own economies.

Burma was heavily damaged during World War II. Output per capita in 1946-47 had fallen to less than 60 per cent of the prewar (1938-39) level. Activity in extracting minerals, petroleum, and timber was especially low. For several years after 1947, little progress was made in reconstruction because of widespread internal strife and the organization problems faced by the new Government following independence in 1948.

## The development plan

Prepared with the assistance of foreign consultants and formally adopted in 1953, Burma's development plan was a comprehensive program aimed at restoring prewar output per capita by 1960, largely through extensive public investment in agriculture, transport, electrification, social services, and industry. The plan set as a goal a 50 per cent increase in gross domestic product per capita within 7 years, to be achieved by net investment of K7500 million ($1,575 million), about one sixth of the expected gross national product. Projects actually planned and investigated for feasibility accounted for less than half the total investment visualized.

Defects soon apparent in the development plan were (1) the import content of investment expenditure was considerably underestimated (at 1/3 the total capital outlay) and (2) execution of the plan within the time schedule called for more managerial and technical talent than Burma could supply. Prior to World War II, the Government and the larger business enterprises in Burma had been managed almost exclusively by foreigners. Very few of these people returned after the war; ever since achieving independence Burma has been hard pressed to find and train competent local business managers, technicians, and civil servants.

The development plan also assumed a quick suppression of the insurgency that had held back economic recovery and required heavy defense expenditure. This expectation is still unfulfilled with the result that about 1/3 of total budget expenditure continues to go for defense. Another result of the insurgency has been to hold back the recovery of activity (and hence exports) in extracting minerals, petroleum, and timber.

Execution of the development plan was in part turned back to the existing agencies of Government and in part entrusted to new Boards and Corporations, such as the Electricity Supply Board and the Industrial Development Corporation. Coordination in the timing of investment expenditure in various sectors of the economy was supposed to be achieved through the newly created Ministry of National Planning and the Economic and Social Board, a cabinet level committee with the Prime Minister as chairman.

In practice, agencies of the Burmese Government have shown uneven enterprise in implementing their respective parts of the development plan. Investment in agriculture, in irrigation, and in mining have lagged while capital outlay in electrification and in industry have increased rapidly, resulting in some lack of program balance.

Dependence on rice export earnings

Prewar Burma exported upwards of 3 million tons of rice per year, about 40 per cent of total world rice exports. Yet rice represented no more than 50 per cent of Burma's total foreign exchange earnings, the balance being derived from petroleum, timber, minerals, and agricultural products other than rice. In the postwar period, these non-rice exports have been small; this plus the relatively high price of rice has resulted in 75 per cent or more of total export earnings being derived from this one commodity.

During and following the Korean hostilities, rice prices rose rapidly, reaching a level above £60 per ton in 1953. It was against this background of large and growing export earnings that Burma decided on its development program which it hoped to finance by expanding rice exports at high prices and also by increasing shipments of other agricultural products, minerals, and timber to world markets.

No sooner had the development plan been adopted than rice prices turned downward. They have fallen steadily until recently when signs of strength began to appear. Burma's State Agricultural Marketing Board (SAMB), which has a monopoly on government to government rice export sales, has been reluctant to reduce prices rapidly enough to clear its stocks, instead piling up surpluses that have taxed available storage space.

In the original development plan, it was expected that rice exports would steadily increase to about 2.5 million tons by 1960. Shipping and milling difficulties have so far kept exports well below 2 million tons. With disappointing performance in export tonnage as well as falling prices, foreign exchange earnings have lagged seriously behind expectations, limiting imports both for the development program and for current consumption.

In the fiscal year 1952-53, Burma earned about $214 million from export sales of rice out of total export earnings of $273 million. Foreign exchange holdings reached a peak of $270 million in June 1953 and thereafter declined steadily to a low of about $108 million at the end of September 1955 - the close of the 1954-55 fiscal year. Since then reserves have been held steady at about this level as a result of import restrictions and borrowing plus the accumulation of barter credit balances arising from rice sales to communist countries. These balances are included in Burma's foreign exchange reserves and account at present for perhaps as much as 1/4 of the total.

