INTRODUCTION

by

Toshihiro Kudo

Myanmar is still a predominantly agricultural country. The agricultural sector employs more than 60 per cent of the labor force and contributes about 50 per cent of GDP. Myanmar did not undergo meaningful changes in industrial structure in the last forty years. On the contrary, its neighbors have progressed far ahead during this period and had joined the "East Asian Miraculous" circle.[1] They have changed the industrial structure of the economy; the agriculture component in GDP has been deliberately scaled down while simultaneously increasing the contributions of industrial development to GDP.

Industrialization is an essential element of the whole development of a country. Among the newly independent Third World countries after the World War II, there was a craving for economic growth through industrialization. Economic development had often been equated with the progress of industrial sector. Independent Myanmar also shared the similar aspiration for a modern industrial country.

However, economic development as well as industrialization in Myanmar was suddenly held hostage by the Burmese Way to Socialism, which was introduced by Ne Win's Revolutionary Council in 1962. Casting a side-glance at its neighbors' endeavors toward economic development and industrialization, Myanmar had closed its door to the rest of the world for a quarter of a century. In so doing, it had missed precious opportunities to develop into a modern industrialized country for decades.

Myanmar was released from the grips of the 26-year-long socialism in 1988. As soon as the present government took over power, they abandoned the Burmese Way to Socialism, opened its door to the world, and embarked on the laborious task of transition from centrally planned economy to a market-oriented one. Myanmar had strived to take the second chance to develop into an industrialized economy throughout the 1990s.

[1] See World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (Oxford: Oxford University Press, 1993).

More than a decade has passed since the task of transition started. It is high time to look back at the progress of the past and envisage the future challenges of economic development in general and industrialization in particular. The aim of this book is, therefore, to examine Myanmar's industrial policy, performance and structural changes during its transitional period of the 1990s. In addition to a macroscopic overview, detailed description and analysis are presented on important sub-sectors including textile and garment industry, wood-based industry, machinery industry, and food processing industry.

Due to serious lack of publicized data on industries in Myanmar, we had to be dependent on our own field surveys as well as discussions from business circles. For that reason, some explanations in this publication may be lacking in statistical evidence. Nevertheless, considering the extreme paucity of information on industrial sectors in Myanmar, the editor hopes, this book may well serve as a basis for further discussion.

The structure and summary of each chapter are presented as follows.

Chapter 1 [Transformation and Structural Changes in the 1990s] outlines a series of liberalization programs implemented under the present government (SLORC/SPDC), and assesses the impact on industrial changes and performance. References are also made to previous governments' policies including socialist one when relevant. Based on such analysis, this chapter draws policy implications, to both the government and private sector. This chapter functions as an introductory chapter by providing an overview of policy changes and their impact on industrial structures in the 1990s.

Chapter 2 [Economic Reforms and Business Organization: Property Rights Approach] explains the influence of Myanmar economic reforms (changes in property rights and its structure) upon the behavior of economic organizations and their performance from the property rights approach. The property rights theory argues that there is a strong relationship between property-rights structure and performance of economic actors.

Myanmar has, like other countries, experienced different political and economic systems throughout its history. Under different political and economic systems, different property-rights structures exist. The different structures lead to different economic behavior of economic actors and influence their performance. In accordance with the property rights structure in the socialist era, the managers of the State Economic Enterprises (SEE) have no clear responsibility for their decisions and no effective compensation programs for their performance. This kind of property rights lowered the incentive and motivation of the managers and created agency problems. Though Myanmar government has modified the legal and organizational bases of the SEE to improve their performance, it is observed that this reform has been least successful in the state sector. The main reason is that the reforms of SEE make property rights relations more complicated than before and encourage opportunistic behavior of agents (managers), and another reason can be pointed out to the inefficient allocation of decision process among agents within the organization.

The ownership of private business was also complicated and ambiguous as the private ownership was strongly truncated by the state under socialism. In accordance with the economic reforms, property rights are more widely assigned (by the state) to the individuals or the private businesses. As a result, the improvement of the performance of private businesses can obviously be observed during the transitional period. The wider scope of private property rights leads to increased participation of private sector in various economic sectors and results in a significant growth of private sector. It can be considered as one of the main factors for the recent economic growth. However, some private property rights are still constricted by the state and complicated property rights will continue to be the most important obstacles to the growth of private businesses into the near future.

Chapter 3 [The Emerging Myanmar Entrepreneurs in the 1990s] examines the growth of entrepreneurship in Myanmar in the 1990s. Successful entrepreneurs contribute to the growth and development of the economies by establishing new enterprises, providing leadership and management, and using innovative and creative ideas. There is no doubt that new business established by entrepreneurs create more employment opportunities and new technological innovations, and help achieve high economic growth. The development of entrepreneurship, however, depends on mainly on the economic, social and political atmosphere of the nation concerned. History has proved that nations that support the growth of entrepreneurship by eliminating the barriers to the rise of private business enterprises have developed and prospered.

