Ⅱ.配付資料

THE WORKSHOP ON JAPAN-MYANMAR COORPERATION FOR ECONOMIC STRUCTURAL ADJUSTMENT

Fiscal and Monetary Working Group

December 4, 2000

Coordinator :

JAPAN : Mr. Ueda Yoshihisa, Deputy Director-General of the International Bureau, Ministry Of Finance

Myanmar : Mr. U Hla Maung, Ambassador (retired)

1. Welcome and Introduction by the Coordinator (by Mr. Ueda)
2. Presentation by Myanmar Working Group

   (by Mr. Lwin, Vice Governor, Central Bank)
3. Presentation by Japanese Working Group

   (by Prof. Shishido, Graduate school of International Corporate Strategy, Hitotsubashi University)
4. Supplementary presentation on Financial Sector

   (by Mr. Fukui, Deputy Director General, International Cooperation Department, Development Bank of Japan)
5. Discussion on the Roadmap
6. Concluding

Tentative list of discussion items

December 4,2000

(the views are those of FMWG and not of the Japanese government)

sector	objectives	areas	sub-areas
Fiscal	Improve understanding of the fiscal performance	Improve statistics on the public finance	Improve capacity to compile and analyze public finance data Disseminate these data to the public
	Increase revenues	**Improve tax and customs administration**	Review the current system of tax collection Enhance revenue collection capacity of the MFR through, e.g., streamlining operations or establishing a large taxpayer unit Review/streamline the current customs operation Use the market exchange rate for import valuation Monitor/incorporate border trades into official trade data Improve collection capacity of customs
		Gain taxpayer compliance	Improve bookkeeping and accounting Intensify efforts to inform the public on tax policy Penalize tax evasions
		Review/simplify tax regime	Phase out exemptions Reduce the number of tax rates Replace SEE transfer with regular corporate income tax
		Introduce value added tax (VAT)	Review the progress in preparing for VAT introduction Assess the revenue impact of VAT introduction Discuss appropriate design of VAT Establish an action plan for VAT introduction
		Reform agricultural taxation	Study appropriate ways to tax agricultural income and land
	Improve public resource allocation	Review expenditures and increase productive spending in line with available resources	Review expenditure patterns and increase spending on education and health, and other activities to alleviate poverty Increase capital and maintenance expenditures for key infrastructure Rationalize other expenditures, including defence spending
	Improve methods of financing the budget deficit	Ensure autonomy of CBM	Review the current situation of CBM's underwriting of TBs Set a tight ceiling of monetarization of the budget deficit
		Make holding of government bonds	Analyze effects of an increase in interest rates

sector	objectives	areas	sub-areas
			Prepare a plan to address banking sector problems
		Implement the plan to address banking problems	Appropriately provide for non-performing loans and consider alternative methods of reforming state-owned banks, including coorporazation, capitalization and privatalization
		Sustain a sound financial system	Assess and enhance supervision capacity of the CBM
			Assess and improve prudential regulations in line with international practices
			Improve risk assessment by commercial banks
			Grant managerial autonomy to commercial banks and discontinue quasi-fiscal operations by commercial banks
			Develop payment systems and inter-bank markets, etc.
		Create environment conducive to sound banking	Ensure the level playing field for the state-owned and private banks (allow private banks to deal foreign exchange)
			Liberalize establishment of joint venture banks and liberalize branching by all banks
			Liberalize interest rates in steps while maintaining positive real interest rates
		Develop term lending	Create business environment conducive to term lending
	Mobilize domestic savings	Establish environment for higher domestic savings	Expand bank branches
			Enhance people's confidence in the banking sector
			Promote computerization
			Increase interest rates
Forex	**Unify the exchange rates**	Evaluate effects of exchange rate unification	Assess the impact of exchange rate unification on prices, budget (including SEEs), and investment climate
		Formulate and implement a timetable for rate unification	Evaluate alternative proposals for exchange rate unification
			Establish an action plan
			Implement the plan

sector	objectives	areas	sub-areas
		More attractive	**Maintain positive interest rates in real terms**
		Develop government bond markets	Develop secondary markets
	Reform SEEs	Study the current financial	Review financial performance of all individual SEEs
	(to be coordinated with Industry/Trade group)	Implement steps to improve performance of SEEs	Harden budget constraints faced by individual SEEs Increase managerial autonomy of SEEs by allowing managers to set production levels, output prices and use of inputs, including employment and wages Make managers accountable for SEEs performance Discontinue SFA Introduce an internationally accepted accounting standard to SEEs and start audits
		Restructure SEEs as needed	Assess the role of the state and that of the SEE in the economy Classify SEEs into those to be retained by the public sector, those to be divested, and those to be closed Promote private sector participation in the sector through sales or joint ventures
Monetary and Financial	Increase analytical capacity of the monetary sector	Improve monetary statistics	Improve capacity to compile and analyze monetary data Disseminate these data to the public
	Study monetary policies	Implement stabilization policies effectively	Review current monetary policy and the policy making process Evaluate impact of adjusting the central bank determined interest rate on the budget and exchange rate stability Identify and implement steps to introduce other indirect monetary policy including open market operation and reserve money programming
	Reform the banking sector	Identify banking sector problems	Assess management capacity and asset quality of state-owned and other commercial banks Evaluate the extent to which banks carry out quasi-fiscal activities and their impact
		Establish a plan to address banking problems	Evaluate the need for loan provisioning and recapitalization Evaluate the need for bank management changes/improvements

Second Workshop on
Japan – Myanmar Cooperation for Economic Structural Adjustment in Myanmar
4 – 5 December 2000, Tokyo, Japan

Issues and Recommendations on "Fiscal and Monetary Policies" for Structural Adjustments in Myanmar

Presented by
Fiscal and Monetary Policy Working Group
Japan - Myanmar Joint Task Force

U Than Lwin
U Hla Maung
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28 November 2000

I. Introduction

It is an accepted fact that Myanmar's economic potential is considerable given the rich natural and human resources. It is also agreed that an infusion of capital and technology is needed to develop the existing natural and human resources, given the relatively low level of savings and investment at present.

Myanmar is in a transitional stage of economic development, and is fully aware that a framework of sound macroeconomic policies and economic environment is needed to realize its economic potential. This will assist in promoting export and attracting additional foreign direct investment and technology for a modern and dynamic economy.

With this economic perspective in view, our working group will endeavor to identify realistically the basic issues in the fiscal and monetary areas, and offer recommendations, to the best of our ability, for the consideration of the Authorities.

II. Current economic situation and need for an Adjustment Program

Economic growth rates during the past four years have been fairly impressive, averaging about 7 per cent per annum. This performance has been achieved despite the Asian crisis and economic obstacles imposed by a few countries outside the Asian Region and the absence of financial assistance from International Financial Institutions (IFIs) for the past decade. To sustain this level of growth, Myanmar needs to export more, attract additional foreign direct investments as well as long-term concessionary finance from friendly countries. These funds are needed to boost investments, to overcome shortages of foreign exchange and to narrow the internal and external imbalances in the economy for sustained growth.

To achieve the above objectives, we need to undertake a structural adjustment program, particularly in the fiscal, monetary and foreign exchange sectors.

Therefore, in this paper, we propose to identify the basic issues and offer recommendations for implementations.

III. Recent Developments in the Financial Sector

(a) Fiscal developments

Available data indicate that the overall fiscal deficit declined in 1997-98 and 1998-99 to average 5.4 % of GDP and further declined in 1999-2000 to 5% of GDP, mainly due to sharp cuts in capital expenditures. However, the fiscal deficit for FY 2000-2001 is expected to widen as a result of a five-fold increase in salaries to government employees.

In line with the decline in fiscal deficit in the past three years, the rate of inflation also declined in FY 1999-2000 from the high levels recorded in earlier years.

In recent months, the deterioration in the market rate of foreign exchange threatens to disrupt price stability. Therefore, maintaining price stability becomes a priority issue to be addressed. Application of disciplinary fiscal and monetary measures within a framework of targets, plus adoption of supply-side measures, such as increasing raw materials and, food and agricultural production are allied issues to combat inflation.

It is observed that despite the increase in GDP, the tax / GDP Ratio has declined from 4.5% in 1997-98 to 3.5% in 1998-99, although tax revenues have increased in value. Thus, raising the tax/ GDP ratio to narrow the fiscal deficit becomes an urgent issue to be addressed. The performances of the State Economic Enterprises influence considerably their net contributions to the Central Government. Their capacity-utilization is also a problem to be addressed.

It is encouraging to note that, in recent years, increasing " Treasury bond financing " of the fiscal deficit has tended to decrease direct central bank financing, which is more inflationary. This favorable trend must be reinforced by establishing the capital markets which is an issue that must be addressed in the short-term analysis.

(b) Monetary developments

Monetary developments, in terms of Broad Money was relatively high in recent years mainly as a result of monetization of fiscal deficits by the Central Bank. However, with the decline in fiscal deficits, monetary expansion has slowed down since 1998-99. Total liquidity (M2) growth fell to an average annual rate of 27 percent during FY 1998-99 and 1999-2000

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from a level of 30 percent in 1997-98. Total bank credit also slowed down to 22 percent since 1998-99. Correspondingly, the inflation rate also slowed down from the high levels of previous years to single digit levels.

To counter the decline in economic activity arising partly from the Asian Crisis, the Central Bank followed an easy monetary policy. The Central Bank's discount rate was lowered from 15 % to 12 % in April 1999 and further to 10 % as of April 2000. The 3-Year and 5-Year Treasury Bonds' interest rates were also lowered to 8.5 % and 9 % respectively.

Compliance to CBM law that restrict the lending limit to the government should be considered to achieve fiscal discipline.

In line with the easy monetary policy, private commercial banks' lending rate was also reduced from 17 % to 15 % with effect from April 1, 2000. At the same time, a preferential lending rate of 13 percent to local entrepreneurs entrusted to develop agricultural production and to industrialists in the industrial zones, was put into place.

The above monetary measures would indicate that monetary policy has become more active than in earlier years. The main objective has been to channel bank credit to priority areas in the agricultural and industrial sectors. The Central Bank also used moral suasion by encouraging commercial banks to form syndicates to lend to productive areas.

At the same time, the Central Bank of Myanmar is enforcing Bank Supervision and Inspection measures to ensure proper appraisal of loan applications by commercial banks. The number of banks' branches has also increased considerably, in recent years, promoting financial intermediation.

(c) Exchange Rate Developments

The existence of multiple exchange rate system with the official rate of about K 6 per US dollar and a widening market determined exchange rates at present has caused price distortions in the market, creating uncertainties and risks for traders and investors. Hence, this problem has become an urgent issue to be addressed if the economy is to have a sustained growth.

The Government found a partial solution by introducing Foreign Exchange Certificates in 1993, representing a de-facto depreciation of the Kyat.

The Kyat depreciated sharply in 1997/98 following the currency crisis in Thailand. Because of the considerable border trade with Thailand, the Kyat is closely linked to the Thai Baht at present.

At the present time, the parallel market rate is around K 400 per US dollar, while the market determined FEC rate is currently trading at about K 370 per FEC one unit.

The underlying economic reason for the depreciation of the Kyat is the widening trade gap - imports rising more rapidly than exports. At the same time, speculative transactions and uncertainties at the border trade is another reason for the depreciation.

It has been estimated that about 70 percent of external trade, mostly private trade, is conducted at the market-determined exchange rate, while about 30 per cent (all public) and debt servicing are conducted at the fixed official exchange rate. This has led to segmentation of markets and existence of multiple rates, particularly for custom valuation, and for exports and imports. In this regard, since Myanmar authorities have already agreed to apply market-based exchange rate for customs valuation under the WTO requirements, we may deduce that an initial step towards unification has already been agreed upon.

