

## **2. Policy Recommendations for the Development of Rural Industry**



For Myanmar's economy, for the time being, a development strategy with priority assigned to promoting "agriculture" and "industrial development and export based on agriculture" should be selected. However, it is also important to include growth in income, employment, and exports in the scenario for industrial development. In particular, in order to suppress the income gap that arises between cities and rural areas due to the concentration of industrialisation in cities and their vicinities, and to achieve balanced development, industrialisation in rural areas is an option that should be considered.

The promotion of agro-based industry entails promoting the processing of agricultural products, and in Myanmar, particularly, encouragement is focused on food processing. However, food-processing industries need not be located in rural areas. As an agro-industry, the food processing industry in Myanmar has high potential for development as an export-oriented industry, and will also be encouraged through the influx of foreign capital. Accordingly, it will be concentrated in cities and their vicinities, and there is no need to suppress this phenomenon. This is because it is sufficient to implement, concurrently and in parallel, the overall development of rural areas, including industrialisation of rural areas. In this section, we will ascertain the actual status of industrialisation in rural areas, and discuss possibilities and policies in this regard.

(Note) "Rural industry" refers to manufacturing and processing industries in rural areas. However, because food processing is discussed within the separate framework of "agro-industry," in this case, "rural industry" excludes the food processing industry.

## **1. Actual status and problems of rural industry as seen in sample survey**

Regarding the actual status of rural industry in Myanmar, because the majority of such industry is composed of household and small businesses, and many firms are not officially registered, to date, there have been virtually no surveys or data that provide accurate knowledge of actual status. The “Survey on Study of Rural Industrialization in Myanmar 2002” by UMFCCI is a very valuable source, and although the sample size is small, it provides important indications for ascertaining the actual situation.

The actual situation of rural industrialisation in Myanmar, as ascertained through the Survey, can be summarised as follows.

### **1) Business scale**

The majority of businesses are small-scale and micro-industry operations with at most 10 employees, many of which are household businesses. (76.5% overall).

Nearly 40% of businesses overall are not registered with the relevant authorities.

Nearly 50% overall are traditional businesses founded no later than 1988.

72.5% overall had an initial investment of no more than 10 lakh kyat.

### **2) Proprietor profile**

More than 70% of proprietors are male, Burmese, and 60 years old or younger.

46% ran a “family business” before founding their current business.

13% are university graduates, but their business is unrelated to their university major.

### **3) Business operation and management of employees**

71% of businesses are operating year-round.

More than 50% are operating 20-25 days per month, 68% operating 8-12 hours per day, and 17% are seasonal businesses.

54% inherited their production technology from close relatives.

About 50% of employees were recruited from among family and relatives.

1% of employees were university graduates, 36% had completed primary schooling, and the remaining 36% were educated at home.

### **4) Sales and market competition**

Concerning sales channels, 33.5% of businesses sold directly to customers. There were “no

exports through other enterprises.”

About 50% of businesses had “no significant competitors” and 39% were “finding markets by themselves.”

98% of businesses recorded a profit and were sufficient to support a household.

#### **5) Procurement of raw materials and production technology**

Half of the businesses are procuring raw materials by themselves.

The main problem in procuring raw materials is price increases (Pointed out by two-thirds overall).

Most businesses indicated that there was no problem with the quality of raw materials.

In total, 95 items of raw materials were used by the businesses surveyed.

#### **6) Future prospects and rural development**

47.5% of businesses desired to expand their operations, while 30% did not state their desire clearly with regard to future prospects.

Most businesses relied on their own funds for operating capital, and only 3% received financing from banks.

34% desired to export their own products in the future, while 58% had no intention of exporting. 88% overall were considering business expansion.

73% of businesses indicated that they contributed to rural employment. 42% were engaged in business related to local agriculture, while 58% were engaged in unrelated business.

#### **7) Problems and difficulties**

- The business problems pointed out by the businesses surveyed were as follows.
- Insufficient markets and infrastructure for smooth procurement of raw materials
- Inadequate power supply and power distribution network
- Shortage of fuels such as diesel oil and wood, and shortage of suitable factory sites
- Age-related deterioration of equipment and machinery
- Difficulty of obtaining funds, insufficient information on markets and new technologies, insufficient support systems for purchasing and updating machinery and equipment
- Insufficient educational opportunities for proprietors, insufficient training facilities for employees, difficulty in obtaining skilled workers

