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DISCUSSION PAPER No. 43

**Transformation of the Rice
Marketing System and Myanmar's
Transition to a Market Economy**

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Abstract: Creating a rice marketing system has been one of the central policy issues in Myanmar's move to a market economy since the end of the 1980s. Two liberalizations of rice marketing were implemented in 1987 and 2003. This paper examines the essential aspects of the liberalizations and the subsequent transformation of Myanmar's rice marketing sector. It attempts to bring into clearer focus the rationale of the government's rice marketing reforms which is to maintain a stable supply of rice at a low price to consumers. Under this rationale, however, the state rice marketing sector continued to lose efficiency while the private sector was allowed to develop on condition that it did not jeopardize the rationale of stable supply at low price. The paper concludes that the prospect for the future development of the private rice marketing sector is dim since a change in the rice market's rationale is unlikely. Private rice exporting is unlikely to be permitted, while the domestic market is approaching the saturation point. Thus, there is little momentum for the private rice sector to undertake any substantial expansion of investment.

Keywords: Myanmar, rice, marketing system, liberalization

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Introduction

Creating a rice¹ marketing system to serve the national interest has been one of the central policy issues for the Myanmar government since independence. The importance of rice for food security as well as a source of government revenues and foreign exchange earnings have been the major factors for the historical priority placed on rice. It is the leading staple food in Myanmar, and the per capita rice consumption of 180 kg per year (Thein Myint 1997, p.7) clearly indicates the extremely high dependency of the Myanmar people on rice, even when compared with neighboring Asian countries. For this reason successive Myanmar governments have put great political importance on ensuring a stable supply of rice as a key to maintaining the stability of the regime (Mya Maung 1998, p.109). Under the socialist government that came to power in 1962, a comprehensive system of controls over rice marketing was established for the first time which introduced a rice ration system for consumers along with a compulsory delivery system for procuring paddy directly from farmers to support the ration system. At the same time the exportation of rice became a state monopoly and served as the regime's main source for earning foreign exchange. Thus it is no exaggeration to say that agricultural policy in Myanmar is synonymous with rice policy.

The implementation of agricultural marketing liberalization began in the late 1980s starting with the domestic agricultural market which was liberalized from September 1987. This move signaled the start of Myanmar's transition to a market economy. A year later, in October 1988, the ban on the private export of agricultural produce was lifted (Okamoto 2001), and thereafter the marketing of some crops enjoyed full liberalization. However, the marketing of rice, which was basically the main target of agricultural reform, remained under state control. The rice ration system was maintained for the public servants and the paddy procurement system, which had been terminated in 1987, were revived in 1989. Further, rice exporting

¹ In this paper rice means both paddy and milled rice. When a distinction is necessary, the terms paddy or milled rice are used.

remained a government monopoly with responsibility taken over by Myanmar Agricultural Produce Trading (MAPT).² This period of reform can be called the first liberalization.

In April 2003, 16 years after the first liberalization, another liberalization of rice marketing was suddenly announced. Under this second liberalization the rice ration system for the civil servants and the paddy procurement system were finally abolished. Initially, the private exporting of rice was also incorporated into the reform plan and the foreign exchange earnings were to be divided equally between the government and the private sector. However, this part of the plan was not implemented when abolition of the rice rationing system was announced in January 2004. This second liberalization can be viewed as an epoch-making reform which has brought about the comprehensive liberalization of the domestic rice market 40 years after the establishment of Myanmar's socialist regime. However, the aftermath of the second liberalization also shows that the government is still not ready to undertake full-scale rice export deregulation.

