

Economics from the Ground Up

Case Study: current issues facing Burma as an Asian developing nation – a case study



History

Burma, known officially as **Myanmar**, is located in the tropics of South East Asia. It shares borders with China, Thailand, Laos, India and Bangladesh and is the second largest country in the region.

Burma was **colonised** by Britain from the early 1800s, gaining its independence in 1948. In the 19th and earlier parts of the 20th century, Burma was one of the fastest-growing and most advanced economies of Asia, with its then-capital Rangoon (now called Yangon) a major trading port.

Following a brief period of democracy after independence, between 1962 and 2011, Burma was ruled by a military **dictatorship**, sometimes called '**junta**' (a Spanish word meaning a military group in charge after a coup). The junta had almost absolute power over its citizens, and violently silenced any opposition to its rule. It also imposed an isolationist approach to economics, called the '**Burmese path to socialism**', which involved nationalising much of the industry and cutting links to the outside world.

Nationalisation is the process whereby the government of a country takes over ownership of private enterprises. It is the reverse of privatisation. The junta also imposed central planning on the economy. **Central planning** involves the government setting targets for production, including what, how much and how it will be produced, rather than allowing this to be decided by the free operation of the market mechanism.

In 1990, the first free elections in 30 years took place in Burma. The military was expecting to win, but was soundly defeated. In response, it declared the election invalid, placing the opposition leader, Nobel Prize for Peace winner and democracy activist, Aung San Suu Kyi, under house arrest, where she stayed for more than 15 years.

Because of the junta's terrible record of human rights abuses during this period, sanctions were imposed on Burma by many western nations. **Sanctions** are measures adopted, usually by several nations acting together, to restrict trade or interaction with a nation that is violating international law or committing human rights violations. The goal is to convince the nation to improve its behaviour. Some of the crimes of which the junta was accused include the use of forced labour, including child labour, violent suppression of people expressing their opinions, and the forced relocation of citizens. In addition, Burma is a country that has been riven with civil war since independence. It is a very ethnically-diverse country and there have been ongoing struggles for autonomy by ethnic groups in some regions.

During the time of the military dictatorship, China remained one of the few supporters and allies of Burma, partly because of their shared socialist history and because China did not impose sanctions. Over time, Burma became very economically dependent on China and China still remains the largest foreign investor in Burma, making investments of more than US\$14 billion during the year ending in March 2011.

Over time, Burma and its government became increasingly isolated and unpopular in world affairs, becoming a 'pariah' state (meaning it was shunned by most other countries). This eventually forced a change of approach. After further elections in 2010, a new military-backed, but largely civilian government, was finally elected, seeing the end of official military rule. Suu Kyi was also elected in by-elections held in 2012. Since the elections, many political prisoners have been released from prison, and the country's government has instituted a large number of political, social and economic reforms in an attempt to integrate Burma back into the regional and global economy, and improve its economic development.

Study tip/myth buster

What's in a name? The ruling military junta changed the country's name from Burma to Myanmar in 1989, but many inside and outside the country do not agree with the name change, and persist with using the name 'Burma'. For example, the UN, France and Japan recognise the name Myanmar, but the US and UK do not. Here, the country will be referred to as Burma, rather than Myanmar, because a larger part of the audience may recognise that name.

Economy

Burma is one of Asia's poorest countries, coming in second only to Afghanistan. It is a textbook case of the impact of economic mismanagement, corruption, anti-democratic government and isolation of a country that actually has an abundance of natural resources. As many have observed, paradoxically, Burma is simultaneously *resource rich* and *economically poor*.

Burma is primarily an agricultural economy, producing primary products. Much of its GDP comes from agriculture, livestock, fisheries and forestry. In recent years, it has started exporting natural gas and gems, and these have become more important in the economy.

As a legacy of the years of Burmese socialism, the majority of the manufacturing sector remains **state (government) owned**, but this sector still makes up only a small portion of economic activity. Burma has a very under-developed **private sector**. There is virtually no financial sector, which means there are major challenges for development because of insufficient savings and limited access to credit to finance investment.

The **sanctions** imposed on Burma isolated it economically from most of the world, many involving **trade** and **investment sanctions**. For example, the USA banned all imports from Burma, and restricted the ability of US companies to invest in Burma or provide financial services in the country. It meant that, in general, credit cards could not be used in the country. The EU restricted the ability of members of the Burmese government and their families to visit or study in Europe, as did Australia. Almost all countries in the world had an **arms embargo** on Burma, which means that companies based in those countries were forbidden from selling any kind of military equipment to the Burmese government.