## 2. Problems and development potential of rural industry

### 2-1

Rural industry in Myanmar, due to restriction on private investment and state control policies under the Burmese Way to Socialism imposed from 1962, showed virtually no development or improvement until 1988 at least. Also, because most of the private rural industrial businesses owned or managed by Chinese and Indian merchants who had long lived in the country and the like prior to 1962 were nationalised or abandoned, it may be said that rural industry had actually deteriorated. Since 1988, due to deregulation of private investment by the current Administration, even in rural industry, signs of development have gradually appeared, such as an increase in newly founded businesses and recovery by overseas Chinese merchants. Among the businesses covered by the sample survey, about half had been founded since 1988. Looking at rural industry by category, the overwhelming majority is food processing, primarily rice milling, oil milling, and flour production, and among other categories, most industry is processing and manufacturing with metals, timber, clay and textiles as the materials.

### 2-2

Except for food processing, rural industry in rural areas, by considering category, business style, products, and so forth, can be classified into the following types.

- (1) **Traditional industry:** Processing and handicraft industry that existed before Myanmar's independence, and has been handed down in specific regions. Lacquer ware, silver ware, bamboo ware, Shan paper, tobacco production, various types of hand weaving, wood carving, etc.
- (2) **Agricultural support industry:** Manufacturing and processing of products that support agricultural production or agriculture-related industry. Manufacture and repair of agricultural implements, black smith, carpentry, manufacture and processing of agricultural materials or machinery, manufacture and repair of transport vehicles such as ox-carts
- (3) **Agricultural, forestry, and fishery processing industry:** Except for food processing industry, processing of agricultural products and forestry products. These industries are located in the area that supplies the raw materials. Bamboo ware, gold leaf beating, green tea leaf production, coconut twine industry, all types of primary processing of timber (mainly lumbering)

- (4) **Industry for local markets:** Industry that is mainly limited to local markets for its product sales. Many rural industries are of this type. Typical examples are processed timber goods such as furniture, manufacture and repair of agricultural implements using molds and the like, dye processing, hand weaving, spinning, traditional textiles, and ceramics manufacture.
- (5) **Sub-contracting industry:** Component industry contracted by other companies. At present, there is hardly any, but some can be seen in timber processing, furniture component manufacture, golden umbrella, musical instruments, religious articles, etc.
- (6) **Others:** Buddhist paraphernalia, umbrellas, traditional medicine, thanatka (cosmetic foundation), manufacture of all types of souvenirs, etc.

### 2-3

The current role of rural industry in rural areas is basically as industry rooted in local communities, existing in a form that meets minimum demand in the local community, and the forwarding of excess products to markets in other areas occurs for an extremely limited range of categories and businesses. Accordingly, the amount of products from rural industry is also extremely small compared with the amount of agricultural products in the same area. Also, because most of these businesses are household enterprises, the number of people employed is small, and the effect on employment is slight. Nevertheless, for the purpose of economic development and income improvement in rural areas, development in those areas is necessary, concurrently and in parallel with increased employment through development centered on industrialisation in urban areas. This would constitute double track growth. Achieving double track growth requires the encouragement of rural development and the creation of employment opportunities. Regarding job creation, it is important to achieve this primarily through development in the agricultural sector, but promotion of industries other than agriculture in rural areas is also necessary.

### **3. Possibilities and trends of rural industrialisation**

Although at present, rural industrialisation plays only a minor role in the promotion of industry in rural areas, it can play certain roles in increasing employment opportunities and raising income.

Regarding possibilities and trends in rural industrialisation, the following may be considered.

#### **(1) Maintaining traditional industries and improving their quality**

Traditional industries include hand weaving, spinning, traditional textiles, silver ware, woodcarving, mats from national reeds and bamboo and lacquer ware. Because these industries have traditionally taken root in special regions, and most have been oriented toward local markets, there has been no innovation in materials, designs, and manufacturing techniques. Compared with products from overseas, there is a need to aim for higher-quality products through the introduction of new technologies. It is also necessary to consider ways of maintaining traditional handicrafts and the traditional technologies and equipment used, in order to pass on these traditions to future generations.

#### **(2) Encouraging the manufacture of special products**

As a means of contributing to employment growth in the community concerned, it is desirable that rural industry be labour-intensive. However, large-scale attraction and foundation of businesses from the beginning is not practicable. For this reason, promotion of industry over a wide area is necessary, even if that industry is small-scale and diverse. As the subject for initiatives resembling the “One Village, One Product” scheme, which has been implemented in Japan and is being used in Thailand on a trial basis, the promotion of special product manufacturing in each region should be considered. As well as various types of food processing, this would primarily include processed agricultural and forestry products other than foods (e.g., jute products, animal feed, bamboo products, and straw products).