The institutional changes and current state of Myanmar's rice marketing system have yet to be fully explored. Takahashi (2000), Okamoto (1993), MOAI (2000) and U Tin Htut Oo and Kudo (2003) provide overviews of the rice marketing system after the first liberalization. However, these studies limit their discussions to overviews of the institutional changes and do not analyze the development process of the marketing system or the interrelationship between the state and the private marketing sector. Therefore, the emphasis of this paper is on describing the transformation of the rice marketing system in greater detail and depth. Through this closer examination, this study seeks to bring into clearer focus the rationale of the government's rice marketing reforms and to explore the significance of liberalizations in the light of developments Myanmar's rice marketing sector. Two points in particular will be examined to evaluate the transformation of the rice marketing system: 1) the way the state marketing sector was

² The government institution responsible for rice marketing has been reorganized and renamed several times. MAPT came into being following reorganization of the AFPTC (Agricultural Farm Produce Trading Corporation) in 1989. See Okamoto (1993).

maintained and the characteristics it came to have after the first liberalization, and 2) the way the state sector has influenced the development of the private sector. However, it is still too early to provide a comprehensive evaluation of the second liberalization, and only a provisional assessment will be attempted in this paper.

Section 1, which follows, describes the features of the state marketing sector after the first liberalization along with presenting the background and underlying factors of the reform and its problems. Section 2 explores the development of the private marketing sector and the problems it has faced. Section 3 examines the significance of the second liberalization, and the findings of this study are summed up in the concluding section.

1. The First Liberalization and Transformation of the State Rice Marketing Sector

1.1 The System after the First Liberalization

The essential components of the rice marketing system of the socialist period were the rice rationing system for consumers, the paddy procurement system that supported the rationing system, and the state monopoly on rice exporting. This section will look at how the first liberalization changed these three particular systems.

a. The Rice Rationing System

The rice rationing system targeting general consumers was abolished with the first liberalization,³ and the system was limited to targeting the so-called Budget Group (or Target Group) which consisted of civil servants and military personnel. This substantially reduced the number of people targeted for rice rations which decreased the volume of rationed rice to 0.6-0.8 million tons in normal years. This was a decrease of 1 million tons compared to the volume rationed in the socialist period (Table 1). Sixty percent of the total rationed rice was for

³ Until 1994 rice was rationed to some general consumers in rice deficit area through cooperatives. However, the amount was quite limited.

public servants, 30% for the military, and the rest went to special institutions such as hospitals.⁴

Table 1 Changes in the Volume of Rationed Rice

(in thousand tons)

	Volume of Paddy Procured	Rationed Rice		% of Rationed Volume in Procured Volume
		Rice	Coverted in Paddy	
1980/81	4,259	1,618	3,236	76.0
1983/84	4,145	1,709	3,418	82.5
1987/88	564	574	1,148	203.5
1988/89	1,672	556	1,112	66.5
1989/90	1,482	869	1,738	117.2
1990/91	1,851	751	1,502	81.1
1991/92	2,095	616	1,232	58.8
1992/93	2,222	770	1,540	69.3
1993/94	1,939	711	1,421	73.3
1994/95	2,034	744	1,487	73.1
1995/96	1,934	769	1,539	79.5
1996/97	1,522	822	1,643	108.0
1997/98	1,601	773	1,546	96.6
1998/99	2,200	668	1,336	60.7
1999/2000	2,212	616	1,232	55.7
2000/2001	2,126	585	1,169	55.0
2001/2002	2,119	569	1,137	53.7

Notes:

1. The conversion rate from paddy into rice is 50%.
2. For 1979/80~1994/95, procurement includes that by cooperative.

Sources:

Procurement volumes from: *REFS* various issues and MAPT documents

Rationed volumes for 1980/81,83/84 from: MAPT (2003, p.222-23)

for 1987/88-92/93 from: Ko Ko Gyi (1994, Table 5)

for 1993/1994-2001/02 from: MAPT documents

Under the rice ration system of the socialist period, general consumers were eligible to receive 12.6 kg (6 pyi⁵) monthly per adult and 6.3 kg (3 pyi) per child under 12 years old (Mya Than and Nishizawa 1990, p.104).⁶ Assuming that the per capita consumption for an adult was

⁴ MAPT.

⁵ 1pyi equals 2.1kg.

⁶ These figures are based on information from government officials. Rice farmers were not targeted for rationed rice. Instead, they were allowed to deduct the paddy for home consumption from the calculation of their paddy procurement obligation. But those farming less than three acres were eligible for rationed rice. Rice was provided by the people's shops in the initial stage and by consumer cooperatives at later

180 kg per year, as it is at present, 84% of annual consumption would have been covered by the ration system, which can be regarded as quite a sufficient amount. Moreover, the average price of rationed rice remained at about 50% of the free market price for the period of 1962/63-1986/87, and for the decade from 1978, the price was kept unchanged.⁷ This means that consumers were sufficiently protected in terms of food security.