Public capital outlay

In the fiscal year 1952-53, before adoption of the development plan, the Government of Burma spent just under $40 million for economic development, mainly in the fields of transportation and construction. The following year capital outlay doubled, as substantial expenditures were made for industry and electrification. In 1954-55 the initial target for capital outlay was nearly $200 million but this was scaled down to just over $100 million - not including more than $20 million for defense - by budget retrenchment and agency inability to maintain construction schedules. In 1955-56 a further cut in capital outlay occurred - to about $90 million excluding defense. Existing commitments prevented an even more radical cut in development outlays.

Growth in capital expenditure was accompanied by the emergence of budget deficits, partly attributable to smaller profits from rice marketing. In 1953-54 the deficit was $75 million but in 1954-55 it increased to more than $100 million. Lower expenditures in 1955-56 and the expected receipt of $27 million during the year in Japanese reparations are scheduled to hold the deficit to about $57 million in the year just ending. These deficit figures refer to all Government activities, including those of Boards and Corporations that are not included in the published budgets.

Import policy

As an offset to these budget deficits, Burma had hoped to continue relatively unrestricted imports of consumer goods; but in March 1955 it became apparent that measures to limit the drain on foreign exchange reserves had to be taken. Private imports were accordingly curtailed to allow priority for capital goods for the development program. Shortly thereafter, Government foreign exchange payments were placed under tight control in an effort to stretch out the investment program. These measures, plus a drive to stimulate export earnings, which initially took the form of entering into a number of trade agreements with Red bloc countries to barter rice for capital goods, slowed down the foreign exchange drain.

In tightening exchange controls over private trade, Burma simultaneously pushed a policy of giving preference to its own nationals in the issue of import licenses and of expanding the activity of the Civil Supplies Management Board, a government agency which has a monopoly on the import and distribution of certain commodities such as sugar, coal, and basic textiles. These actions intensified the inflationary effect of the import restrictions. Many Burmese traders who received licenses promptly resold them for speculative profits; the Civil Supplies Board was not organized to distribute goods in volume and has delayed the flow of essential supplies for consumption.

As a result of these import restrictions and disruption of normal trade, living costs in Burma have risen considerably and are still on the increase. Some relief has been obtained, however, from the purchase of U. S. agricultural surpluses for local currency, and from use of a part of the recent foreign loan proceeds to raise imports slightly. However, the level of consumer goods imports is still too low for price stability in spite of the cutbacks in the investment program.

Reduced investment program

In reducing the rate of its capital outlay for economic development, Burma has improved considerably its technique of programming investment expenditure. A comprehensive foreign exchange budget is now prepared and development projects scheduled through this budget. The long range development plan has been rephrased into a three year revolving program of capital expenditure; this program is carefully reviewed each year in the process of drafting the annual budget. A closer watch is also being kept on local currency expenditures for development.

The investment program has been reduced by deferring (in some cases indefinitely) projects that will not expand foreign exchange earnings or yield foreign exchange savings and concentrating on more commercially promising projects such as port improvement, sugar manufacturing, and oil prospecting. Expenditure for school and hospital construction, for electrification, and for many of the industrial projects with an uncertain economic future has been stopped. This reduced investment program will undoubtedly limit the rate of growth of national production, which has averaged about 5 per cent per year in constant prices, but will mean a sounder basis for future growth and less strain on Burma's limited personnel resources.

Borrowing abroad

To finance even its reduced development program and inadequate level of consumer imports, Burma has been compelled to seek outside financial assistance through loans. In October 1955, an agreement was signed with India under which Burma can borrow up to $42 million in sterling to be repaid in four years beginning in 1959. Effort is being made not to draw the full amount of this loan. In February 1956, Burma borrowed $15 million from the International Monetary Fund to be repaid by 1961. Later in 1956, an agreement was made with the United States for the purchase for Burmese currency of more than $20 millions worth of agricultural surplus, principally cotton. This is being traded to India, Japan, and the U. K. for finished textiles. In May 1956, the World Bank agreed to lend Burma $14 million for 20 years for rehabilitation of the Port of Rangoon and $5.35 million for 15 years for railway development. Negotiations with the U. S. Government are in process for a second purchase of farm surplus and for a development loan of about $25 million.