#### **(3) Nurturing of sub-contracting industry**

All kinds of subcontracting industry, which hardly exist at present, are also important from the viewpoint of promoting rural industry. For the time being, the direction that should be considered is primarily the nurturing of packing industry, all kinds of workshops, jewel polishing, and the like, and in the future, expanding these to encompass manufacturing of components sub-contracted by large companies and overseas companies.



#### **(4) Nurturing of export industry**

In the future, the nurturing of export-oriented industry should also be envisaged. Leaving aside food processing, categories that may be considered to have high export potential include, among traditional products, traditional tribal textiles, Mandalay silk textiles, woodcarvings, and lacquer ware, and among processed agricultural and forestry products, animal feed, woodcraft products, and jute products. However, current quality and designs make export promotion difficult. It will be possible to promote exports through such means as the introduction of new facilities and advanced technologies, and the exploitation of markets.

#### **4. Policy recommendations for the development of rural industry**

Considering the problems and possibilities regarding the development of rural industry, we have summarised the points that should be addressed in terms of policy, divided into short-term and long-term strategies, as follows.

##### **Short-term strategies**

- (1) Conduct a national census of rural industry to ascertain the actual situation regarding unregistered businesses
- (2) Draw up a master plan at the national level for promotion of rural industry, classified by category, region, and type of raw material
- (3) Introduce, at an early stage, a system of low-interest loans (including micro-finance) for purchasing new equipment and starting businesses
- (4) Provide technical cooperation (Training Centers, Seminars & Workshops, etc.) to improve the technology and quality of traditional rural industry
- (5) Provide information on overseas markets and hold trade fairs for sample products
- (6) Set up intensive industrial parks as pilot projects for rural industry (several locations and regions in rural areas)

##### **Long-term strategies**

- (1) Nurture and promote export industries in rural areas (introduce foreign capital)
- (2) Promote movement of private-sector, medium- and large-scale industries from urban areas
- (3) Create infrastructure to achieve (1) and (2)
- (4) Develop a “one village, one product” movement in rural areas and set up a support system
- (5) Introduce Two Step Loans to promote private-sector industrialisation in rural areas (ODA)

## Problems and Measure for the Development of Rural Industry

	Type of Industry	Difficulties	Measure for Improvement	Effects	Proposals
<b>Traditional Rural Industry</b>	Hand spinning & weaving	Old equipment Raw materials Market	Renovation Investment	Maintain tradition & culture	Comprehensive special zone
	Wood carving & wood product	Technology Quality	Training facilities	Export Maintain culture	Training centres
	Silver ware, Brass & bronze ware	Market Quality Raw material	Training facilities	Maintain tradition & culture	Training centres
	Lacquer ware, Bamboo ware	Quality	Introduce new technology & design	Export Increased market	Technical cooperation, Micro-finance
	Traditional medicine	Standards & quality	Medical research	Export F.E earning	Property rights
<b>Agro-based Industry</b>	Jute & Kenaf processing	Not exist technology	Investment Training facilities Research	New products & export	FDI & Myanmar investment
	Coconut processing	Old equipment Market	Investment for use of whole coconut	Export & local market	FDI & Myanmar investment
	Animal feeds & utilisation of agricultural by- products & wastes	Technology Market	Investment & application	Producer gas, Electricity generation, Sodium silicate and biogas	FDI & Myanmar investment
<b>Local Market Oriented Industry</b>	Agricultural supporting industries	Technology Old equipment	Investment Micro-finance	Agricultural productivity Technology transfer	Privatisation & further private investment
	Earthen ware and ceramics	Technology Quality Market	Investment Cheap fuel Machinery	Import substitution & export	Encourage new investment & training
	Wood & rattan furniture	Technology Quality Procurement of materials	Investment Standards Training	Expansion of market Export	FDI & study of foreign markets

<b>Others</b>	Various handicrafts e.g. Shan Paper, Papier-mache, dolls	Technology Market Materials Quality	Investment Micro-finance Design center	Expansion of market Export	Supporting gov. policy Establishment of special zones
	Machinery Workshop Natural dyeing, Others	Technology Old equipment Skill Raw materials	Investment Training centres Micro-finance	Expansion of market	Privatisation Myanmar investment
	Minerals & chemical products e.g. plaster of Paris, bentonite	Technology Skill	Investment Training centres Micro-finance	Expansion of market	Myanmar investment

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