IV. Implications for Unification of the Exchange Rate

A strategy should be devised to overcome the distortions in prices and the risks in trade and investments, resulting from the multiple exchange rates now existing.

The impact of the unification of the exchange rate - its " costs and benefits " -may be calculated particularly in five different areas:

(1) Impact on inflation
(2) Impact on the budget
(3) Impact on State Economic Enterprises
(4) Impact on trade and investments &
(5) Impact on social sector

While a detailed analysis is not possible, it may be summarised that the impact on inflation would be fairly modest (estimated increase in the CPI of 15-20 per cent), considering that the bulk (70 per cent) of private trade transactions are already conducted at market-determined exchange rates, although customs valuation may be affected at different rates.

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The net - effect on the budgetary transactions would be mixed. Firstly, customs revenue will increase substantially because of the valuation at near market rates. Secondly, State Economic Enterprises (SEEs) using imported inputs at the official rate will feel the fiscal burden and their contributions to the Central Government would be reduced. On the other hand export -earning of SEEs (rice and timber) will benefit from the unification in terms of Kyats proceeds. Thirdly, budget expenditures for repayment of foreign debt will increase in terms of kyats, but not in US dollars.

On balance, there could be a deterioration in budgetary balances in the short-run, but as the economic activity increases on account of the unification, revenues may rise faster than expenditures in the medium term.

The impact on trade and investment (BOP) would be favorable in the medium term, because foreign investors' (FDI) confidence will rise upon adoption of a realistic flexible exchange rate system.

Also, exports will be stimulated, if production of agriculture, fisheries, minerals and timber continues to rise at present rates (FY 1999-2000).

The success of the unification program would depend largely on the positive " dynamics" of the economy, particularly, expectations of increased exports and increased inflow of foreign direct investment.

The strategy would be a gradual phasing of the unification process within three years, by reducing the volume of transactions at the fixed official rate by one third (1/3) each year in the next three years FY 2001- FY 2003. At the end of the 3 years, there would be a flexible exchange rate system in place and the fixed rate would become ineffective and inoperative.

A stabilization fund, equivalent to about six months of imports would be helpful to pay for increased imports, and to instil confidence among traders and investors.

It is assumed that the weaker SEEs using imports will have more time to adjust to market exchange rate than stronger SEEs. The adjustment would be a gradual process.

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To minimize the social costs of unification such as redundancies, a "social safety-net " program can be devised.

At the same time, positive steps must be taken to prevent further deterioration of the market exchange rate by implementing effectively reforms in the fiscal and monetary sectors as recommended in this paper. " A package of measures" approach should be adopted in the form of tight macroeconomic policies to support the Adjustment Program.

V. Issues on Strategies and Constraints

For Structural Adjustments to be effective, we may need to adopt the following strategies.

Export led Growth Strategy

All crisis hit ASEAN countries have adopted strategy to stimulate the real sector by promoting exports. In the context of Myanmar , the government has been promoting exports particularly by the private sector's participation. Nevertheless , for this strategy to be successful we will need to address a number of constraints as follows :

(a) First , the distortion and uncertainties are created in the foreign exchange market , due to existence of multiple exchange rates. This problem is all the more compounded by the recent sharp depreciation of the Kyat in the parallel market basically caused by frequent and direct intervention in the market .A certain measure of stabilization of the market-based exchange rates can be maintained through indirect methods of measures that need to be taken by the monetary authorities . Unification of the exchange rates must have to be considered at this stage of development because the longer we postpone the lager will be the gap in the official and market rates .

(b) Liberalization of the domestic rates (in particular those of tradable goods) is essential to safeguard a free flow of commodities to be operated under fair competition . Recent measures to restrict free flow of goods and intervention by some ministries in the conduct of private sector's export trade should be avoided. In this context , consideration should be made for private traders to engage in export of rice and other agricultural products on a continual basis after providing a buffer stock for rice and other strategic products .

(c) Export Processing Zones (EPZ) should be created giving in effect sufficient incentives for the foreign investors to enjoy tax free and other facilities

(d) Independent Power Producers (IPP) should be permitted on a more broader base to create a constant power supply particularly to industries .

Strategy to Reform the Financial Sector

(a) Presently Myanmar private sector is difficult to expand further due to lack of formal market to trade their shares . Capital markets (stock market) should be established in order to promote further expansion of the private sector through increased capitalization . The emergence of the stock market will also facilitate full and partial privatization of the SEEs;

(b) One of the main reasons that foreign investors are reluctant to invest in Myanmar is due to absence of foreign banks. Accordingly, consideration should be made a limited number of **offshore banks** in Myanmar for the convenience of foreign investors only. The Central Bank of Myanmar will need to help enact the new offshore banking law and regulations ;

(c) In order to encourage Myanmar citizens working abroad to remit foreign exchange to Myanma Foreign Trade Bank, the proper and sufficient incentives should be provided to Myanmar citizens working abroad.

(d) Long-term bonds (in the range of 7- 10 years) may be considered to issue by providing premium interest rates over and above that are allowed for short-term bonds . This measure will provide additional liquidity for the government to finance, in the face of declining severe budget constraints;

(e) In order to encourage mobilization of domestic financial resources by the central bank, it is important for the Central Bank of Myanmar to adopt flexible interest rate policy.

(f) Auction Markets for trading of Foreign Currency under the supervision of the Central Bank of Myanmar, may be considered in order to stabilize the Foreign Exchange market .

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Strategy to establish Resource based Industries and Services Industries of Information Technology (IT)

(a) Establishment of resource based industries are now becoming more feasible as Myanmar is facing a severe constraint in its foreign exchange resources;

(b) Myanmar can move from labour intensive to **technology & knowledge intensive** industries to be able to compete regionally and internationally;

(c) In the medium and long term it will be beneficial for Myanmar to focus on introduction of Information Technology services industries. Myanmar may be able to forge ahead more rapidly in these area as Myanmar people possess a high IQ level;

Constraints

On the other hand, the following constraints to be addressed and resources that are needed to be considered, are :

1. First and foremost, in efforts to restructure State-owned banks and to establish financial and capital markets within well functioning course, Myanmar needs an intensive infusion of technical as well as financial assistance for both the public and the private sectors.
2. Secondly, to successfully implement exchange rate reform within a wider scope of exchange reform, Myanmar also requires technical expertise and sufficient financial resources as a back up in this direction.
3. Thirdly, the change in the present status of the central bank needs to be strengthened gradually.
4. Fourthly, the procedures and regulations governing foreign investments which have involved numerous steps that needs to be streamlined and simplified.
5. Fifthly, the economy may be really market based which is determined by demand and supply with less official intervention and the existence of fair play of competition.
6. Finally, transparency in all sectors of the economy is an important prerequisite to achieve a stable market environment. Part of these efforts is to correct deficiencies in statistical data.

VI. Summary of Basic Issues

On the basis of analysis on recent financial developments, the basic issues to be addressed are:

Economic:

1. Maintaining inflation at single digit levels
2. Raising the level of investment/GDP ratio & Saving/GDP ratio
3. Lowering the level of trade deficits by increasing export
4. Encouraging inflow of FDI & Technology

Fiscal:

5. Lowering the level of budget deficits not more than 5 % of GDP
6. Raising the level of revenue/ GDP ratio by widening the tax base to encompass new areas.
7. Maintaining fiscal discipline within stipulated targets

Monetary:

8. Adopting a flexible exchange rate system in stages
9. Stabilizing the market exchange rate (FEC rate)
10. Maintaining interest rates at positive levels
11. Maintaining monetary discipline within credit ceilings
12. Building foreign exchange reserves to 6 months of imports

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VII. A Summary of Recommendations to be implemented is as follows:

Objective	Policy measures for implementation	Period to be implemented (Short/Medium/Long)
Economic Policy		
1. *Lowering inflation*	- Increasing agricultural & Industrial production in a " crash " program (at least 7 % p.a. growth)	Short -term
	- Liberalize imports of fertilizer, raw materials and spare parts.	Short -term
	- Liberalize export trade	Short -term
Fiscal Policy		
2. *Lowering fiscal deficits*	- Target revenue income at 10-12 % of GDP in two years	Medium-term
	- Raising of tax/GDP ratio	Medium-term
	- Strengthen tax administration especially on tax evasion	Medium-term
	- Curtail non-productive expenditures and target current expenditures increases at (12 % p.a.) while expenditures on social services should be enhanced	Medium-term
External Policy		
3. *Narrowing External imbalances*	-Target for flexible foreign exchange system by gradually depreciating official rate on yearly phase by phase basis, within next 3 years; (FY 2001 to 2003)	Medium-term

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Objective	Policy measures for implementation	Period to be implemented (Short/Medium/Long)
	- Streamline " Export First " policy by using :	
	(1) Retention of FE by exporters	Short -term
	(2) Reducing or eliminating the export tax	Short -term
	(3) Providing adequate credits to Exporters	Short -term
	(4) Finding export markets for producers in agriculture and SMEs.	Short -term
	(5) Establishing **Export Processing Zone (EPZ)**	Medium-term
	- Provide proper and sufficient incentives & facilities to Myanmar citizens working abroad, to encourage their foreign exchange remittances to Myanmar	Short -term
4. *Implementing our own programme **on Unification of the Exchange Rate Process***	- Initiating the letter of intent on package measures	
	- Making serious dialogue with IMF to assist in drawing up our own economic program	
	- Commitment to exchange rate reform process	
	- Request for Japanese financial and technical assistance under the ASEAN Bilateral Swap Arrangement (BSA) for regional financing facilities by initiating our own unification program	

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Objective	Policy measures for implementation	Period to be implemented
Monetary Policy		
5. *Narrowing internal imbalances*	- Target increase in bank credit at 20 % p.a. (next 3 years)	Medium -term
	- Target Money Supply (M 2) increase at (15-20)% p.a.	Medium -term
	- Adopt flexible interest rate policy	Medium -term
	- Establish offshore banks	Medium-term
	- Issue long-term bonds with appropriate premium interest to generate liquidity of the government	Medium-term
	- Strengthen the status of the central bank gradually	Medium-term
Macroeconomic Policy		
6. *Improving Macroeconomic Stability*	- Increase gradual liberalization measures on production and trade for agricultural products after making safeguards for domestic consumption.	
	- To permit Independent Power Producers (IPP) or any alternative facility, for energy sector to encourage FDI and domestic industries	
	- Reduce market intervention as much as possible	
	- Restructuring of inefficient and unprofitable SEEs	

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FEC Parallel Market Exchange Rates & Percent Changes

MONTH / YEAR	1997	1998	1999	2000
Monthly avg. rate				
(Kyat / FEC)				
January	166.64	292.65	326.68	324.63
February	165.01	246.46	321.19	328.05
March	164.93	242.61	331.6	330.33
April	165.18	253.22	332.41	345.94
May	176.94	301.74	335.90	341.71
Jun	186.45	313.10	329.27	346.32
July	208.9	332.50	330.60	357.30
August	195.39	324.84	348.14	370.91
September	199.2	363.28	357.72	386.43
October	200.00	359.41	353.12	393.75
November	200.00	346.63	339.9	370.00
December	200.00	343.83	330.74	-
Yearly avg. rate Kyat / FEC	185.72	310.02	336.44	354.12
FEC / Kyat	0.0054	0.0032	.0030.	0.0028
Percent Changes *	-	(-) 40.7 %	(-) 6.3%	(-) 6.7%