After the first liberalization, the volume of rationed rice for the Budget Group was changed to 25 kg (12 pyi) per month for an unmarried adult and 28 kg (14 pyi) for a married adult. This was a sufficient amount for an individual adult, but depending on the size of a household, the amount of rationed rice decreased compared to that of the socialist period. However, the price of rationed rice was kept at 21% of the free market price on average for the period of 1988-2001,⁸ and some ministries and organizations even provided the rice to their personnel for free.⁹ Therefore, it can be said that the price was kept low in order to compensate for the decrease in the amount of rationed rice compared to that of the socialist period.

b. The Paddy Procurement System

With the decrease in the volume of rationed rice, the paddy procurement system that supplied the rice was scaled back as well. A procurement quota was set for paddy produced in the monsoon season (monsoon paddy), but it was decreased to 10-12 baskets¹⁰/acre (0.5-0.6 tons

stage. In addition to that, government officials were eligible to the special rationed rice “Project rice” in the case they were members of any government projects.

⁷ Saito and Lee Kin Kiong (1998, p.98). The price of rationed rice differs depending on whether a location is categorized as a rice deficit or rice surplus area. For example, the price difference between Mandalay and Yangon is 10% (MAPT, 2003, p.222-225). Meanwhile the free market price difference between the two cities is 30%-80% (Okamoto 2003, p.174), indicating that deficit areas are given special consideration.

⁸ Calculated based on *Monthly Economic Indicators* (various issues) and MAPT (2000, p.260).

⁹ Some ministries having a relatively good financial footing provided their own subsidies for rice. In 1996, when there was a sudden jump in the price, rice was rationed to all public workers for free (Mya Maung 1998, p.113).

¹⁰ 1basket of paddy equals 20.9kg.

per hectore) from the 30-40 basket/acre (1.5-2.1 tons per hectore) of the socialist period. Consequently, the volume of rice procured by the government as a share of total rice production decreased by one-third after liberalization (Table 2).

Table 2. Estimated Volume of Domestically Marketed Paddy Rice (in thousand tons)

	A	B					C=A-B		D			
	Production	Deductions					Marketed Volume		Exports			
		Procured Volume	Ratio (%)	Seed	Waste	Home Consumption	Volume	Ratio (%)	Milled Rice	Converted to Paddy	as a % of Procurement	as a % of Production
		b	b/A				C/A		d	d/b	d/A	
1971/72	8189	2245	27.4	514	514	7528	(1585)	(31.9)	831	1240	55.3	15.1
1976/77	9335	2889	30.9	524	524	7538	(2140)	(22.9)	646	964	33.4	10.3
1980/81	13340	4259	31.9	530	530	7384	637	4.8	703	1049	24.6	7.9
1981/82	14170	4355	30.7	527	527	7402	1358	9.6	701	1046	24.0	7.4
1982/83	14397	4111	28.6	504	504	7395	1882	13.1	711	1061	25.8	7.4
1983/84	14312	4145	29.0	499	499	7413	1756	12.3	906	1352	32.6	9.4
1984/85	14279	3731	26.1	508	508	7406	2126	14.9	634	946	25.4	6.6
1985/86	14341	4156	29.0	506	506	7354	1818	12.7	594	887	21.3	6.2
1986/87	14150	4263	30.1	500	500	7363	1523	10.8	604	901	21.1	6.4
1987/88	13658	564	4.1	482	482	7402	4728	34.6	320	478	84.7	3.5
1988/89	13186	1672	12.7	494	494	7447	3080	23.4	48	72	4.3	0.5
1989/90	13826	1482	10.7	504	504	7551	3785	27.4	169	252	17.0	1.8
1990/91	13748	1851	13.5	511	511	7579	3296	24.0	134	200	10.8	1.5
1991/92	12993	2095	16.1	499	499	7589	2312	17.8	183	273	13.0	2.1
1992/93	14603	2222	15.2	530	530	7648	3672	25.1	199	297	13.4	2.0
1993/94	15500	1939	12.5	587	587	7694	4693	30.3	261	390	20.1	2.5
1994/95	17908	2034	11.4	613	613	7737	6911	38.6	1041	1554	76.4	8.7
1995/96	17669	1934	10.9	634	634	7772	6695	37.9	354	528	27.3	3.0
1996/97	17397	1522	8.7	607	607	7810	6852	39.4	93	139	9.1	0.8
1997/98	16391	1601	9.8	597	597	7829	5765	35.2	28	42	2.6	0.3
1998/99	16808	2200	13.1	607	607	7869	5524	32.9	120	179	8.1	1.1
1999/2000	20159	2212	11.0	649	649	7908	8741	43.4	69	103	4.7	0.5
2000/2001	21359	2126	10.0	657	657	7948	9972	46.7	257	384	18.0	1.8