Myanmar has tried to mold her economy into a market-oriented one since 1988. It is now necessary to assess the growth of entrepreneurship in Myanmar, in the context of the progress of private sector. This chapter presents some of the dominant entrepreneurs of Yangon and other entrepreneurs of outstanding industries during the 1990s. Common characteristics of entrepreneurs are found in both cases but with different degree and spectrum. Consequently success in conducting business seems to be differed.

Since the outstanding industries i.e. food, textile and garment, wood-based and motor vehicle and repairs, hold the major portion in our industry sector and the size of the firms being smaller, special consideration should be given for promotion of these industries. These firms seem to have more barriers in conducting business. Thus, by way of giving entrepreneurial development training to upgrade the level of entrepreneurship in these firms may be one of the fastest ways to be on the right track of industrial development in Myanmar.

Indeed, the contributor of this chapter practices her recommendations and ideas in Myanmar. She is the professor and head of Department of Management Studies at Institute of Economics (Yangon), which provides the only MBA course in the country.

Chapter 4 [Textile and Garment Industry: Emerging Export Industry] looks at one of the most vibrant industry in Myanmar, Textile and Garment. In many developing countries the garment industry is a major contributor to the nation's economy in terms of employment and generating much needed foreign exchange and supporting industry for local consumption. Although Myanmar back in the late 1950 was regarded as the fashion shopping paradise the advent of the Socialist system saw this leading industry vanish. It was only in the early 1990s when the government introduced an open market economy system that saw the re-emergence of a garment export industry.

The reason that this industry came into being was due to the country underutilized allocated quota from the EU and US and Myanmar's comparatively low labor costs and easy start-up. The industry was first started up with the foreign firms who are major manufacturer in the region. These foreign firms drew interest from major buyers who are eager to capitalize on Myanmar quota. With more buyers looking into Myanmar, local entrepreneurs were able to set up small, medium and even large firms to cater for the niche high volume, high labor intensive products. The inertia was so great that in a matter of years local firms constituted 78% of the garment export firms in Myanmar with foreign firms only constituting 4%. There is a clear distinction between the abilities of foreign and local firms with foreign firms being better equipped, managed and supported by their large international network. Local firms were only able to look after low-end income, high labor intensive orders while foreign firms where looking after the higher end income orders.

Unfortunately as soon as the industry was ready to take off, Made in Myanmar products were starting to be boycotted by the major importing countries like the US and EU and the consumer resistance only grew stronger. The foreign companies were able to survive through its international network but local firms faced more difficulties in securing orders. To make matters worse the business environment for garment to import raw materials and export finished products became more bureaucratic and time consuming. The current situation for the garment industry is not favorable and its long term prospective looks dull with more problems than solutions.

All garment firms have the same sort of difficulties but the local firms' difficulties are harsher than the foreign and JV firms. The list is long and arduous starting from simple things such as regular power, difficulty in getting orders, staff turnover to lack of raw materials. Though Myanmar labor rate is one of the lowest in the world when comparing it's competitiveness with the rest of the region Myanmar end cost are similar when it could be much lower if there were supporting industries and more local raw materials. Myanmar in the early 1950s was well known for it's cotton industry though this industry was not developed more in the socialist era and local demand has to be supported by imports. There are good signs that production will increase in both quality and quantity, which will be enough for local demands, export and the chance for large textile mills to be set up which will lead to Myanmar being more competitive.

The next five years for Myanmar export industry will be it's most important with the removal of the quota system in 2004 and AFTA in 2005. If Myanmar industry does not solve the current problems it has it will not be able to compete because neighboring countries have better supporting industries and are more competitive. The only solution for Myanmar to export garment industry is for the industry itself to unite and take advantage of the government new five-year policy plan for industrialization. The objectives of the industry to work and motivate the government are quite clear and achievable and the industry must unite to ensure that the Myanmar export garment industry is able to compete in the worlds garment industry.

Chapter 5 [Wood-based Industry: From Import-Substitution to Export-Oriented] examines the Wood-based Industry in detail. Wood-based Industry in Myanmar is a promising industry with challenges. It is discernible that the Wood-based Industry is export-oriented industry. The high reliance on primary processing over the past decades indicates Wood-based Industry in Myanmar has only limited success in developing skilled, technological and capital intensive industries, such as secondary processing industries. Regarding the development of Wood-based Industry, most of industries are primary processing industries. The needs for development of secondary processing industry can be figured such as policy and strategy formulation, technology, human resource development, standard and quality control, transportation, finance and investment, trade and market, environment awareness. In recent condition, technology, trade and marketing of value-added product must be emphasized. The national entrepreneurs of Wood-based Industry have a difficulty in availability of low- priced finance besides technology and market. Given the poor state of Myanmar's internal capital markets, future access to small-package amounts of foreign capital will be essential for the achievement of growth targets. In the private sector, other factors conditioning growth of Wood-based Industry are availability of raw material, modern wood working machines, sound management and market penetration. All of scholars admitted that the strategy of forest export should be value-added product instead of log export. The private sector seems to be an engine of this sector. Even we have adopted a market-oriented economy, part of our economy is still planned and government involvement and expenditure in the forestry sector play a role in influencing development in the Wood-based Industry.