* **Minus (-)** sign indicates **depreciation** of Kyat &

Plus (+) sign indicates **appreciation** of Kyat

Parallel Market Exchange Rates & Percent Changes

YEAR / MONTH	1997	1998	1999	2000
Monthly avg. rate (Kyat / US $)				
January	167.26	312.18	328.26	325.53
February	166.11	273.63	328.43	328.50
March	166.03	262.74	339.85	330.31
April	167.17	272.46	346.71	352.13
May	177.89	301.87	356.33	355.67
Jun	186.85	334.96	348.59	365.18
July	239.94	352.64	345.95	377.80
August	240.77	**376.86**	356.05	389.52
September	248.53	374.27	**360.13**	405.00
October	261.98	364.20	353.29	**421.55**
November	288.45	347.53	340.05	415.88
December	**329.27**	344.93	332.07	-
Yearly avg. rate				
Kyat / US $	220.02	326.52	344.64	369.73
US $ / Kyat	0.0045	0.0031	0.0029	0.0027
Percent Changes *	-	(-) 31.0 %	(-) 6.5 %	(-) 6.8 %

* **Minus (-)** sign indicates **depreciation** of Kyat &

Plus (+) sign indicates **appreciation** of Kyat

MYANMAR : ECONOMIC INDICATORS, 1992/93-1999/2000
(As of 7 August, 2000)

		1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99 Prov.Act	1999/2000
1	Population (million)	42.33	43.12	43.92	44.74	45.57	46.40	47.25	48.10
	Growth Rate (%)	1.9	1.9	1.9	1.9	1.8	1.8	1.8	1.8
2	**GDP (1985/86 Price)**								
	(Kyats in million)	54,757	58,064	62,406	66,742	71,042	75,123	79,460	88,134
	Growth Rate (%)	9.7	6.0	7.5	6.9	6.4	5.7	5.8	10.9
	Agriculture								
	(Kyats in million)	21,029	22,009	23,483	24,765	25,698	26,480	27,417	30,296
	Growth Rate (%)	12.4	4.7	6.7	5.5	3.8	3.0	3.5	10.5
	Share in Real GDP (%)	38.4	37.9	37.6	37.1	36.2	35.2	34.5	34.4
	Share in Nominal GDP (%)	50.6	54.1	55.2	53.2	53.2	52.1	52.3	52.2
3	**GDP (Current Price)**								
	(Kyats in million)	249,395	360,321	472,774	604,729	791,980	1,119,509	1,609,776	2,190,301
	Growth Rate (%)	33.5	44.5	31.2	27.9	31.0	40.1	43.8	36.1
4	**GDP Per Capita (Kyats)**								
	(1985/86 Price)	1,293	1,347	1,421	1,492	1,559	1,619	1,682	1,832
	(Current Price)	5,891	8,357	10,764	13,515	17,381	24,127	34,069	45,536
5	**Inflation**								
	CPI Changes (%)	22.3	33.6	22.5	21.8	20.0	33.9	49.1	11.4
6	Exports (Kyats in million)	3,590	4,249	5,405	5,255	5,496	6,290	6,975	7,634
7	Imports (Kyats in million)	6,140	7,952	8,766	10,295	11,500	14,257	16,541	15,248
8	**Trade Balance** (Kyats in million)	(-)2,550	(-)3,703	(-)3,361	(-)5,040	(-)6,004	(-)7,967	(-)9,566	(-)7,614
9	Current Account Balance (With Grants)	(-)813	(-)1,145	(-)310	(-)1,767	(-)1,804	(-)2,471	(-)3,152	(-)2,027
	(as % of GDP)	0.3	0.3	0.1	0.3	0.2	0.2	0.2	0.1
10	Exchange Rate								
	Official Rate	6.0							
	Market Rate	-	-	-	-	-	227.2	338.9	343.6

Restricted

MYANMAR : FINANCIAL INDICATORS, 1992/93-1999/2000

(As of 7 August, 2000)

(Kyats in million)

		1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000 Prov.Act. 1/
1	Government Finance								
	Budget Deficit	(-)12,095	(-)15,517	(-)29,647	(-)38,820	(-) 51,739	(-) 57,241	(-)91,876	(-)109,725
	(as % of GDP)	(-)4.8	(-)4.3	(-)6.3	(-)6.4	(-)6.5	(-)5.1	(-)5.7	(-)5.0
2	**Monetary Survey**								
	Net Foreign Asset	1,614	1,400	1,816	1,751	731	1,460	1,820	1,526
	Domestic Credit	102,510	118,460	151,814	22,004	283,095	366,059	444,997	558,889
	Money (M1)	70,428	84,381	119,061	152,605	205,577	272,672	325,637	403,211
	CIC	63,871	76,749	108,388	136,429	183,782	2368.4	277,886	321,932
	Quasi-Money : of which	19,114	25,566	37,016	58,935	88,247	109,971	162,609	231,949
	Savings Deposit	15,619	21,558	31,818	51,647	77,694	96,265	141,560	220,876
	Savings Certificates	3,394	3,815	4,656	5,444	7,281	8,380	10,135	11,073
3	**Interest rate (%)**								
	Central Bank	11.0	11.0	12.5	15.0	15.0	15.0	15.0	12.0
	Savings Deposit	10.0	10.0	10.0	12.0	12.0	12.0	12.0	10.0
	Savings Certificates	12.0	12.0	12.0	15.0	15.0	15.0	15.0	12.0
4	Treasury Bonds (outstanding)		42.8	97.5	970.4	3360.4	7572.1	33224.5	75423.5 "
5	Tax Revenue	12,563	17,036	20101	22,644	31,357	49,429	56,653	49,920
6	Official Reserves 2/	2219	2,079	2453	2213	1768	2088	2432	2,171
	(As months of Imports)	4.3	3.1	3.4	2.6	1.8	1.8	1.8	1.7
7	Investment	31,184	37,466	54,596	82,582	118,313	150,240	206,912	241,694
	(As % of GDP)	12.5	10.4	11.5	13.7	14.9	13.5	12.9	11.0
8	Approved Foreign Investment 2/ (US $ million)	839.7	1,216.90	2569.2	3237.4	60,516	6829.0	6858.5	6905.0
	Number of projects	27	75	130	169	247	303	313	324
	Memorandum item (%)								
9	Savings (GDS)/GDP ratio	12.8	11.6	11.9	13.5	11.6	11.9	12.0	13.0
10	Quasi Money/GDP ratio	7.7	7.1	7.8	9.7	11.1	9.8	10.1	10.6
11	M1/GDP ratio	28.2	23.4	25.2	25.2	26.0	24.4	20.2	18.5
12	CIC/GDP ratio	25.6	21.3	22.9	22.6	23.2	21.2	17.3	14.7
13	Tax Revenue / GDP ratio	5.0	4.7	4.3	3.7	4.0	4.5	3.5	-

1/ Revised Estimate

2/ Actual

Restricted

Restricted

Basic Macro-Economic Data of Myanmar

(Kyats in million unless otherwise mentioned : As of 7 August, 2000)

		1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000 Prov.Act.
A.	Gross Domestic Product	54757	58064	62406	66742	71042	75123	79460	88134
	1. GDP								
	(At 1985/86 Constant Prices)								
	- Agriculture	21029	22009	23483	24765	25698	26480	27417	30296
	- Livestock & Fishery	3990	4182	4435	4567	5109	5472	5984	6989
	- Forestry	896	905	775	740	756	777	802	838
	- Manufacturing and processing	4850	5306	5757	6192	6476	6800	7222	8268
	-Mining	590	655	752	878	964	1210	1365	1855
	-Power	475	591	620	660	745	877	830	947
	-Services	9225	9963	10956	11979	12972	14116	15224	16543
	-Others	13702	14453	15628	16961	18322	19391	20616	22398
	2.Growth rate of G.D.P (Percent)	9.7	6.0	7.5	6.9	6.4	5.7	5.8	10.9
	3. G.D.P. at Current Prices	249395	360321	472774	604729	791980	1119509	1609776	2190301
	4. Per Capita G.D.P (Kyat)	5891	8357	10764	13515	17381	24127	34069	45536
B.	Prices								
	1. Consumer Price Index	369.1	493.0	603.7	735.5	882.8	1182.1	1762.2	1963.5
	2. CPI Changes (Percent)	22.3	33.6	22.5	21.8	20.0	33.9	49.1	11.4 1/
C.	Budget								
	1. Total Revenue	65033	81105	104854	126739	163979	273074	361860	423873
	- Tax Revenue	12563	17036	20101	22644	31357	49429	56653	49920
	2. Total Expenditure	77128	96622	134501	165559	215718	330315	453735	5335998
	3. Budget deficit	-12095	-15517	-29647	-38820	-51739	-57241	-91876	-109725
	4. Budget deficit (% of GDP)	-4.8	-4.3	-6.3	-6.4	-6.5	-5.1	-5.7	-5.0
D.	Money and Credit								
	(annual changes in percent)								
	1. Money Supply	34.6	19.8	41.1	28.1	34.7	32.6	19.4	23.8
	2. Quasi-money (savings)	32.0	33.7	44.9	59.2	49.5	24.6	47.9	42.6
	3.Domestic Credit	26.4	15.6	28.2	44.9	28.7	29.3	21.6	25.6
E.	Balance of Payments								
	1.Goods								
	- Exports (FOB)	3590.0	4249.0	5405.2	5254.5	5496.3	6289.8	6974.8	7633.6
	- Imports(FOB)	-6139.5	-7951.5	-8765.6	-10295.4	-11500.5	-14257.2	-16540.7	-15247.6
	-Trade Balance	-2549.5	-3702.5	-3360.4	-5040.9	-6004.2	-7967.4	-9565.9	-7614.0
	2. Services (Net)	561.4	286.4	522.7	-57.2	855.9	994.0	2782.6	2183.6
	3. Transfers (Net)	1175.6	2271.6	2527.4	3331.6	3344.5	4502.2	3631.7	3403.9
	4. Current Account Balance	-812.5	-1144.5	-310.3	-1766.5	-1803.8	-2471.2	-3151.6	-2026.5
	5. Capital Account (Net)	980.7	901.0	1138.5	1574.3	1181.3	3121.5	3084.1	1451.9
	6. Errors and Omissions	-213.1	103.7	-454.2	-48.0	177.3	-339.2	411.9	312.7
	7. Overall Balance	-44.9	-139.8	374.0	-240.2	-445.2	320.1	344.4	-261.9
	8. Monetary Movement	44.9	139.8	-374.0	240.2	445.2	-320.1	-344.4	261.9
	9.Current A/C Deficit (% of GDP)	0.3	0.3	0.1	0.3	0.2	0.2	0.2	0.1
		4.3	3.1	3.4	2.6	1.8	1.8	1.8	1.7
F.	Gross Reserves								
	(month of Imports)								

1/ Revised Estimate

December 4, 2000

Myanmar's Macroeconomic Issues and Priority Measures
Presentation Outline

H. Shishido

1. Introduction

Myanmar is endowed with favorable human and natural resources and potential for achieving high and sustained growth is significant.

To unleash the potential, the government needs to take policies to increase incentives of domestic and foreign investors to voluntarily place resources in Myanmar. These policies include, among others, conservative fiscal and monetary policy, a unified exchange rate system that leaves no room for rent seeking activities, a clear and transparent investment climate, a level playing field for the public and private entities, and establishment of a sound banking system.

But economic policies taken so far have prevented the economy's potential from being realized.

2. Fiscal and Monetary Policy Issues

On the macroeconomic policies, the foremost concern is extremely limited fiscal revenues of around 2-3 percent of GDP. There are a number of reasons for this poor performance including weak tax and customs administration, widespread granting of exemptions and the use of an appreciated exchange rate for customs valuation. The current level of revenues is inadequate for any economy but especially for Myanmar, which has huge needs for spending for alleviating poverty and investing in productive infrastructure, the small size of revenues is a serious problem.