Notes:

1. Seed and waste are assumed to be 2 baskets per acre.
2. Home consumption is calculated as the number of households \times 5.5 (the average number of people per household in 1999) \times 15 baskets. For 1998/99-99/2000 the data for farm households are not available; therefore consumption was estimated using the average increase in the rate of households.
3. Exports include both white rice and broken rice.
4. The paddy conversion rate for exports is assumed to be 67%.

Sources:

number of farm households from: *RFES*, various issues

procurement volumes: same as Table 1

production and sown acreage from: *Agricultural Statistics*, 1998/99-2000/01 and MAS

exports from: *Statistical Yearbook* 1991, 1998, 2001, Tin Htut Oo & Kudo ed. Table 15.

Although the farmers' quota obligations were reduced, the paddy procurement system itself essentially unchanged from that of the socialist period. In normal years farmers were obliged to conclude procurement contracts with MAPT before the monsoon rice planting season

and received the price in advance (Okamoto 2005, p.168). The procurement price paid under this system was kept at 40%-60% of the prevailing free market price as in the socialist period.

c. Rice Export System

Although the ban on the private export of agricultural produce such as pulses was lifted in 1988, rice exporting remained the monopoly of MAPT. The government's priority was on securing rice for rationing, and only the rice remaining in government hands after rationing was released for export. Consequently, only an extremely small amount of rice was exported when compared with the socialist period (Table 2).

One result of the government's monopoly over rice exporting has been the separation of the domestic and international markets which has led to a huge disparity between the domestic and international price of rice. The domestic rice price at the free market foreign exchange rate was 60% of the international price on average after the first liberalization. It even fell to 40% when the domestic price collapsed in 2000-01. The international price of rice has been trending downward over the past two decades, but the Myanmar government has kept the price of domestic rice well below even the declining international level.

1.2 Background and Determining Factors of the First Liberalization

This section will turn to the background and determining factors of the first liberalization. The important fact is that rice in Myanmar is a political commodity. The government has always seen the stable supply of rice at a low price as a very important factor for avoiding political disturbances, and the reform measures were designed with this factor in mind.

There were basically two problems that led to the first liberalization. One was the government's growing fiscal deficit. As noted earlier, the ration system of the socialist period was for consumers in general. Thus as the population increased over the years, the fiscal burden of rationing continued to expand. This can be seen in MAPT's balance sheet figures which registered a peak surplus in 1982/83 of 200 million kyats, but which dropped sharply thereafter

recording a deficit in 1985/86 of 220 million kyats.¹¹ This fall suggests that it was virtually impossible for the government to raise its procurement price in response to the rising discontent of rice farmers against the procurement system.

The second problem was the growing disinclination of farmers to produce rice. The paddy procurement system itself created a huge disincentive for farmers.¹² The system had been revised several times during the socialist period, and by the mid 1980 it had become very severe on the farmers with the state absorbing their entire marketable surplus. Adding further to farmer stress was the low procurement price which remained unchanged from 1980/81 to 1986/87 while the free market price doubled during the same period. Takahashi (1992, p. 93) saw this paddy procurement system as resting on the “good will (*seidana*)” of the farmers and “pressure” from the state. But from the beginning of the 1980s, there came to be only “pressure” which drove up farmer discontent and made them reluctant to cultivate rice.