These loans give Burma time to step up exports of rice, timber, and minerals but will of course limit the capital expenditures that can be made in the future. A large part of the 1953 development plan will have to be postponed for the foreseeable future.

Barter trade agreements

In fairly desperate efforts to dispose of surplus rice in 1954 and 1955, Burma entered into barter trade agreements with a number of Red bloc countries including Mainland China, U.S.S.R., Poland, Yugoslavia, Hungary, Czechoslovakia, East Germany, and Roumania. In most cases, Burma was not properly protected in these deals as to the prices it would pay for imports from the communist countries. While perhaps as high as 40 per cent of total rice exports in the fiscal year 1955-56 went to barter trade countries, the reverse flow of goods to Burma has been slow, high priced, and often of inferior quality. This has increased inflationary pressure within the country.

As a result of her experience, Burma has become disenchanted with barter trade and is now seeking to sell rice for cash wherever possible. It remains to be seen whether release can be obtained from these barter agreements, some of which run for several years. According to recent news reports Burma has had to refuse some cash offers for rice because of commitments to make deliveries against barter agreements.

Future export prospects

A steady but modest expansion in export earnings over the next several years should be possible if Burma makes a concentrated effort. In August 1956, a contract with India for 2 million tons of rice over a 5 year period at an initial price of £34 per ton was concluded. This is an important gain in sales compared with India's import of only 267,000 tons of rice from Burma in 1955. Prewar, India was Burma's best rice customer. Other recent rice contracts have been concluded with Indonesia and Pakistan.

Early in 1956, the SAMB revised its system of premium payments to rice millers to provide them with more incentive to turn out a better quality product. This action should also help increase sales as the quality of Burmese rice had been deteriorating. Foreign experts are now at work within the SAMB to reorganize its operations for greater efficiency and to improve its accounts. A good deal of improvement in milling and shipping schedules is possible. As a result of these efforts, the immediate goal of a 2 million ton export shipment year appears to be within sight.

Gradual progress can also be made in minerals and timber exports if security conditions continue to improve. The largest tin-tungsten mine has been freed of insurgents and is being rehabilitated by its former owners pending completion of negotiations for a joint venture with the Government. Lead and zinc production is also steadily improving.

Timber extraction is advancing with the use of armed guards in the forests. Milling capacity has been enlarged and better shipping schedules worked out. Burma's teak and other hardwoods are in a strong competitive position in world markets.

Steady if not rapid progress is also being made in diversifying agricultural production and in exporting non-rice crops. Cultivation of jute, sugarcane, cotton, and tobacco is being increased to replace imports of these items.

Burma is now again virtually self sufficient in petroleum products and may soon have a surplus for export as it did prewar.

Internal finance

While Burma has reduced considerably the magnitude of its budget deficits by cutting expenditure, its revenue system remains inflexible and uncertain. Too great dependence is placed on profit from the rice monopoly and on customs duties as revenue sources. The former has declined with the price of rice and the latter has been impaired by the restriction of imports to conserve foreign exchange. Burma needs, but has been reluctant to consider, both new tax measures and administrative improvements of the existing revenue system; it also needs to economize an ordinary Government expenditure in favor of investment outlay. Gradual progress is being made in this latter direction.

Burma's budget deficits have been financed primarily by the sale of securities to the Central Bank with consequent large increases in the private money supply - over 20 per cent in 1955. Little has been done to draw private saving to the development program because government securities are not at present attractive to private investors. The Industrial Development Corporation (IDC) plans to offer the securities of such enterprises as the jute mill and the sugar factories for public sale after these enterprises have become established but this will not be for several years. Burma's socialist Government is gradually becoming aware of the need for private capital and for offering sufficient inducements to attract this capital. It also hopes through joint ventures with foreign firms to gain experience in organizing and operating complex industrial processes.