The fiscal picture is exacerbated by the large losses made by the SEE sector, which are in fact much larger than the Union government deficit. The system of the State Fund Account provides SEE managers with no incentive to perform, as they do not get rewarded for running profitable enterprises. At the same time, managers get no penalty for making losses. Most SEEs use the official exchange rate, 60 times more appreciated than the FEC rate, in their external transactions further reducing transparency of the accounts of these enterprises. The dual exchange rates also increase rent seeking activities in the economy and are highly counterproductive.

The fiscal deficit is largely financed by the Central Bank of Myanmar. This exposes the economy to inflationary pressure, and deprives CMB of ability to conduct effective monetary policy.

3. Necessary Measures in the Immediate Future

In this situation, steps should be taken to unify the exchange rates in the very near future. This action not only eliminates huge distortion and rent seeking activities in the economy, but also sends a highly positive signal to domestic as well as foreign investors on the government's commitment to reforms.

On the fiscal front, it is urgently needed to raise fiscal revenues. A measure expected to be effective immediately in this regard is the use of the FEC rate for customs' import valuation. Tax and tariff exemptions should also be substantially reduced.

In addition, a crucial action is to harden the budget constraint faced by individual SEEs while granting management autonomy to SEE managers who should now be accountable for their performance

To mobilize domestic savings and to reduce monetization of the budget deficit, it is necessary that above fiscal measures be complemented by interest rates that are kept positive in real terms in a forward looking basis.

Furthermore, to sustain growth in the medium term future, measures are needed to improve the banking sector. Only a sound banking sector can intermediate financial resources efficiently and maintain investment flows into productive sectors. The first step in this regard is to assess the financial health of the commercial banks, and address problems of the portfolio quality and underlying management practices. The government in any case should cease to impose quasi fiscal activities on the banking sector. These steps are discussed more fully by Mr. Fukui but let me just say the earlier decisive action is taken the better the outcome would be.

4. Time-tested reform strategy

These measures set out above are crucial at this stage of Myanmar's reform. They may appear difficult especially as the country's foreign reserve is limited. But the experience of the three Indochinese transition economies (Vietnam, Laos, and Cambodia) indicates that these reforms are doable and have indeed turned these countries around in a very short period of time.

These three countries suffered from major fiscal imbalances in the late 1980s. This was the time when foreign aid from the former Soviet Union was dwindling and these economies as a result resorted to monetization of the budget deficit. This immediately raised inflation to triple digit causing a significant flight to the parallel market.

Policy makers in these economies thus realized that strong action needs to be taken despite limited international reserves, limited or no foreign assistance and limited tax base. At about the same time (between 1989-1992) they all carried out a similar reform package comprising at least three strong measures. Namely, they:

1. Unified multiple exchange rate and maintained flexible management of the official rate based on the movement of the market rate;

2. Increased the domestic interest rate drastically to increase resources channeled into domestic banking.

3. Hardened the budget constraint of state enterprises by eliminating subsidies and making bank credit available only to profitable enterprises while providing state enterprise managers with significant management autonomy.

Other policy measures were also taken but these three measures were the core of the *initial* reform package. These reform measures became the basis for the high growth of the early 1990s especially in Laos and Vietnam.

4. Conclusion

The road map before you reflects our thinking described above. We believe that actions in line with this road map will help Myanmar achieve its economic goal of higher growth and better living standard for the people of Myanmar. We look forward to listening to the comments on the road map of the Myanmar members represented here. In any case, it is hoped that important measures start to be taken soon to realize the huge economic potential of the country of Myanmar based on the discussions being carried out here.

December 4, 2000

Memorandum on Areas to be Tackled in the Myanmar Financial Sector

Ryu Fukui
Deputy Director General
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Development Bank of Japan

Summary

1. Macroeconomic stability and establishment of CBM autonomy
2. Evaluation of bank management and enhanced supervision of CBM
3. Planning banking reform and liberalization policy
4. Modernization of bank management practices through capacity building of financial experts and participation of foreign banks
5. Improvement of the basic functions of commercial banks to earn the trust of the private sector
6. Efficient resource allocation through improved credit analysis and monitoring capacities
7. Transferal of state-owned enterprise projects to corporate management
8. Clear definition of policy lending as separated from commercial banking
9. Development of term lending functions

Appendices

1. Financial environment of agriculture-related sectors
2. "*Development banking*": a case of MIDB
3. SME financing and policy considerations

1. **Macroeconomic stability: increasing real interest rates through the reduction of fiscal deficits, and regaining currency confidence**

- It is evident that macroeconomic stability is needed to induce domestic savings and robust development of the financial sector. Inflation, caused principally by fiscal deficits totaling 6–7% of GDP, is experiencing a slight downturn, but shows no sign of normalizing. According to government figures, the Consumer Price Index (CPI) fell sharply from 49% in 1998 to 19% in 1999, although there have been claims that this is largely due to a change in the evaluation method (an expansion in urban coverage and change to the commodity price basket), and there are question marks as to how representative this is of the economy.[1] Additionally, the government would appear to be keeping commodity prices down artificially through heavy-handed industry "guidance" (price control), and inflationary pressure is thought to be as strong as ever in practice.
- Interest rates, on the other hand, are governed by a cap of 15% on loans and 10% on savings (in place from April 1999). As a result of effective interest rates being negative, while the number of savings accounts continues to rise centering around private banks, the level of increase is coming down. Principal reasons for the increases in savings accounts are growing numbers of bank customers (low-scale savings) and the fact that there are few other investment or financial savings options open to customers in Myanmar (commodities and capital markets do not exist).
- The financial intermediary functionality of Myanmar banks is as limited as ever (there has been no significant change in the M2:GDP ratio since 1988, and it is lower than in neighboring countries; additionally, there is a high proportion of currency in circulation within M2, at around 60%)
- According to a World Bank report (June 1999), previous growth in credit centering around private sector banks has abated, with the level of diminishment greater than that for savings. As a result, hyper-liquidity has been accentuated, due to factors including a drop off in investment opportunities due to a soured business climate, and a lack of access to medium- and long-term loans
- Given a real interest rate in the red, medium- to long-term growth in the banking sector is inconceivable. There is little hope of large-scale foreign capital entering Myanmar given the current political climate, and interest rates must be put back in the black for domestic funds—currently being channeled off into informal finance in the form of material assets (electrical goods, cars, etc.)—to be stimulated to any degree
- For a fundamental resolution of the problem to take place, inflation must be pegged back by reducing fiscal debt. Only once inflation levels have dwindled will confidence in the local currency recovery. For this purpose, reform of stated-owned enterprises—the main cause of fiscal deficits—must take place. Inflation will also not be restrained unless the central bank reigns in

[1] In local interviews carried out in May–June 2000, many learned sources claimed that present inflation was 30–50% in reality.

debt-ridden public finances (i.e. increases the money supply). As pointed out by a number of analysts, the autonomy of monetary policy at the Central Bank of Myanmar (CBM) will continue to be a key issue in this respect.

PROPOSED AREAS TO BE TACKLED:

- Macroeconomic stability is essential for the medium- to long-term growth of the financial sector, in the achievement of which, reduction in fiscal deficits through reform of state-owned enterprises and autonomous monetary policy at the central bank are key issues.

2. *Evaluation of bank management and improved supervision by CBM*

- Myanmar's Central Bank Law gives CBM the authority to supervise. It also provides the foundation for the central bank to promote sound banking principles within the circles of banks with domestic operations, in the hopes of achieving sound bank administration and a stable banking sector. Each bank is obliged to periodically provide the central bank with annual reports as well as details of soundness indicators, based on which CBM carries out on-site audits.
- The central bank has only assumed supervisory responsibilities with the move toward a market economy, and is relatively inexperienced in this area. The supervision functionality of the central bank is less than perfect, given the range of problems that have arisen in the banking, including the increase in bad loans in 1997 (of over 10% to the end of 1997), and a fall in savings deposits until 1998. CBM thus still has work to do in generating an adequate corporate monitoring structure and general expertise.
- The Myanmar Economic Bank (MEB), Myanmar's largest bank with over half of all savings deposits, has posted a string of losses in the past (1,952 million kyat in 1997 and 568 million kyat in 1998), and despite finally hitting the black in 1999 (with profits of 853 million kyat), its fiscal structure is extremely weak (with an in-house capital ratio of only around 2% at the end of March 1999, not including miscellaneous public funds and locally settled accounts), and is buoyed up by low savings interest rates attributable to financial regulation. Additionally, loans with a non-performance record of 6 months or longer account for as much as 28% of the whole (based on an interview with MEB executives). MEB is in a dire position, pointing to a desperate need for supervision expertise furtherance on the part of the central bank.
- Including other state-owned banks, little is known on their accounting, achievements, and overall business operations, due to the limited disclosure of information. As regards private banks, "*public*" entities are only a few: most of their financial statements remain unavailable to anyone outside.
- To strengthen bank supervision capacities, fundamental are the developed accounting standard and

prudential regulations on bank management. For example, monitoring non-performing loans is only possible with developed classification on the quality of financial assets at banks.

- Furthermore, the right use of prudential regulations should be in place. CBM capacities in analysis and inspection of bank management are to be strengthened.

PROPOSED AREAS TO BE TACKLED:

The quality of assets as well as overall management of banks is to be assessed.
Development of financial infrastructure, such as accounting standards and prudential regulations on bank management, is indispensable.
Analytical and supervisory function capabilities at CBM are to be enhanced.

3. *Planning on the banking reform and liberalization policy*

- Although some measures have been taken in the financial/monetary areas after 1988 (Central Bank Law, establishment of government financial institutions, saving mobilization policies, etc.), the banking sector functions did not change substantially and its financial intermediation is not effective yet.
- The progress of financial deregulation is currently at a standstill and verging on regression. The first basic joint venture agreements between domestic banks and foreign banks with local offices in Myanmar (established in line with the Myanmar Financial Institution Law), were signed in May 1996 (a total of three agreements were signed, including one between Fuji Bank and Yoma Bank), only for financial authorities to refuse approval of the projects. Similarly, foreign exchange agreements were provisionally approved for 2 state-owned and 9 private banks, only for all 9 private sector bank agreements to be revoked in March 1998, leaving only the state-owned banks (MICB and MFTB) with foreign currency involvement. This was caused by shortages of foreign currency, but went against the general flow of reform.
- In this manner, the heading of financial sector reform is unpredictable at best, producing a range of ill effects. This has been a factor in foreign banks opting out of Myanmar or downsizing operations, and also decreasing direct investment.
- Reform authorities must provide a clear indication of their preparedness and further create and expose a planning the reform agenda of the banking sector.

PROPOSED AREAS TO BE TACKLED:

✓ By the lead of CBM, a reform agenda to address constraints and problems surrounding the banking sector should be established.

✓ Liberalization of joint-venture establishment with foreign banks should proceed and private banks should be involved in dealing with foreign exchange.

4. *Modernization of bank management practices through the fosterage of specialists and participation of foreign banks*

- Corporate technology and automation are noticeably lacking at Myanmar banks. First, the executive of most banks is made up of former military personnel and central bank employees from the mono-bank era, and modern bank management know-how is barely trickling into Myanmar due to the obstacles on foreign bank participation in the local banking sector.
- There has been no progress on the automation front at all other than a handful of banks, with state-owned banks particularly lax in their modernization efforts. According to the Center for Finance Industry Information Systems in Japan (FISC), which conducted a financial information systems seminar for the financial sector in Yangon in February 2000, even MFTB and MICB, the most technologically advanced of the state-owned banks, own only a handful of stand-alone PCs, and have no Local Area Network (LAN). Most banks operate around a manual office system, based on hard-copy materials and faxes.
- Of the private sector banks, only the Mayflower Bank has set up ATMs (a total of 13 of what are essentially cash dispensers, with only withdrawal and account balance functionality), and banks including the Myanmar Citizens Bank have an account-linked LAN.
- Technical transfer from foreign banks is essential for the modernization of bank management practices. For this purpose also, the incremental realization of market participation by foreign banks (permission to establish joint venture banks, etc) is desirable.