This discontent and reluctance peaked with the government’s failure to procure a sufficient supply of paddy at its low procurement price in 1986/87. This triggered government moves to reform Myanmar’s rice marketing policy. To deal with the skyrocketing free market rice price, the government introduced a new procurement scheme which bought paddy through cooperatives in an effort to assure a sufficient supply of rationed rice to consumers. Along with this the government issued yet another prohibition against the sale of rice on the black market in an effort to keep the rice price under control (Kawada 1988, p.8). However, neither of these moves achieved their aims, and it was starkly clear to everyone that the socialist rice marketing system with strong reliance on pressure and price controls had reached a dead end.

The reason for modifying the rice marketing system soon after the broad-ranging

¹¹ The figures were not only for rice. However, due to the overwhelming share of rice in the ration system, any increase/decrease in the volume of rationed rice had a substantial impact on MAPT’s balance sheet. Tin Soe (1994, p.21) pointed out that the deficit for rice procurement and rationing increased fivefold during the nine years from 1978/79 to 1986/87.

¹² See Saito (1979), Takahashi (1992), Tin Soe and Fisher (1990) for analyses of the procurement system in the socialist period.

liberalization of agricultural marketing was also closely related to the need for the government to assure a stable supply of rice at a low price. Even though the rice rationing system for the general consumer was to be abandoned, that for the military and public workers was to be maintained to secure the political base of the regime. Initially it was planned to collect paddy for the rationed rice as land revenue from farmers and commercial taxes from traders.¹³ However, the new collection system became caught up in the movement for democracy in 1988 and did not function well with the result that the amount collected fell far short of requirement. The next year, following the crushing of the democracy movement, the government revived the paddy procurement system which had a very strong institutional base under the Socialist government. In a determined effort to achieve its procurement goals, the government sought to placate farmers by reducing the “pressure” of procuring while making efforts to obtain their “good will”. A clear indication of the government’s new approach was the initial labeling of paddy collected under this revised system as “good will paddy (*Seidana zaba*)” (Okamoto 1993, p.107).

Along with this, the government monopoly on rice exporting was utilized as a measure to control the price of rice for the general consumer who was excluded from the rice ration system after the first liberalization. A general deregulation of private exporting was announced only two months after the peak of the democracy movement. But in the midst of the tense situation and fear of further instability, the government very much wanted to keep a stable rice price for general consumers, and it regarded the maintaining of its monopoly on rice exporting as one means to this end. Consequently, the decision to allow private rice exporting was shelved.

In addition to this, it may be true that the government had another incentive for maintaining its monopoly on rice exporting: it was a direct source for earning foreign exchange. By exporting rice that had been procured at 25%-30% below the international price, the government could earn a huge profit from the price difference; and although the exported volume remained quite low, the foreign exchange earned per unit was large, giving the

¹³ Cabinet Council Notification 30, September 1987 and Cabinet Council Directive 19 October 1987.

government incentive to keep control over rice exports.

In the late 1990s, when the domestic rice market had for the most part stabilized, the government apparently took a stronger interest in earning foreign exchange through rice exports. This is evident from the fact that despite the decrease of the total volume of rationed rice, the amount collected through the procurement system increased considerably (Table 1). If procurement was only for rice rationed to the Budget Group, there should not have been a need to expand the areas targeted for the procurement of rice which even included rice deficit areas.

It is clear that the rice marketing system after the first liberalization continued to place priority on maintaining a stable supply of rice at a low price, and the underlying rationale of the system had not fundamentally changed since the socialist period. But why could this system be sustained for 16 years following the first liberalization? One reason was the shrinkage of the procurement system deficit when compared to the socialist period. According to MAPT, the deficit was 350 million kyats in 1986/87; this was turned into a surplus of 310 million kyats by 1989/90.¹⁴ Another reason was the reduction in procurement quotas for farmers. Although not as large as the official statistics suggest (as will be discussed further in the next section), it is true that the reduced quota obligations increased the marketable surplus of paddy per farmer when compared with the amount they could hold under the strict system in the socialist period. This increase, though it was not remarkable for every farmer, eased to some extent the disparity between the government procurement price and free market price which made more farmers to continue and expand rice production.