Chapter 6 [Machinery Industry: From Repair Workshop to Supporting Industry] deals with the machinery industry. Machinery industry started in Myanmar with support mainly from Japan in the formation of Heavy Industry Corporation (HIC) in 1962. After 1988, HIC was changed to Myanma Heavy Industries (MHI) and having received a cumulative sum of US$1.25b in grants and technical assistance. In 1990, MHI formed a joint venture company with Daewoo Electric Industrial Co. Ltd. of Republic of Korea. In 1998, MHI was reorganized into four industries and one directorate to promote the machinery industry together with local and foreign companies (Japan and Thailand).

Initial participation by private enterprises was limited to small jobs such as machine servicing, overhauling, repair work and spare parts. A handful ventured into the cloning /reproduction of foreign machines and tools. However with the passing of Private Industrial Enterprises Law in 1990, Promotion of Cottage Industrial Law in 1991, establishment of Myanma Industrial Development Committee (MIDC) and the development of industrial zones, private enterprise activities gained momentum. In 1998 it has 5,589 establishments (15.7 per cent of total manufacturing sector), employing 25,631 people (13.8 per cent of total manufacturing labor force).

Private enterprises employ an average of 5 workers each compared to the very high concentration of employment within the State sector. This divergent structure achieved little in terms of vertical integration because the more expensive, high quality machinery from Japan, West Germany and USA was dispersed to the State sector. Private enterprises had recourse only to the much cheaper versions of such machinery from China, Taiwan, Korean and ASEAN countries. With this lack of matrix linkage, the informal method of technology & design transferred from foreign firms played a more crucial role in the advancement of machinery industry among private enterprises. Little was spent as R & D expenditure.

Problems related to the further development of the machinery industry are not limited to this industry alone but are manifested throughout the manufacturing sector as a whole. Critical bottlenecks are lack of power supply, financing, foreign currency, iron and steel as raw materials. Other problem areas are human resource development of which inadequate supply of qualified technician and skilled worker, incapability to improve marketing capacity and deficiency in accounting & industrial management are more pronounced. Another emerging issue is competition within the machinery industry in terms of both quality and price. Other competition factors listed are after sales services and product range available.

External competition against both the emerging private enterprises and the established State sector comes from China, ASEAN countries, Japan and EU whose products are more superior in quality. Myanmar is still at its embryonic stage for the development of the machinery industry. Much has to be done by both the State and private enterprises to integrate their activities for overall industrial development.

***Chapter** 7* [Food Processing Industry: Prospects and Problems] examines food processing industry. The continued high growth rate of the food processing industry in the Union of Myanmar is critically dependent on agriculture for its ready supply of raw materials. With the introduction of quality control steps to produce food items, prices of locally processed foodstuff are now similar to imported commodities. In addition to price competition, the local food items were able to meet seasonal requirements and demand for variety.

This was done through the upgrading of machinery and equipment owned by Chinese family based food-processing operations. In 1998, volume of processed food (K400b or US$1.23b at US$1 = K325) had actually doubled compared to the earlier 12 years. This was the result of 29,245 enterprises (55% of registered entities) engaged in food and beverages. Food processing industry is dominated by the private sector (98.53%).

However the industry has become heavily dependent on imported raw materials and machinery. The main constraint in furthering production is the irregular supply of electrical power and its recent 10-fold increase in tariff charged. The food processing industry will be more sustainable if it could value add local agricultural products, through the upgrading of plant and machinery for mass production, and the institution of a primary set of quality and management standards to match foreign methods.

The main engine of expansion will be its extremely cheap labor, continued access to foreign technology and lower transportation cost, which are the inherent advantages of a local food processing industry. The other advantage is its quick response to consumer preferences and its ability to provide longer shelf life (freshness) compared to imported food items. This can be achieved by placing greater emphasis on the importance of establishing adequate marketing and distribution channels.

Chapter 8 [Dual Technology in Industrial Development: The Role of the State] examines the problem of dual technology in developing economies. His message is simple and clear: Do not waste scarce capital. Myanmar needs to conserve scarce capital and maximize abundant labor while adopting new technology. Shortage of capital relative to labor means that wastage of capital must be avoided at all costs in both private (protected by tariff) and the public manufacturing sectors (low capacity utilization).

Intervention by the State is needed to conserve capital and save foreign exchange in order to leap frog into industrial development (upgrading of agro-processing such as rice, edible oil and sugar mills in the food and beverages) from 9% to 30% of GDP. This is achieved through improvements in related laws, establishment of Myanmar Industrial Development Committee (MIDC) and development of industrial zones. Added efforts are necessary to ensure regular and stable supplies of electricity, raw material, labor, transport and financial assistance. The State should actively seek out promising SMIs, especially those with export potential, provide them with technical and financial assistance, in efforts to increase its base for foreign exchange earnings.