PROPOSED AREAS TO BE TACKLED:

Clear description should be made of the sequence of market participation by foreign banks, as part of the financial sector reform.

Bank administrative reform and modernization should be planned, e.g., awareness raising seminars on banking procedures, surveying the banking sector and forming plans for the future, dispatch of specialists, agenda to set up automation, etc.

5. *Improvement of the basic functions of commercial banks to earn the trust of the private sector*

- In tandem with lags in automation, basic transfer and account settlement services are lacking at commercial banks, and cash-based transactions are still very much in the main. A select few banks are encouraging customers to use checks, but even here, only well-off customers have check access and opportunities for their use are limited (resulting in low levels of check misdealing). Banks including the Mayflower Bank, Myanmar Citizen's Bank and Yoma Bank are issuing credit cards. These three banks have an account-linked client–server system up and running, but this is supplemented by hand checking, and some branches are not networked together.

- Fund transfers between financial institutions is carried out via fax transmissions of payment instructions and customer data, in the case of inter-bank exchange, inter-branch exchange and deposits at branches other than where the account is held. There is little handling of inter-bank exchange, but the 5 principal private banks have signed an agreement to facilitate such transactions, and on occasion do carry out domestic exchanges.
- Fund transfer/account settlement services as detailed above are based on highly outdated procedures in the case of state-owned banks (it is not possible to make deposits at branches other than where the account is held, etc)
- Foreign currency settlement through MFTB and MICB, which have exclusive control over foreign currency dealings at present, must without exception receive approval from high-ranking government officials to go ahead, presenting difficulties for foreign companies due to the time taken in this (in determining the order of priority in which transactions should be processed, and in general paperwork). As such, it is an everyday occurrence to not be able to get access to L/C or even if access is possible, for transactions to not be completed according to schedule, hindering trade and investment.
- These factors have undermined corporate and individual-level confidence in the banking sector (only 5% of all households hold a bank account), creating a vicious circle of people avoiding the use of banks, and financial deepening therefore not eventuating
- Direct causes of the underdeveloped nature of finance information systems, are unreliable power supplies and setbacks in the development of communication infrastructure, with perhaps the most basic cause being insufficient financial trading volume (deposits, transfers, account settlements, etc) to attract investment in information systems. In order to resolve this situation and gain the confidence of the Myanmar public, a range of restrictions must be removed, the scope of operations of private sector banks expanded, discrimination of private sector and state-owned banks removed, general provision made of conditions conducive to bank operational growth, and enhancement of services. At the same time, short-term financial markets must be developed and allowed to grow (at present, deposits between banks are treated in the same manner as personal accounts, and for core trading, there are no brokers and trading is on a relative basis). Here again, the fosterage of specialists (technical experts) is required in order to develop financial infrastructure

PROPOSED AREAS TO BE TACKLED:

Provision of an equal footing for private sector and state-owned banks, and general easing of restrictions

Determination of plans for the development of account settlement systems and inter-bank networks

6. *The realization of efficient resource allocation through improvement of credit analysis and monitoring functions in the banking sector*

- The scope of medium- and long-term lending within the Myanmar banking sector is extremely limited, with the bulk of loans being over the short-term, that is 12 months or less. As a general trend, practical expertise and experience in evaluating the remuneration capacity of potential borrowers is lacking.
- Most of the participants in the seminar co-conducted by Development Bank of Japan (DBJ) and Japan Economic Research Institute (JERI) in May–June 2000 had knowledge of the composition and details of profit/loss statements and loan statements, and yet lacked experience at full-on corporate credit analysis using a range of financial document types, and had little or no experience with decision making in relation to loans and debt management through analysis of debt ratios and estimation of the term of investment return. The principal reason for this is that loan evaluation in Myanmar hinges around the presence of collateral, and bank credit analysis skills are generally lacking. Additionally, in dealing exclusively with short-term loans, there is no accumulation of monitoring know-how during the duration of the loan or of recovery measures in the case of a non-performing loan.
- In the questionnaire distributed immediately after the DBJ–JERI seminar, participants indicated that their knowledge levels prior to the seminar were "very low" (a score of 1.6–1.9 on a scale of 5[2]) for the items of financial analysis, corporate evaluation, investment evaluation, debt management and corporate monitoring.
- As mentioned above, the ratio of non-performing loans is relatively high in the banking sector (28% at MEB), and the enhancement of credit analysis and monitoring skills is a pressing issue for the future. For this purpose, credit analysis staff at state-owned, semi-government and key private banks should be trained periodically and managers be made more aware of the issues involved.
- CBM, on the other hand, should lead a plan to establish a training/education center for bank staff, and consider developing seminar organization services over a variety of sectors.

PROPOSED AREAS TO BE TACKLED:

Training courses/seminars on credit analysis and monitoring methods should be organized periodically.

A training center for bank staff should be established by the lead of the central bank.

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2 In order to gauge the effectiveness of the seminar, participants were asked to numerically rate their knowledge levels on a scale of 5=highly knowledgeable to 1=no knowledge whatsoever.

7. Transferal of state-owned enterprise projects to corporate management

- The relative weighting of state-owned enterprises in Myanmar (around 60 companies under the direction of 18 ministries) is gradually diminishing with the move across to a market economy, but their economic impact is still felt keenly, as they account for over 20% of the GDP. In 1995, the government formed a privatization committee and embarked upon a course of reform for state-owned enterprises, but to date this has eventuated in only a single sale, as well as industry link-ups and joint ventures with private companies. No general administrative reform or full-scale sale of public companies has taken place, and neither have the burgeoning debts of state-owned enterprises been brought under control.
- Since 1989, the finances of state-owned enterprises have been integrated together into a single state fund account (SFA) into which all revenue is pooled, and from which all expenditure is made. As a result, the companies are fiscally "cocooned" and at the same time are unable to individually accumulate retained earnings. Additionally, the characteristic traits of state-owned enterprises are evident in Myanmar, including a weak sense of administrative autonomy (political intervention), a general lack of willingness to come together to better the company, and a lack of managerial resources. Many state-owned enterprises in Myanmar are considered to be extensions of their controlling ministry, and completely lack autonomy. In any future reform of public companies, what are clearly unprofitable interests should be liquidated, and corporate governance ingrained.
- Such measures are vital options at times when rapid privatization is difficult for political reasons. By transferring across to a highly accountable corporate management structure, the size of financial burden the company is placing on public accounts becomes evident, opening up the possibility of transferal from fiscal to private finance for sectors which can be supported by financial means (high quality projects).

PROPOSED AREAS TO BE TACKLED:

> The government should consider separating state-owned enterprises from public finances through the introduction of corporate governance, as part of the state-owned enterprise reform process.

8. Clear definition of policy lending as separated from commercial banking

- Apart from state-owned enterprise projects, the Myanmar Economic Bank (MEB) is financing private sector investment in infrastructure projects including roads, bridges and communications. Almost all of the customers of the Myanmar Investment and Commerce Bank (MICB) are SMEs, and there is little financing of large-scale projects. Of MEB's loan balance of 64 bn kyat (current at the end of March 1999), loans targeted at private sector infrastructure projects account for around 10%. MEB offers loans at a modest interest rate of 11%, and is backed by government guarantees. The loan procedure starts with a big project being approved by the government, the news of which finds its way to MEB without any official government notification of directive. Later, companies approach MEB for loans, in response to which MEB carries out a feasibility study. Policy-based loans tend to be large, and individual loans in excess of 5 million kyat must be approved by the Finance Ministry (appraisal is made by a credit committee composed of executive members of organizations such as the Finance Ministry, central bank, Myanmar Economic Bank and Myanmar Investment and Commerce Bank).

- One point to come out of interviews with MEB was that there is no clear defining line dividing projects which benefit from policy-based loans and those which do not, out of those of the type described above. At the very least, MEB does not have a clear understanding of the loan evaluation process. Loan evaluation is thought to operate along sector-specific lines for infrastructure-related development, but no one could provide a clear explanation of just where the dividing line was for "related investment" in the application of low-interest government-guaranteed loans.
- From the above we can infer that, assuming that some hidden rationale is at play, the government stipulates target items for low-interest loans on a sector-specific basis, and MEB then evaluates only the viability of each target item project, and has absolutely no say in the appropriateness of the project for low-interest loans. However, if this is true and MEB evaluates only projects that are deemed appropriate for loans by the government, then there is little incentive to carry out thorough financial evaluation of the viability of that project. This procedure encompasses the potential for political bias in the project selection process, or at the very least presents a moral hazard.
- Thus, the separation of financial activities with policy considerations from commercial banking activities should take place, and to do so, *policy lending* needs to be clearly defined. In this area, lessons can be learned from the experiences of China from 1994 onward, where state-owned enterprises were gradually reformed and the financial sector restructured through such means as the separation of policy-lending from state-owned commercial banks and the establishment of independent policy-based finance institutions. Viet Nam is currently following the similar evolutionary path as China.
- The ratio of non-performing loans at MEB at the end of March 1999 was as high as 28%, including housing loans (based on discussions with executives, where a non-performing loan is defined to be in arrears by at least 6 months). All loans are "government guaranteed" and it is unclear whether other loans had been non-performing in the past. What we can say, however, is that ambiguity in the scope of "policy-based finance" of the type detailed above is leading to non-performing loans, which eventually puts pressure on public finances and further upsets the financial equilibrium.

PROPOSED AREAS TO BE TACKLED:

Policy lending needs to be defined clearly, and further separated from commercial banking activities. The lessons from experiences of other Asian countries undergoing transition to market economies should be sought.

9. Development of term lending functions

- As was described in the above 6, the scope of term lending within corporate finance is extremely limited in Myanmar, which is a hampering factor for capital investment in the private sector. Myanmar banks are not carrying out the "maturity transformation (from deposits to loans)" function almost at all.
- Generally saying, in the early stage of a country's development, indirect finance (banks) plays a more important role than direct finance (stock market) and this looks more true in Myanmar. First, per capita saving are very small and thus safer assets (deposits) are preferred to risky assets (stocks). As the infrastructure to develop stock markets, the establishment of good accounting systems and disclosure of corporate information are fundamental, but they are yet lagging behind even compared to other countries in transition to market economies. Thus, the problem of asymmetric information is serious; banks are expected to play the main financial intermediary function than stock markets.
- This does not say that the efforts to develop stock markets are useless. One of problems at banking system is its vulnerability to political intervention, which might end up with misallocation of resources. On the other hand, a stock market can bring market discipline into the corporate sector as well as the financial sector. However, the over-expectation to a stock market in its financial intermediary function would only harm the appropriate sequencing of the overall financial sector development.
- To promote development of term lending functions at banks, the financial resources should be stable and not be too liquid. Financial products of deposits are to be attractive including term deposits, based on the trust to banks from individuals and corporations. In addition, fixed-term financial resources are needed to refrain from mismatching maturities on deposits and loans. On the application side of funds, banks should be competent to select viable projects from non-viable ones, with the loan decision-making primarily based on credit analysis (not collateral-based). Investment opportunities should be many for bankers and information on investment as well as corporate sector is to be more accessible.
- To achieve these conditions, macroeconomic stability, good business environment, sufficient financial infrastructure, efficient and competent banking management, and resource mobilization to provide stable funds are indispensable.