An encouraging step in widening the scope for private investment in Burma is the IDC loan program which has met with an enthusiastic response from small firms of all types. To date the IDC has been able to offer loans only against equipment to be imported on Japanese reparations account; if the program can be broadened to cover equipment from other countries it will be even more popular. The IDC program is in nucleus an industrial bank which if expanded can help overcome the credit shortage for private industry in Burma.

Summary and conclusions

Most of Burma's recent difficulties are attributable to trying to proceed too rapidly and on too broad a front with industrialization and to relying overmuch on inflationary methods to finance its program. In slowing down its capital expenditures and reexamining projects in terms of their near term contribution to foreign exchange earnings or savings, the country should also get more productive investment and fewer problems of organization and administration.

It will take Burma much longer to expand her economic base than she had hoped but the expansion is likely to be more permanent and to raise fewer future problems. Under its initial accelerated program of industrialization, Burma was in danger of creating a mass of relatively inefficient industries that could neither be properly operated nor produce efficiently for the home market without high tariffs or subsidies. Now projects are getting more careful review as to costs and probable profitability.

An important step has been taken by the Burmese Government in orienting its development efforts more toward expansion and diversification of export trade than toward industrialization designed to reduce imports sometime in the distant future. This has put renewed emphasis on agricultural improvement and on transport and has pointed up the slow recovery of mining and logging. The traditional export industries of Burma are still the best investment opportunities but much remains to be done both in improving quality and quantity of production in these industries.

Burma has come to realize that overdependence on rice cultivation makes her position in the world economy precarious and that diversification of agriculture is a necessity. The chief obstacle to obtaining this diversification is lack of an adequate agricultural extension service to demonstrate to farmers the advantages and profits to be made from other crops. Some effort is being made to overcome this lack but most of the crop diversification to date has been on government projects. To change the traditional pattern of Burmese agriculture will be a slow process.

Because of the Government's socialist orientation, extensive investment was originally contemplated in schools, hospitals and other welfare services. Valuable and essential as these may be in the long run, they do little to raise immediate production for export. Burma is coming to realize that it cannot both support social services on the scale it would like and also invest in expanded production.

Burma's original plans to finance her economic development were not realistic in that they depended too heavily on a temporary boom in the rice market and did not take full account of the consequences of persistent budget deficits. Too little attention was given initially to the effect of the development program on Burma's international accounts; when this position became critical, corrective action concentrated inflationary pressure on prices within Burma. The Government has moved too slowly to correct its budget position partly because of existing commitments but more fundamentally because of unwillingness to cut current expenditure in order to concentrate on investment.

Burma's experience also shows that difficult problems of scheduling, expediting, and control are involved in a complex program of public investment and that these problems must be solved quickly if the program is to be successful. Projects have been delayed overlong by the inexperience of administrators and by the cumbersome bureaucratic procedures inherited from a colonial Government which centralized authority.

Too little scope has been left in Burma's development plans for private enterprise and private capital. The Government has monopolized more lines of business than it can carry on efficiently and has placed too many obstacles in the path of established foreign firms. As a result, there is little prospect of attracting private investment from abroad in spite of Government policy statements ostensibly welcoming such investment. The Burmese associate private investment too closely with colonialism to see clearly its potential benefits to themselves.

It may be questioned also whether in embracing the joint venture with private foreign interests, the Government is taking a wholly constructive step. In most cases, the Government has little to contribute to these joint venture agreements except its guarantee of a protected monopoly position to the foreign partner in return for a share of the expected profits. These can be tapped as effectively by income tax without management participation which is merely putting further strain on Burma's limited local supply of management talent.

Finally, Burma's ventures into industry raise real questions of whether a socialist government can operate business activities efficiently and competitively. There is little ground for optimism on this score in the record of the state enterprises to date. The SAMB and the Civil Supplies Board have poor records for efficient operation even among Burmese Government agencies; yet their responsibilities are being increased.

Burma's basic resources and long run prospects for economic development are quite good if the organization problems can be worked out and public investment limited to fields where management competence is available.