Some effects of sanctions on Burma:

- Large multinational corporations withdraw their investment, reducing access to capital and investment.
- Reduced access to markets for exporting, which particularly impacted the garment (clothing manufacturing) industry and the financial sector. Some estimates are that the garment sector employed more than 350,000 people prior to sanctions, and at the height of sanctions, employment fell to 60,000.
- Reduced access to imports, including technology and capital equipment.
- Reduced access to overseas expertise, and education opportunities for the country's residents, because many could not travel to study.
- Reduced access to funding and loans from large international agencies, such as the IMF and World Bank, which ceased lending and operations in Burma in 1987.

Since the beginning of the more democratic government and economic reforms in 2011, many countries, including Australia, and the EU, have announced they will trial the removal of most sanctions, and the US will remove some sanctions, although arms embargos remain in place. Removing sanctions will no doubt lead to an improvement in conditions in the country.

Historically, Burma's economy has also been hampered by its **large military infrastructure**, which absorbed a substantial proportion of government spending. This resulted in a huge opportunity cost as the funds could not be spent on essential non-military infrastructure or the provision of basic services. Some claims put the military's share of government spending in 2012/13 at 14.4%, while others claim that the military and state-owned enterprises account for up to 80% of government spending.

The many challenges facing the Burmese economy, which are similar to those in many poor, developing countries, include those listed below.

- Lack of an educated workforce, with few people possessing the skills to use modern technology.
- Insufficient labour resources have been devoted important sectors like teaching, nursing and farming as careers in the military became one of the only paths to economic success.
- Very limited and/or poor quality infrastructure, including out-of-date railway systems in disrepair, energy shortages and limited access to electricity, and major roads that are unsealed.
- High levels of corruption, and many companies and financial institutions controlled by a few powerful families and the military, which use their positions of power for economic gain. Burma is consistently ranked among the world's most corrupt countries by international organisations that monitor corruption, ranked at 180 out of 182 countries in the Transparency International Corruption Perceptions Index in 2011.
- A large informal economy, with small and medium-sized enterprises accounting for 90% of all businesses in the country.
- Very limited democracy, with a very recent history of some increased access to freedom of speech, and the military still holds many seats in the parliament. As explained earlier, this limits the ability of the people in a country to monitor the government's actions, and increases the likelihood of economic decisions being made in the interests of a small, powerful minority, rather than the majority of the population.
- The rule of law does not really exist in Burma, which means that the government is able to change how it deals with businesses, and businesses cannot predict how rules will change.
- No effective system of enforceable property rights, which means that foreign investment and business investment is discouraged because investors cannot be certain that their property will not be forcibly acquired (expropriated) by the government.
- Burma is prone to natural disasters and vulnerable to the effects of climate change. It regularly experiences cyclones, tropical storms, tsunamis and landslides.
- The agricultural sector has low levels of productivity and limited irrigation, and most agriculture is for subsistence. Very little processing of agricultural products takes place which means there is minimal value-adding.



Because of the opaqueness of Burma's government and the fact that the economy has been closed off from the world for some time, it is notoriously difficult to find data on its economic performance. What follows is a selection of data available from various sources. It is important to note that the official export and import figures listed here are considered to grossly underestimate the value of both flows, because of high levels of smuggling both into and out of Burma of narcotics, food, gems, consumer goods and fuel.

Application exercise 1

Examine the three tables which provided data on key indicators for Burma and answer the questions that follow.

Table 1: Selected key economic indicators for Burma (estimates only)

Indicator	2011	2010
Gross Domestic Product (US\$ billion)	82.7	78.4
GDP Growth rate (% annual)	5.5	5.3
GDP per capita (US\$)	1300	1300
Unemployment rate (%)	5.5	5.7
Inflation rate (consumer prices)	5.0	7.7
Exports (US\$ billion)	8.2	7.8
Imports (US\$ billion)	5.98	4.4
Agriculture % of GDP	43	n.a.
Industry % of GDP	18.7	n.a.
Services % of GDP	42	n.a.
Public sector Corruption Index (<5 = significant corruption)	1.5	1.4

Sources: www.worldbank.org; CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/index.html> and <http://cpi.transparency.org/cpi2011/results/>

Table 2: Selected population and income statistics for Burma

Indicator	Year	Data
Population (estimate, millions)	2012	54.5
Population (estimate, millions)	2011	53.4
Household income or consumption % share – lowest 10%	1998	2.8
Household income or consumption % share – highest 10%	1998	32.4
Agriculture, % of labour force	2011	70
Industry, % of labour force	2011	7
Services, % of labour force	2011	23

All data are **estimates only**, collected from www.worldbank.org and CIA World Factbook.