PROPOSED AREAS TO BE TACKLED:

Banks should play the major role in financial intermediation and term financing. Over-expectation concerning the stock market would be harmful.

Macroeconomic stability, good business environment, access to corporate information, developed capacity in credit analysis, and resource mobilization to provide stable funds are key factors to develop term-lending functions at banks.

Appendix

Apart from the summarized items from 1 to 9 in the above, the following areas are also worth further investigation among the financial sector issues. The first issue refers to the finance to agriculture-related sectors and/or rural areas, which constitute a significant weight of Myanmar economy. The second issue is on functionalities of banks, either governmental or semi-governmental, that were established with implications to pursue a certain policy objective. Appendix-2 only deals with Myanmar Industrial Development Bank (while Appendix-1 includes the status of Myanmar Agriculture Development Bank). The third issue is on SME (small and medium enterprise) finance and policy considerations, since private sector development is an engine for growth and small economic players are most vulnerable to environmental difficulties.

Appendix-1. Finance for the agriculture-related sectors

- Finance for the agricultural sector, which accounts for 50% of the GDP, is a significant issue. Despite agriculture being a key export sector, there has been stagnation of productivity levels and a diminishment in product quality. In order to rectify this, increased levels of fertilizer use and automation are essential, for which purpose agricultural finance is required.
- The only formal financial institution in the agricultural sector is the 100% government financed Myanmar Agricultural Development Bank (MADB). MADB is a retail bank aimed at farmers, and was established in 1953. During the mono-bank (people's bank) era from 1970–1975, MADB existed as the Agricultural Finance Division, but was redefined as the Myanmar Agricultural Bank in 1976, before being renamed the Myanmar Agricultural and Rural Development Bank in 1990, and finally becoming the Myanmar Agricultural Development Bank in 1997. MADB operates under the MADB Law, and has been under the control of the Ministry of Agriculture and Irrigation since 1996.
- MADB offers seasonal loans, term loans and area development loans, and has no collateral requirements (land cannot be used as collateral as it is owned by the state)
- MADB started a savings deposit system in 1993 under the "agricultural savings encouragement scheme" (allowing farmers to borrow amounts up to a few times greater than their savings), which has seen only very limited utilization (savings deposits account for 1.2% of bank finances)
- MADB's customer base is Myanmar's roughly 1.5 million farmers. Seasonal loans are offered for up to one year, but generally paid back after 3–4 months at harvest time. Loans account for 90% of the MADB portfolio. The maximum loan period is 5 years. Interest is charged at 15%. Legally, it is possible to charge more than 15%, but MADB has opted to abide with the rules laid out by the central bank for financial institutions.
- Area development loans are special government loans for ethnic minorities living in remote areas

of Myanmar, offered at a reduced rate of 1%. The total outlay for area development loans is extremely small, however.

- At the time of its inception in 1953, MADB offered loans through village banks (over 12,000 throughout the country), but in 1998 started the transition across to offering loans directly to farmer cooperatives, a process which is now complete. There are around 300,000 farmer cooperatives in the whole of Myanmar. Whereas village banks used to cater to 50–200 farmers, farmer cooperatives are made up of 5–10 people, who act as joint guarantors for one another. The objective behind the shift from village banks to farmer cooperatives is to attempt to economize by having farmer cooperatives approach MADB branches (with the old system, each branch was in charge of administering the village banks under its jurisdiction).
- MADB has 212 branches throughout the country (with 15–20 employees per branch). Loans are around 10,000–15,000 kyat in size and are used to purchase fertilizer or pesticide.
- As MADB has only limited savings resources, it borrows money for seasonal loans from the central bank at 10% (and is subject to a central bank audit in the process), whereas long-term loans are offered out of in-house funds. The bank has never recorded a loss, and 25% of profits are kept as reserves (the remaining 75% is paid into government coffers).
- The ratio of non-performing loans is 0.1% (where a non-performing loan is defined as being in arrears by 1 month or more)
- According to MADB, seasonal loans cover around 30% of farmers' costs, with any additional capital coming from informal finance. As detailed above, the savings system is only of very limited size at present, as organized finance is still generally a novel concept to farmers.
- There is no organized finance for the agriculture-related service or processing industries, that is the merchants, transport companies and agricultural product processors that deal with agricultural products sold publicly. For such industries, informal finance must be relied upon. Little is known about informal finance in Myanmar's rural areas, and a study should be carried out urgently. Given the vital importance of the agricultural industry to Myanmar, finance contributing to streamlining distribution operations and promoting the processing industry is essential and not just loans for farmers.
- In rural areas in many developing countries, the formal banking sector plays the role of providing fund transfer functionality and basic financial services in key regions. For remote areas, however, financial services and petty loans are in the greater part economically inefficient. As a result, much emphasis is placed on micro-finance methods (for both savings and loans) founded on the community sharing of credit information. Mediators of micro-finance can take many forms, ranging from cooperatives, mutual aid organizations and industry organizations, to NGOs and donor support projects. In order to determine which of these mediums is appropriate in Myanmar's case, research is needed into naturally occurring forms of informal finance to ascertain the form of

micro-finance that is best suited to Myanmar's historical and social climate. Once the best form of micro-finance has been determined, its details should be included in the grand design of how the rural finance system should be.

- Items of note to come from MADB's long history of operation, are that a village bank system was implemented and operated with reasonable success for some time, and farming communities provide high quality credit information, as can be seen from the high levels of loan return. It would be of benefit to investigate how things have changed with the abolition of socialism and how things are functioning at present in light of the transition across to a market economy, and link the findings up to a series of policy recommendations

POLICY ISSUES:

Groups such as the Ministry of Agriculture and Irrigation, Ministry of Finance, CBM, and Industry Ministry should cooperate to ascertain the nature of agricultural finance and use the findings to formulate policy measures.

Financial conditions in rural areas should be investigated, and possibilities for fortification of organized finance and introduction of micro-finance considered, based on the successes and failures of foreign countries.

"Formalizing" informal assets at households or the informal sector is a key to mobilizing domestic resources in Myanmar.

Appendix-2 "Development Banking": a case of MIDB

- The Myanmar Industry Development Committee (MIDC) was established in 1995 as a framework for industry furtherance support at the government level. MIDC is made up from representatives from 15 ministries and government agencies; the current chairman and vice chairman are the First Minister of Industry and Second Minister of Industry, respectively. MIDC governs over a working group, which in turn presides over 9 sub-committees. The working group is made up solely of bureaucrats, but there are representatives of the private sector on the different sub-committees.
- Each sub-committee meets once a month, and while there is no public disclosure of what is debated, there is no evidence that sub-committee recommended policy coordination across ministries.
- The issues surrounding financial environment have not been well located as a necessary factor of industrial development. Based on interviews with the First and Second Ministries of Industry, finance is considered to be under the exclusive control of the central bank and Ministry of Finance and Revenue, and there seems to be minimal awareness of the issues surrounding financial conditions and little interest in making input to policy recommendations with respect to financial conditions. In meetings with the MIDC working committee executive (Second Ministry of

Industry) financial conditions are always pointed out as a problem area. That is, identification of problem areas and discussion of policy are worthy of inclusion in lateral links between ministries and government agencies (other than MIDC, no cross-sector organizations presently exist), and the restipulation of the role of MIDC is required to make full use of it as a device for furtherance.

- The Myanmar Industry Development Bank (MIDB) was established under the control of MIDC in 1996, as a specialist vehicle for providing medium- and long-term loans to industry. MIDB is essentially a private-sector bank, as its principal shareholder is a public service welfare association (70%) and it funds the private sector, but for the following reasons, it is treated as a semi-government bank: (1) it was originally founded under the auspices of the MIDC; (2) the leading executive officer and head of the auditing committee are originally from the First and Second Ministries of Industry, respectively; (3) MIDC determines MIDB's finance guidelines; and (4) the bank reports to the MIDC working group with respect to loan performance.
- The MIDB finance guidelines cover: (1) export-promotional industries, (2) import-substitution industries, (3) new machinery, and (4) new technologies and the mechanization of agriculture. It also has the jurisdiction to and does provide loans to other sectors, except that it is banned from involvement with products such as alcohol, tobacco and soft drinks (the last of which is in a state of oversupply). For the four priority sectors even, no individual finance objectives are stipulated, and no directives are forthcoming from MIDC when reporting on loan performance.
- The most focused policy assistance is in the form of investment in private companies in the 18 "industry zones" found throughout the country. MIDB offers a reduced interest rate of 13% on investment in industry zones, as compared to the ceiling rate of 15%. Of the total loan balance, around 18% is in industry zones (with loans tending to be over the medium term, that is 2–3 years).
- MIDB has total capital of around 4 bn kyat, a loan balance of 2 bn kyat, deposits of 2.5 bn kyat, and a total of 140 staff in two branches. The company has never recorded a loss, and has relatively sound finances despite its small size, posting a 1999 profit of 1.65 mi kyat, with dividends of 16% in 1998 and an expected 11.7% for 1999, and having capital accounts of around 1.2 bn kyat. According to an MIDB executive, MIDB has the right to refuse to finance an item recommended by MIDC, and that this right had been exercised in the past.
- As detailed above, MIDB has the right format in the sense that it is contributing to industrial development as a financial institution genuinely displaced from public accounts. Having said this, its size is small (it holds a 0.9% of the total savings deposits for Myanmar), and about the only area in which its loan activities are integrated with policy assistance at the government level, is related to industry zones, and the ratio of medium- and long-term loans is low. Additionally, in interviews with the private sector, there were claims that MIDB is both as bureaucratic and as conservative with its loans as any of the other state-owned banks. If this is indeed the case, then it

simply represents a state-owned bank offering "slightly lower interest rates", and is far from fulfilling a "pump priming role" in remedying shortfalls in levels of medium- and long-term loans to the private sector.

POLICY ISSUES:

- Bodies which should straddle the private and public sectors, most likely within MIDC, should identify problems with financial conditions and make recommendations on measures to improve the financial environment and services which contribute to industrial development.

Appendix-3 SME finance and policy considerations

- One area in which Myanmar differs from other countries transitioning across to a market economy, is that the relative weighting of private sector economic activities in the national economy is high. Private economies account for around 75% of the GDP, or an estimated 85% when the service and commercial sectors are factored out of calculations.[3] The private sector owns 96% of plants and workshops, almost all of which have a staff of 10 workers or less.[4]
- Consequently, furtherance and growth of SMEs residing in the private sector can be seen as a key element in future economic growth. At present, however, there is no SME Basic Law or similar legal apparatus, and support for the development of SMEs is severely lacking.
- As described above, there is very little scope for credit creation with current corporate financing, and companies must put up with banks being prepared to loan up to only 30% of the evaluated value of collateral (with after-acquired collateral generally excluded from calculations), irrespective of the company's financial record, and there is no doubt that private SMEs are in the hardest position of all.
- In order to develop an adequate financial environment, SME furtherance should be positioned alongside production/administrative technical assistance, marketing assistance and personnel development assistance, as a mainstay of government policy. In weighing up the merits of the future introduction of SME financing, consideration should be made of the following factors: (a) There have been significant global moves to share experiences in this area (e.g. the World Bank). The successes and failures of SME furtherance in East Asian and other regions should be analyzed and put to good effect locally; (b) Public subsidization systems/frameworks are most effective when coupled with development of a private finance system, and experience teaches us that the

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[3] Based on the findings of U Myint Aung, International Relations Dept., Myanmar Chamber of Commerce and Industry (based on data published by the Ministry of Planning and Economic Development for 1996/1997)

[4] As above (based on data published by the Ministry of Planning and Economic Development for 1996/1997)

development of public assistance works well to complement the intermediary functionality of the private finance sector. A strategy is needed which shadows the development of the private finance sector; (c) The various means of specialist SME financial institution furtherance, direct and indirect loans, credit guarantees and additional security (including insurance), credit allocation (SME finance ratio guidance), and so on that exist, should be studied to determine the relative strengths and weaknesses of each, and determination made of a grand design and sequencing necessary at present in Myanmar; (d) Ways of keeping subsidization at a level that does not obstruct loan repayment regulations; and (e) Linkage with other non-financial SME furtherance policy.