1.3 Problems in the State Marketing Sector after the First Liberalization

As already pointed out, the main policy objective of the state rice marketing sector after

¹⁴ According to later MAPT documents, it appears that the deficit increased again from the mid 1990s, and especially at the end of the 1990s. It is possible that this increase was because of a rise in the procurement volume. However, there is insufficient documentation to discuss the background and scale of the deficit in depth in this paper.

the first liberalization was to maintain the stable supply of rice at a low price. For this purpose, the paddy procurement system, the rice ration system for the Budget Group, and the government monopoly on rice exporting were utilized as the major institutional tools. This section will discuss the problems in the state marketing sector through an examination of three areas: 1) the procurement process, 2) the milling stage, and 3) rationing and exporting.

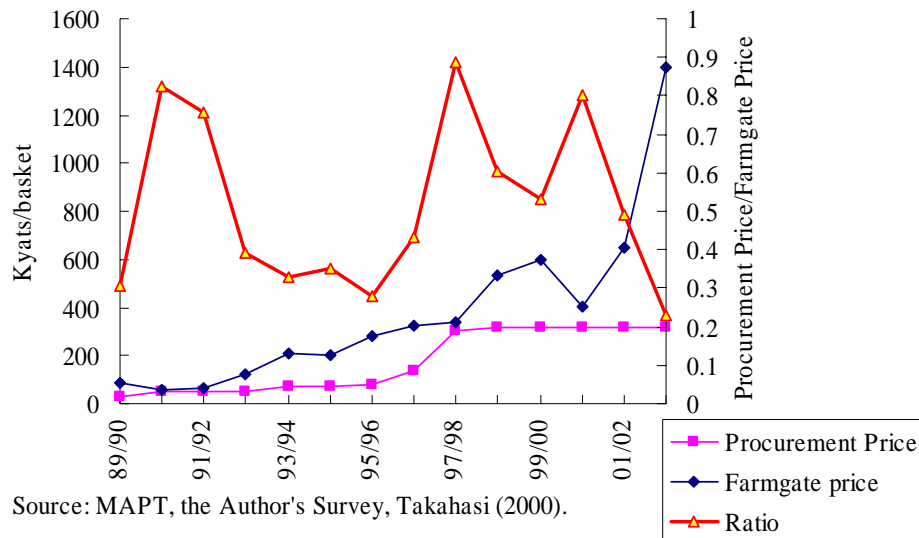
a. Problems in the Procurement Process

Despite the official assertion that the burden of the paddy procurement system on farmers was eased, there were various problems in the procurement process.

First, the amount procured was fixed on a per acre basis; thus farmers with lower productivity or less marketable surplus were at a disadvantage. Unlike the system in the socialist period that absorbed the farmers' entire marketable surplus, the new system had the merit of inducing farmers to increase production. However, the demerit was that it did not reflect the disparity in the productivity of individual farmers or take into consideration reasons for fluctuations in yield, such as weather conditions.

Second, as Figure 1 shows, the procurement price was only revised after the disparity between the market and official price became an obstacle to procuring paddy from farmers.

Figure 1. Changes in Procurement and Farmgate Prices



This widening disparity in price is one reason to think that the real burden on farmers was not actually lessened to the extent that official statistics indicate.¹⁵

A third problem is the likelihood of an upward bias in the production statistics as a negative consequence of the policy of aggressively increasing rice production. The real rice production level in some areas could have been less than the figures that appeared in the statistics since local administrators tended to overstate production, implying the real burden of farmers could have been much heavier than reported.

A fourth problem was the rise in the cost transportation. Normally procurement took place at the procurement depots set up by MAPT in towns and village from October (the start of the

¹⁵ Considering that the procurement price was paid to farmers when they need money for cultivation, such as for rice planting, it has been argued that the system offered the farmers a kind of credit (Fujita 2003). However, since the government abolished the procurement system in 2003/04 and started providing advance payments, there has been less discontent among farmers indicating that the demerits of the procurement system were greater than the merits.

harvest season) until March. Farmers had to deliver paddy to designated depots at their own cost. However, after liberalization the number of procurement depots decreased, and more often than not farmers had to deliver their paddy to more distant depots. This increased the burden of the farmers' transportation costs (Takahashi 2000, p.191).