Table 3: Selected development indicators for Burma, 2010 and 2011

Indicator	2011	2010	2009
Human Development Index (HDI) value	0.483	0.479	0.474
HDI ranking (out of 187)	149	150	151
Life expectancy at birth	65.1	64.7	64.2
Literacy rate (% of population)	92	n.a.	n.a.
Access to electricity (% of population)	25	n.a.	n.a.
Children completing primary school (%)	60	n.a.	n.a.
Number of secondary schools in Burma	1099	n.a.	n.a.
Government spending on education (% of GDP)	n.a.	0.9	n.a.
Government spending on health (% of GDP)	n.a.	0.5	n.a.
Improved sanitation access (% rural population)	n.a.	73	72
Improved sanitation access (% urban population)	n.a.	83	83
Underweight children (% under 5 years)	23	22.6	29.6**
Population below the poverty line (%)	26*	32 (2005)	n.a.
Urban poverty (%)	16*	n.a.	n.a.
Rural poverty (%)	29*	n.a.	n.a.

* Latest figure: 2009. ** 2003. Source: World Bank, CIA World Factbook, UN HRC Special Report on Myanmar, 2010, and UNICEF.

Questions:

- 1. Define the term 'sanctions' and explain why sanctions were imposed on Burma by many world governments.**
 - 2. Explain three impacts that sanctions had on the Burmese economy.**
 - 3. Reflecting on your answer to Question 2 above, identify three potential benefits for Burmese economy of the lifting or reduction of sanctions.**
 - 4. Examine Tables 1,2 and 3 which show key economic, population and development indicators for Burma.**
 - a. Identify two pieces of evidence from the table that support the claim that Burma still relies heavily on its primary sector.**
 - b. Describe what has happened to GDP and GDP per capita between 2010 and 2011.**
 - c. Reflecting on your answer to part b, provide a reason why GDP has increased, but GDP per capita has remained steady between 2010 and 2011.**
 - d. Using statistics from the tables, explain whether you believe the distribution of income in Burma is very equal or very unequal.**
 - e. Identify the proportion of the adult Burmese are unable to read and write and outline the implications this has for Burmese rates of economic growth?**
 - f. Identify two pieces of evidence from the tables that support the claim that international businesses may find it difficult to do business in Burma. Explain your answer.**
 - g. Identify Burma's Human Development Index value and ranking, and explain whether Burma's HDI has improved or worsened since 2009.**
 - h. With reference to your answer to part g, and any other supporting data from the tables, explain whether you believe that people who live in Burma experience a high, medium or low level of human development.**
 - i. Describe whether you believe, overall, that life in Burma appears to have improved in recent years. Use data to support your answer.**
 - j. Describe the difference in rates of poverty and quality of life in rural and urban Burma.**
 - 5. Sanctions began to be lifted in early 2011. Identify three statistics from the tables that could be used to support the claim that the removal of sanctions has benefited the Burmese economy. Justify your answers, referring to the benefits of removing sanctions from an economy.**
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Recent economic reforms

A major recent economic reform in Burma has been the floating of Burma's currency, the kyat (Kt), albeit with some central-bank management of the exchange rate. Burma had previously had an official rate of exchange that was more than one hundred times the value of the currency on the black market. The official exchange rate had previously been Kt6 to US\$1, and since floating it has depreciated to Kt818 to US\$1.

The operation of an official exchange rate that was heavily over-valued worked to discourage foreign investment and reduce the international competitiveness of exporters. It also served as an additional means by which the corrupt military regime was able to 'siphon' funds from those sending money to Burma, such as those purchasing Burmese exports or those sending foreign aid. In simple terms, the Government would force foreigners to receive only 6Kt currency for each US\$. It could then sell the US\$ on the black market and receive more than 600Kt in return – a huge profit!