POLICY ISSUES:

- At the same time as establishing an SME basic law and a support body for SME development, recommendations should be made on problem areas in the financial environment and the nature of financial assistance, including medium- and long-term loans.
- Determination should be made of public assistance schemes which shadow the development of the private finance sector.
- The successes and failures of SME furtherance in East Asian and other regions should be analyzed and put to good effect locally.

東京ワークショッププログラム（産業貿易政策小部会）

【日　時】１２月４日（月）
【場　所】ＪＩＣＡ国際協力総合研修所　４Ｆ（４００－Ａ会議室）
【司　会】日本側（佐伯 通産省開発協力審議官）／ミャンマー側（　　）

10:10～10:13　日本側冒頭挨拶（佐伯 通産省開発協力審議官）【３分】

10:13～10:16　ミャンマー側挨拶（　）　【３分】

10:20～10:50　日本側プレゼンテーション（江橋部会長）　【３０分】
調査フレームワークの日本側案を説明する

10:50～11:20　ミャンマー側プレゼンテーション（　）　【３０分】
調査フレームワークのミャンマー側案を説明する

11:20～12:00　議論　【４０分】
両国案に基づき、各調査項目の手法・スケジュール等を摺り合わせる

①11:20～11:40　産業ビジョン（江橋）
②11:40～12:00　民間製造業育成（江橋）

12:00～14:00　昼食会　【２時間】

14:00～14:40　議論　【４０分】
両国案に基づき、各調査項目の手法・スケジュール等を摺り合わせる

③14:00～14:20　輸出振興（小倉）
④14:20～14:40　外資導入（小倉）

14:40～15:00　産業·貿易政策小部会とりまとめ　【２０分】
議論を踏まえた調査フレームワークを再確認する

※１５：１０からの各部会プレゼンテーションでは、産業貿易政策小部会（江橋部会長）とＩＴ振興小部会（和島委員）のそれぞれから各２０分づつ報告を行うこととする。

Linkage Effects of Trade/Industrial Policy

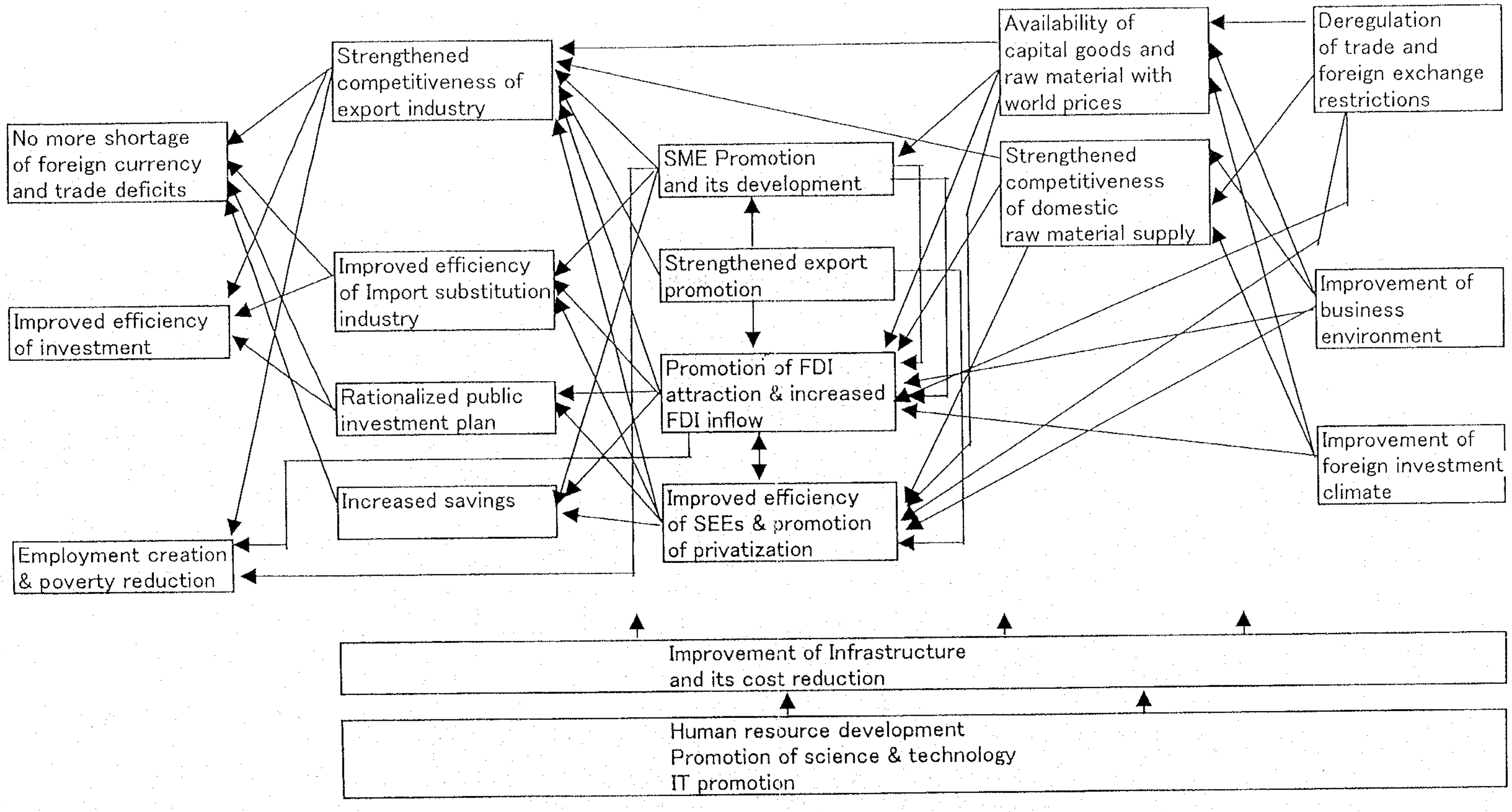

Table 1. Policy Adjustment Package and the Research Plan (Draft): Trade and Industrial Policy

Area of Problems	Policy Options	Concrete Tasks	Specific Study Theme/Policy Measures	Research Activities in the 1st Phase	The Way of Research	Persons in Charge
Misallocation of resources caused by the adoption of inconsistent policies	Formulation of a Industrial Vision and a Development Strategy	1. Formulation of a development strategy and identification of industries with comparative advantage	1. Analysis of the present industrial and trade policies and systems 2. Effect of trade liberation within the AFTA framework 3. Analysis of the present industrial infrastructure and human resources 4. Analysis of capital availability 5. Review of current public investment program 6. Analysis of industrial locations 7. Analysis of trade with ASEAN, China and India 8. Analysis on the prices of traded goods	1-1.Analysis of the present industrial and trade policies and systems 1-2.Analysis of trade with ASEAN, China and India 1-3.Analysis on the prices of traded goods 1-4.Effect of trade liberation within the AFTA framework	Direct interview research and consignment to a research institution in Myanmar	Oguro, Iino U Myat Thein
		2.Upgrading statistics and its publication	1. Upgrading the statistics on business establishment, industrial production, international trade and its disclosure	1-5. Study on the new necessary statistics		Oguro, Iino, U Myat Thein
Under-developed private enterprises (manufacturing)	Development of private manufacturing industry (SME)	1. Improvement of business environment	1. Improvement of laws and legal Institutions on businesses and the transparency of it's application ・Re-organization and simplification of the corporation law ・Revision of laws on registrations (especially on commercial registration and land ・Revision of laws and regulations on investment (Myanmar Citizen's Investment Law, Private Industrial Enterprise Law, Foreign Direct Investments Law and others) ・Revision of laws relating on funds and capital(the Land Law, the Mortgage Law) 2. Securing the level playing field vis-à-vis SEEs 3. Deregulation of various restrictions(such as state controlled trade items export import restrictions and foreign currency restrictions) 4. Efficiency improvement in such administrative services as customs clearance, official permits, tax collection and securing the transparency 5. Unification of foreign exchange rate 6. Improvement of financial climate ・Better access to the domestic and foreign fund ・Improvement of foreign currency settlement system 7. Improvement of Infrastructure 8. Tax reform 9. Revision of accounting standards to comply with international standards 10. Promotion of business-supporting industries (law firms, accounting firms, insurance companies, advertising agencies, research companies, consulting companies and others)	2-1. Identification of business related legal and institutional impediments and recommendation of its reform 2-2 Survey on private manufacturing Industry (sample 400, includes ho and rural industry)	Consignment to the legal experts (both Burmese and Japanese) Consignment to a Japanese consultant and a research company in Myanmar	Ebashi, Kurose U Myat Thein, U Sein Myint Ebashi, Kurose, Takeuchi Nu Nu Yin U Sein Myint
		2.Formulation of SME development policy	1. Formulation of SME and supporting industry development plan 2. Study on the SME Basic Law and the promotion agency for SMEs 3. Establishment of finance system for SMEs(includes Credit Guarantee System) and export industries 4. Strengthening the functions of private Industry associations(such as UMFCCI and Manufacturers Association) 5. Development of industrial zones(with anti-pollution measures) 6. Strengthening the incentives for export and investment 7. Improvement of access to the market information(both domestic and overseas) 8. Strengthening the education for managers and workers 9. Encouragement of the joint ventures with foreign firms	2-3. Formulation of SME and supporting industry development plan	Consignment to a Japanese consultant	Ebashi, Kurose, MITI Nu Nu Yin U Myat Thein Sein Myint
		3. Formulation of master plan on development of promising industries	1. Agro Industry 2. Textile/garment industry 3. Machinery, electric machinery and electronics industry	2-3. Formulation of a master plan on textile /garment industry developm	Consignment to a Japanese consultant	Takeuchi
Under-developed export Industry and chronicle shortages of forehn curren	Formulation of a expor promotion policy and i implementation	1. Formulation of a export promotion policy	1. Formulation of a master plan on export promotion	3-1. Formulation of a master plan on export promotion 3-2. Survey on export industries (includes primary exports) 3-3. Survey of the current policy and institutional framework surrounding export Industries 3-4. Research on the export promotion policy of neighboring countries	Consignment to a Japanese consultant and a research company in Myanmar	Oguro, JETRO U Myat Thein Sein Myint
		2. Deregulation of trade restrictions and the improvement of business environment	1. Gradual deregulation of trade and foreign currency restrictions ・export tax ・Import priority lists A and B ・export ban items and export restriction items ・other non-tariff import restrictions ・state controlled trade system and Items ・regulation of overseas remittance of foreign currencies 2. Establishment of export processing zones (bonded warehouse) 3. Further streamlining of export and import procedures			
		3. Implementation of export promotion measures	1. Establishment of export promotion organization and provision of overseas market information 2. Establishment of export finance system 3. Introduction of export products inspection for quality improvement			
		4. Improvement of infrastructure for exports	1. Installation of facilities for distribution and storage of export primary products			
Insufficient inflow of FDI	Attraction of FDI	1. Deregulation of FDI related restrictions and improvement of business environment	1. Deregulation of trade and foreign currency restrictions 2. Deregulation of foreign remittance restriction 3. Simplification of export import procedures 4 Relaxation of Investment restrictions and simplification of approval procedures (includes the establishment of one stop shop) 5. Permission of capital finance to the foreign firms by the foreign banks 6. Revision of dual pricing system(equal national treatment) 7. Permission of equity holding of Myanmar firms by the foreign firms 8. Improvement of Foreign Investment Law and Industrial Property Law	4-1. Formulation of a master plan for FDI attraction 4-2. Analysis of the impediments for FDI attraction and its causes based on the survey of FDI projects 4-3. Comparison of recent investment climates among ASEAN 4-4. Identification of promising /priority area for FDI attraction and the strategy for inviting such FDI ・Identification of comparative advantage Industry (based on the analysis of prices and productivity)	Consignment to a Japanese consultant Questionnaire survey	Ebashi, Oguro, JETRO Keidanren, U Mung Maung Yi

