Burma's Economic Prospects and Challenges[1]
12-21-2010

No significant changes in economic policymaking are expected despite the recent dramatic political developments. The contentious victory of the military-aligned Union Solidarity and Development Party (USDP) in last month's national elections secured the military as the dominant force in Burma. The Economist Intelligence Unit (EIU) predicts that the release of pro-democracy leader Aung San Suu Kyi served to deflect criticism away from the regime and that will not translate into a major change in the balance of power for the upcoming year.

Sources also predict that these political developments will not have a major bearing on the economy. Although Burma is abundant in natural resources, it remains one of the poorest countries in Asia. The State Department estimates that GDP per capita is US $469 in 2010 but accurate statistics from Burma are difficult to obtain. The country continues to suffer from serious macroeconomic imbalances including rising inflation, fiscal deficits, multiple exchange rates that overvalue the kyat, a distorted interest rate regime, and unreliable statistics.

Additionally, Burma lacks an independent Central Bank which means the loss of monetary policy as a tool to regulate the economy. Consequently, macroeconomic policy is unpredictable and ill-informed. Most of Burma's prominent corporations are still owned by the military, and the country is judged by Transparency International as the second most corrupt in the world. The military regime spends greatly in excess of its revenue and resorts to the Central Bank to finance the growing budget deficit, further exacerbating inflation. The government budget balance as a percentage of GDP is forecasted to remain at a deficit, -5.1% in 2011 and worsen in 2012.

Burma's economy is growing slowly. According to government figures, GDP growth has been over 10% annually since FY 1999. The FY 2009-2010 rate as predicted by the Central Bank governor is 12%. However, the true rate is much lower. The EIU estimates that real GDP will grow to 4% in FY 2011 and rise slowly to 4.4 % in FY 2012. The economy is expected to get a boost from the surge in foreign investment in the energy and construction sectors. Given the lack of trade and financial linkages with the developed countries, Burma was not directly affected by the recent global recession and financial crisis. However, private consumption and net exports performance took a hit from a combined effect in slowdown in neighboring countries, fall in commodity prices; slow recovery from damages caused by the cyclone, and reduced workers remittances.

The structure of the economy remains dependent on agriculture and extractive industries. Agriculture accounts for half of GDP. Approximately, two thirds of Burma's population live in rural areas and work as small farmers and laborers. However,

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agriculture growth remains slow due to lack of investment, limited access to productive inputs, and lack of property rights. The damage from Cyclone Nargis translated to enormous losses in rice crops as the cyclone hit Burma's main rice-growing region, the Irawaddy Delta. There is also a dearth of credit in the country which is particularly destructive to the agricultural sector, which employs 70 percent of the population and makes up 50 percent of GDP. The agriculture sector only received 0.4 percent of the credit created, while the overall credit for the private sector has been in steady decline from 19 percent in 2004/05 to 15 percent in 2008/09. (State owned enterprises receive the majority of the available credit.) Gem mining is undermined by the slowdown in global demand and sanctions from other countries. However, investors from China, South Korea, and Thailand are funding projects in energy and infrastructure.

The external accounts will move from a small surplus to a deficit. Export revenue from natural gas will remain high but may not be sustainable until new fields come on stream. Increased regional demand for other export goods such as timber will contribute to increased export earnings. However, rising import bills due to rapid growth in major foreign funded project investments in power, mining and infrastructure are forecasted to tip the external balance in 2011 from a 1.1% current account balance as percentage of GDP to a – 0.9% in 2012.

Burma's maintains multiple exchange rates. There is a wide differential between the official exchange rate and the informal market rate. The highly overvalued official exchange rate is used for accounting purposes and external transactions by the government and state-owned enterprises. The average official rate is around 5 kyat per US dollar. However, the market value is close to 1,000 kyat per US dollar. The overvaluing of the kyat (by 200 times its market value) creates huge distortions especially when accounting for the country's gas revenues. According to economist Sean Turnell from Macquarie University based in Sydney, the official exchange rate undervalues the local-currency value of Burma's gas revenues, causing an artificial deficit when there should be a surplus. Sources say that the primary motivation for multiple exchange rates is to keep revenues from the country's public accounts and into the hands of the regime and its cronies.

The Central Bank also issues Foreign Exchange Certificates (FEC) and circulates it in place of the US dollar. As of November 2010, the demand for FEC dropped with its exchange value falling to around 800 kyats per FEC from over 1,000. US dollars are widely circulated in informal markets. The US dollar is exchanged at a premium over the FEC rate. Average exchange rate estimates hover around 1,000 to 1,055 kyats per US dollar. The presence of this multiple exchange rate regime continues to distort relative prices and is not a conducive environment for private sector activities.

Foreign direct investment reaches a record high. Despite a poor investment climate and economic sanctions imposed by the US and other Western countries, foreign direct investment (FDI) shot up in FY 2010. During the first four months of FY 2010 alone, FDI inflow amounted to about $16 billion compared to $2.2 billion in the previous four years. Most of the recent surges in foreign investments are tied to oil and natural gas sectors to help meet growing demand in China and Thailand. The prospect of continued surge in foreign investment also includes a signed $8.6 billion deal with Thailand to construct a port that would commence in 2011 and other large scale projects. Although these investments are sizable, they have not translated into better living standards for Burmese citizens. The majority of citizens lead a subsistence-level existence with minimal opportunity for economic improvement.

Other sectors, such as manufacturing, tourism and services, struggle in the face of inadequate infrastructure, unpredictable trade policies, neglected health and education systems, and endemic corruption.

Inflationary pressure continues to build up. The EIU's recent estimates for 2011 inflation rate hovered around 12-13% compared to an average of just 1.5% in 2009. Food prices alone rose by about 8% year on year in July 2010 while housing, rent and repairs rose by 17.3%. The last time the Central Bank increased its discount rate from 10 to 12 percent was in April 2006 despite inflationary pressures years after. The lending rate has been set at 17% for several years now.

Social development indicators remain low.
In 2009, the UNDP's Human Development Index, which measures achievements in terms of life expectancy, educational attainment, and adjusted real income, ranked Burma 138 out of 182 countries. It is estimated that over 25 percent of Burma's population live below minimum subsistence levels of US $1 a day. Average life expectancy is 62 years; infant and maternal mortality remains high by developing country standards. Furthermore, the government dedicates few resources to social services, and has slashed health and education budgets significantly in the past 10 years. The World Bank concluded there is a silent emergency in Burma, and that deprivation on this scale will undoubtedly have long-term repercussions. Additionally, Burmese authorities have perpetrated numerous documented human rights violations. Internal displacement and refugee outflows of ethnic minorities are prevalent. Over two million Burmese, many of them ethnic minorities, have fled for economic and political reasons to Thailand, Bangladesh, India, China, Indonesia, and Malaysia.

Burma remains the second largest producer of illicit opium, and human trafficking continues to be a problem. Burma is a major source of opium and other amphetamine-type stimulants in Asia. Although the Burmese government has expanded its counter-narcotics measures in recent years, production and trafficking of narcotics remain major issues. Another serious issue is that women and children in Burma continue to fall victim to commercial sexual exploitation and forced labor. Women are trafficked internationally for sexual exploitation to Malaysia and China while children are subjected into forced labor in Thailand. There's also trafficking within Burma from rural villages to urban areas to work in industrial zones and agricultural estates, if not for commercial sexual exploitation. According to the CIA Factbook, military and civilian officials remain directly involved in forced labor and the unlawful military draft of young children.

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