Other recent economic reforms include:

- Increasing state pensions and allocating a very significant increase in expenditure on health and education in the 2012/13 budget.
- Tax reforms, including reducing consumption taxes to an average of only 5%, where some of them had been as high as 90%.
- A reduction in the cost and time for importing vehicles.
- The government directed the state-owned telecommunications company to reduce prices for mobile phone services.
- The government has unblocked access to some Internet websites, while still blocking those critical of the government, however, given that fewer than 1 in every 100 people in Burma has access to the Internet, this may take time to have a real impact.
- The Burmese government has also indicated plans for the following future reforms:
 - Loosening the laws restricting foreign direct investment.
 - Changing regulation of the finance industry, to promote improved access to finance.
 - The establishment of special economic zones with reduced government regulation, to promote manufacturing.

Burma's potential for economic development

According to the IMF, Burma's economic growth will accelerate in the coming year, and they forecast growth of at least 6.25% for the 2012/13 financial year. This improvement in economic growth has been attributed to the floating of the currency and the resulting increase in both commodity exports and investment.



After withdrawing from all projects and ceasing loans to Burma in 1987, the World Bank (WB) has recently commenced 're-engaging' with the government of Burma, and announced the opening of a

country office there. The Bank plans to offer \$85 million in grants to community-driven development programmes, including schools, roads and water supply improvements. Research has shown that improving economic conditions in regions that are affected by conflict and war will help to increase the prospects for reduced conflict. The WB plans to focus on poverty reduction, small scale irrigation improvement, and improving schools and health centres.

Burma is a country rich in natural resources, including fisheries, forest, hydropower potential (because of its location in a large river delta), precious stones and minerals, natural gas, and, according to the World Bank, possibly oil. Burma shares borders with two of the main engines of economic growth in Asia – China and India – and has the potential to become a regional trading hub, particularly because it has ports on the Indian Ocean.

Increasingly, as the country opens up, foreign investors are looking to Burma as a possible destination for their investments. They are interested in tourism, banking, telecommunications and construction. There have also been numerous visits from high profile western leaders desiring to open up relations with the country.

There are numerous areas where the Burmese economy could pursue further improvements and encourage foreign investment. These include:

- Removing the burden of the military on the economy, in order to create room for further development in agriculture.
 - Improving the quality of all infrastructure in the country, including electricity, ports, rail and road networks. Some have claimed Burma has the potential to be the 'backdoor' to the Chinese and Indian markets.
 - Improving the country's tourism industry (which will be discussed in more detail in Application exercise 2).
 - Improving Burma's finance sector, along with the removal of government restrictions on the provision of credit, to create a banking industry that can provide the necessary support for private enterprise and economic development.
 - Developing Burma's private services and manufacturing sectors, including in garment manufacturing and construction.
 - Achieving more consistent government policies on trade.
 - Restructuring the health system to improve the amount of skilled labour available in Burma
 - Further developing the skills of Burma's large and young labour force through increases in the levels of education and training.
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Application exercise 2

Tourism in Burma – an untapped goldmine?

Read the following case study, and complete the tasks that follow.

The Burmese military government opened up the country to tourism from 1992, but the sector is highly regulated, and interactions between Burmese citizens and foreign tourists are still highly restricted. Nevertheless, tourism has been a growing industry in Burma in recent years. Several commentators have observed that tourism seems to be one of the most obvious areas of potential growth for Burma's economy.

According to the World Bank, since 2007, travel services (tourism and business travel) have accounted for between 18% and 28% of all service exports from Burma. The number of international tourist arrivals has been rising, to reach over 300,000 in 2010, and some estimate up to 391,000 in 2011. At that time, there was still an informal travel boycott in place by many potential western visitors, as pro-democracy leader Aung



San Suu Kyi had, in 1996, encouraged people not to visit her country. She pointed to evidence that tourism development undertaken by the military was directly linked to forced labour and was helping to prop-up the brutal military dictatorship. Many potential visitors followed her advice, meaning that relatively very few travelled to Burma, while at the same time 15 million visitors were travelling every year to Burma's neighbour, Thailand.

In 2010, Suu Kyi's party reversed its position, and encouraged international tourists to return to Burma. Their advice was to avoid package tours and large tourism operations, instead focusing on small, locally-owned, independent and ethical operators which were likely to provide more economic benefits to poor Burmese.