			9. Establishment of Export Processing Zone or Bonded Warehouse	・Analysis of the impact of tariff and non-tariff barrier ・Analysis of the effect of trade liberalization under AFTA ・Analysis of the impact of international sanctions		
		2. Strengthened investment incentives	1. Extension of equivalent incentives to the ASEAN neighbors			
		3. Improvement of economic statistics and its publication	3. Improvement of economic statistics and its publication			
Inefficiency of SEE operation and its loss making	SEE Reform: Privatization and improvement of management	1. Formulation of a master plan for SEE reform	1. Formulation of a master plan for SEE reform			
		2. Institutional reform	1. Review of the SFA and the feasibility of self-accounting system 2. Separation of ownership and management 3. Revision of the current SEE law 4. Preparation of the Myanmar Corporate Accounting Standards based on the international accounting standards 5. Separation of administrative function of SEEs and promotion of equitization			
		3. Formulation of an efficient management model and its implementation	1. Formulation of a management reform model for its improved efficiency and competitivene 2. Improvement of corporate governance and the promotion of disclosure	5-1 Formulation of a reform model for strengthening its efficient and competitiveness (based on the case study of specific SEEs in pharmaceutical industry and textile)	Consignment to a Japanese consultant	JODC
		4. Equitization and privatization	1. Further promotion of privatization and equitization 2. Further promotion of management lease to the private and encouragement of joint venture 3. Development of stock market			
Weak infrastructure relating lifelines	Improvement of infrastructure	1. Formulation of a master plan for Infrastructu	1. Formulation of a master plan for Infrastructure development			
		2. Improvement of legal & institutional framework	1. Review the current public utility fees and its rating system 2. Preparation of legal arrangements for introducing foreign capital under BOT scheme 3. Introduction of a policy to encourage competition by avoiding monopoly 4. Improvement of management efficiency of SEEs which manage public utility			
		3. Improvement of power sector	1. Local electrification 2. Minimization of distribution loss and its cost reduction 3. Improvement of management and maintenance of existing facilities			
		4. Communication sector	1. Deregulation on the use of facsimiles, e-mail and Internet 2. Cost reduction through introduction of competition policy 3. Improvement of postal services			
		5. Transportation sector	1. Improvement of road and railroad 2. Improvement of port facility			

For the Promotion of Export Industries and Foreign Direct Investment (FDI) within AFTA and WTO Framework (Draft)

Keiichi Oguro, Mitsuhiro Iino (University of Shizuoka)

1 Background

As a developing country and her own historical conditions, Myanmar has many obstacles for economic development. Drastic policy changes are difficult to expect. Thus, realistic and possible policy measures should be investigated.

The major constraint of Myanmar's economy is current account deficits, which causes import restrictions and hampers investment. Developing export industries is a key to improve trade balance.

In line with the developments of private sectors, the role of state-owned enterprises will be decreased. With increased tax revenues, government can compensate the liquidated SOEs. Abolishing dual exchange rate system can be realized.

2 Advantages and Disadvantages of Myanmar's Economy at present

(1)Advantages

(a) Free from the cost penalties of past import substitution industrialization

(b) Relatively small external debt, US$5.88billion at the end of March 1999

(c) Relatively equal income distribution

(d) Net exporter of foods and foodstuffs

(e) Abundant supply of entrepreneurs shown in the past experience

→"Private sector has demonstrated an often remarkable resilience, surviving first through 26 years of socialism and then through the ups and downs of the transition to a market economy. This resourcefulness is one of Myanmar's greatest assets."(WB)

→ Excellent records of technology adaptation

(f) Abundant labors with basic education

(g) Rich mineral resources and sufficient water resource

(h) Good security

(2)Disadvantages

(a) Heavy government interventions and lack of incentives

(b) Underdeveloped infrastructures

(c) Inexperience in many modern industries

(d) International obstacles to trade and investment

3 Principal Object

Developing Myanmar's economy through FDI and the external trade, especially the export-oriented measures.

4 Manifest Direction for Development

(1) Higher and Sustainable Growth Path

(a) Diversified export industries without a prima donna

→Better to avoid heavy dependence on small numbers of industries

→Major players: resources based and labor intensive industries

→Putting emphasis on Export Substitution Industrialization

(b) Establishing Good Expansion Cycle

Export expansion⇒ increased aggregate wage income⇒increased domestic market⇒ demand for goods and services produced by SMEs⇒bigger domestic market and employment

(2) Selected Import Substitution with Strict Requirements

→Possible candidate industries: household goods (home electrical appliances, kitchen-wares, furniture, etc), construction materials (cement, iron bars, etc), motor cycles,

→Strict limitation of protecting periods

(3) Market and Private Enterprise Oriented Measures

(a) Better incentive

(b) Preventive measures to potential rent seekers

5 Investigating Possible Policy Measures for;

(1) Reducing current account deficits through export promotion.

(2) Promoting exports and FDIs through AFTA and WTO framework.

6 Scope of Survey

(1) Case Studies

Export promotion

There are many policy measures for export promotion, which had been developed and implemented by Japanese Government and followed by East Asian countries. Basically, such measures tried to give incentive to export business. Entrepreneurs found better business opportunities in exports.

As the diversification of agricultural export shows in Myanmar, farmers are responding to incentive arisen from overseas demand. The survey is focusing on the necessary policy measures for increasing incentive to Myanmar industries.

Information plays crucial role for export products development. Overseas buyers could be important source of information. Export marketing sometimes is expensive and time-consuming proceeds. The first stage of export promotion is to invite as many visitors from overseas as possible.

The trade training institute seems to be effective, as a Myanmar economist mentioned at the meeting in Yangon, November 2000.

(a) Industrial Survey

Though several industrial sectors should have comparative advantages, they have not realized the their potentialities. Such industries are as follows;

Textile & garments, wooden and rattan furniture, jewelries, food processing industries, etc

First year: Analysis of actual situations among those industries

→visiting factories and collecting survey reports with Myanmar's counterparts

→consultation by Japanese experts in corresponding industries, if possible

Second year: Finding realistic promotion measures in comparison with Thailand

→selecting companies for export promotion program, which is expected to be organized among Japanese and Myanmar's relating institutions.

(b) Policy recommendations

Basing on the selected industrial surveys, necessary policy measures are to be proposed.

FDI

Myanmar had better abide by the rule under AFTA and WTO. Once the protected sectors are established, it is hard to abolish the protection measures. Argument for externalities from import substitution industrialization is still strong. Yet the same externalities can be realized through outward looking industrialization. Contemplating the experience in Asian NIEs and ASEAN member countries, those industries, which are aiming at export production, contributed better for economic development.

Myanmar is requested to understand the fact that bargaining power is in favor of foreign investors' side in export industries. Many countries are competing to attract

such investments, and new comers have to extend better investment opportunities.
In case of export processing industries, the start is usually simple assembling. The tyranny of volumes decides the most of supporting industries. The so called CMP should not be thought little of.

(a) Investment Promotion
There already are several survey results concerning investment climate from foreign investors, which are operating in Myanmar. Investment Law per se seems to be liberal enough compared to neighboring countries. However, actual implementation is different. First year: Collecting information and suggestions from operating investors in order to find the conditions, which move them to increase their investment.

(b) Possibilities for Export Processing Zones and Authorized Bonded Warehouse facilities
Possible effects of exclusive areas in where most of transactions are through US dollars, free from trade regulations, etc.,
Recent survey shows the role of transaction cost exceeds more than expected. The price of raw materials and components includes a lot of transaction costs. Myanmar badly needs airport with international standards, which allows big airplanes to land. Reduction of transaction costs is a crucial key for FDI. Financial facilities, which allow free transactions of foreign currencies, also are needed.
Legal aspects of special facilities needed in EPZ should be reviewed. Myanmar counterparts are requested to contemplate the existing regulations and possibility.

(c) Policy recommendations

(2) Basic Surveys
A. Overall analysis
The task in the first year: Analysis of the present trade and FDI circumstances in Myanmar.
→The aim is to find the factors which hamper exports and FDIs for the purpose of finding alternative policy measures as the second best or lesser evils.
The task in the second year; Analysis of the effect of trade liberalization within AFTA and WTO framework.
The aim is to find the systems which exports and FDIs increase under AFTA framework.

Survey Schemes

First year

(a) Identifying the industries with comparative advantage.

→Investigation of the prices of major products in main cities and labor productivity of major industries.

→Estimation of income elasticity of major goods in the domestic market, to identify the targets for import substitution.

(b) A survey on the effect of tariffs to major industries.

→Estimation of effective rate of protection(This research needs data on value added in main industries.)

(c) Investigation of non-tariff barriers in details. (Especially, investigation of the kinds and degree of non-tariff barriers.)

→Estimation of rent and research on the effect of non-tariff barriers to private sectors. (This investigation needs data on the protected goods prices.)

(d) Investigation of intra-ASEAN trade and trade between countries outside the ASEAN members.

→This includes investigation of the present border trade. (If necessary, conduct a field survey.)(This study needs the trade statistics by country and by commodity.)

(e) The adverse effects of international sanctions for the people and economies

(f) Analysis of the FDI in Myanmar at present

Second year

Research on the effect of AFTA to the industries with comparative advantages

→Analysis of the effect of replacement non-tariff barriers with tariffs according to AFTA framework. (This investigation needs detailed tariff reduction schedules under CEPT scheme in AFTA.)

→Analysis of the effect of increased competition by AFTA to exports.

→Analysis of the effect of Foreign Direct Investment to exports under AFTA framework. These analyses also concentrate on textile and garment industries and agro- industries.

B. Corporate Governance in Myanmar

Introduction by Myanmar researchers is requested at the initial stage. In a longer run, corporate governance has a critical importance to increase efficiency. The institutional analysis of Myanmar's corporations is a starting point.

7 Final Steps.

Making suggestions for establishing the industries with comparative advantage, promoting FDI and reaping fully the gains from AFTA

Schedule of Site Visit (5th December 2000)

(Trade and Industry Policy Sub WG, IT Promotion Sub WG)

12:00-12:40	Lunch at the Room NO. 203 (the second floor) of Institute for International Cooperation(IFIC)
12:40-14:00	Leaving IFIC for KUBOTA Corporation(Tsukuba Plant)
14:00-16:00	Site visit in the plant
16:00-18:00	Leaving the plant for Hotel Okura

【Participants】

○Member of Myanmar (Draft)

- U Maung Maung Yi
- Dr.Sein Mylnt
- U Myat Thein
- Dr.Daw Nu Nu Yin
- Dr.Peik Tin
- U Pyone Maung Maung
-

○Member of Japan

- Fumio Owaki
- Shigefumi Moriyama (MITI)
- Shoji Ishida (interpreter)

KUBOTA Tsukuba Plant

Located in the Tsukuba Academic Town which is noted for a natural environment as well as its advanced technological and information systems, the Tsukuba Plant produces high-quality tractors and engines.