Now that the boycott and sanctions have been lifted, as many as half a million tourists were expected to visit Burma in 2012, with the number increasing to one million soon after. Burma is now a 'must see' destination for global travellers looking for a new adventure and a location that is unaffected by mass tourism. Some visitors have suggested the Burmese people are probably Burma's greatest tourist asset, being well-informed about their country's history, friendly and welcoming. Burma was ranked at number two in Lonely Planet's list of top ten countries to visit in 2012. Many airlines are increasing flights into Burma, and others which previously didn't fly there plan to. Unofficial observations confirm that flights to Burma and hotels are 'booked solid' for many months into the future.

Some reports claim that hotel rooms in Burma are increasingly 'eye-wateringly expensive'. According to the Ministry of Hotels and Tourism, Rangoon (Yangon) has only 8,000 hotel rooms. One report claims that price of hotel rooms has doubled in less than a year, and one hotel operator says that the

availability of accommodation is not enough to cope with demand. In July 2012, Burmese domestic airlines announced increases in the price of flights between key tourist destinations inside the country. Increasingly, people expecting a cheap holiday in Burma may find that is not the case.

Some Burmese have expressed the desire to increase the numbers of tourists, because with tourists comes money or income, and also tourists are able to report on any further human rights abuses that may occur if the move towards democracy begins to reverse in Burma, and the military attempts to impose more restrictions on people's freedom. However, others are concerned that, as the country rushes to welcome more international visitors, it may fall into the problems of countries like Thailand, whose cities have turned into urban jungles which attract the seedier side of tourism – sex tourists.

One limitation for travellers to Burma is that, following years of international sanctions on the financial system, there are almost no places where credit and debit cards, or even travellers' cheques, are accepted. Instead, tourists need to bring sufficient US dollars in cash to cover their stay.

The government is attempting to improve the country's tourism infrastructure, by building new hotels and improving transport routes to major tourist destinations. However, the focus of tourism on a few main locations means that the inflow of tourist dollars benefits only a few highly-popular parts of country, including Rangoon, Mandalay and the temple-studded plains of Bagan. Large areas of the country still remain off-limits because of ongoing ethnic tension.

Tasks

1. Explain why there were relatively low levels of international tourism to Burma between 1996 and 2010.
 2. Describe the change in tourism arrivals in Burma between 2010 and 2011, and explain reasons for this change.
 3. Using economic analysis, explain why the price of hotel rooms in Rangoon has doubled in less than 12 months. (Hint: Use the price/market mechanism in your answer.)
 4. Identify three potential benefits for the Burmese economy from increases in the inflow of international tourists.
 5. Identify three specific industries (apart from general tourism) that are likely to experience an increase in demand for their products due to increased tourism.
 6. Identify three potential costs to the Burmese economy from increases in the inflow of international tourists.
 7. Reflecting on what you have learned about the state of Burma's economy and infrastructure, identify three obstacles that may limit the development of the tourism industry in Burma.
 8. Using the Internet, undertake a search of the term 'responsible tourism in Burma', and collect information on what might be expected of a 'responsible tourist' in the country.
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Case Study review questions

1. Briefly explain the history and economy of Burma prior to the 1962 coup.
 2. Define the term 'junts' and explain how the arrival of the junta changed the structure of the Burmese economy.
 3. Define the terms 'nationalisation' and 'sanctions'.
 4. Explain why many countries chose to impose sanctions on Burma.
 5. Identify two effects the sanctions had on the Burmese economy.
 6. Explain the effect that the existence of a large military has had on the Burmese economy.
 7. Identify four specific economic challenges Burma faces (apart from corruption), and explain how they have operated to limit economic development in the country.
 8. Explain how corruption negatively impacts on the economy of a developing country like Burma.
 9. Explain why you think many countries chose to lift (remove) sanctions from Burma, even though it is not yet a full democracy.
 10. Identify and explain four potential benefits for the Burmese economy of the lifting of sanctions.
 11. Explain three recent economic reforms undertaken in Burma, and explain how they are likely to improve economic development and living standards in the country.
 12. Explain why Burma's geographic location may help it to develop economically.
 13. Explain why the garment industry has been identified as a potential area of growth for the Burmese economy. (Hint: reflect on what you know about how other countries in Asia have developed their economies in recent years.)
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