Fifthly, there were additional cost that occurred at the procurement depots (Takahashi 2005, p.56, 191), such as the frequent bribes demanded by MAPT staff. Sometimes the demands could be so flagrant that they led to arrests for exceeding even the tolerance of the authorities. To avoid his sort of extra cost at the depot, some farmers entrusted their deliveries of procured rice to special brokers who could better handle bargaining with MAPT staff. As an example of the cost for this service in 1999, farmers in a township in Yangon Division paid 8 baskets (8%) for the delivery of 100 baskets of procured paddy. In effect, this means that farmers were forced to bear larger costs if delivering their paddy to procurement depots on their own.

A sixth problem was the enlargement of the areas targeted for the procurement of paddy which added to the burden of farmers in general. Looking at the percentage of procurement by area (Table 3), one would expect the rice surplus areas (Ayeyarwaddy, Bago and Yangon divisions and Mon State) to account for the larger share. However, the rice deficit areas (the rest of the divisions and states) also had their shares increased, especially from around 1993/94. Even though the procurement rate per farmer in the rice deficit areas was set lower than for the surplus areas, their share in actual terms increased in the 1990s. This was the result of stronger government pressure to increase rice production nationwide. Procurement quotas were raised even for those areas where the rice production was basically for home consumption with little marketable surplus.

Table 3 Share of Paddy Procurement by Area

(%)

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1998/99	1999/2000
Rice Deficit Areas	12.9	11.0	21.2	16.6	22.4	28.1	18.7	25.0
Rice Surplus Areas	87.1	89.0	78.8	83.4	77.6	71.9	81.3	75.0
Ayeyawaddy	47.5	55.1	38.9	42.4	37.5	40.8	42.7	35.5

Notes:

1. Rice deficit areas include Sagaing Mandalay, Magwe and Taninthayi divisions, and Kachin, Kyin, Kaya, Shan and Rakhin states.
2. Surplus areas include Ayeyawaddy, Bago and Yangon divisions and Mon State.

Source: MAPT.

A seventh problem was that procurement quotas were virtually impossible to adjust. Officially quotas were to be determined at the township and district level based on the performance of the previous year and actual production conditions. However, it was almost impossible to set a target lower than the previous year without special reasons. There was continuous pressure from the top authorities to increase or at least maintain the total volume of procurement per area.

An eighth problem, administrative operations at the village and township levels were greatly biased toward maintaining the procurement system which impeded the functioning of local administration. During the procurement process in the villages, not only MAPT personnel, but all administrative bodies in a local area were expected to be involved.¹⁶ They were all responsible for pressuring farmers to meet their quotas. Whenever local authorities found procurement operations lagging and the possibility of the target not being achieved, all the civil servants in the township were sent out to the villages to encourage the farmers to meet their procurement obligations. Finally, there was the problem of the quality of procured paddy. In response to the government's low procurement price, farmers tended to deliver to the depots their lower quality paddy (such as that which was not fully dried or had been intentional mixed

¹⁶ Townships set up a special committee every year for promoting rice procurement during the harvest season. The chairman of this committee was the chairman of the Township Peace and Development Council. The MAPT township manager was the secretary, and other committee members consisted of officials from related ministries and organizations such as the Ministry of Agriculture and Irrigation.

with foreign matter) and sold their better paddy on the free market. Another factor affecting quality was that paddy delivered to the depot was supposed to be separated into varieties, but in practice this separation was loosely controlled and different varieties became intermixed. Thus good quality paddy could become mixed with poor quality paddy leading to a lower grade of milled rice. The result was that the quality of procured paddy became a big problem, the same as it had been in the socialist period (Takahashi 1992, p.93-94).

b. Problems at the Milling Stage

The paddy collected from farmers was milled either at MAPT-owned rice mills or contracted to private mills. As of 2000/01, MAPT owned 68 mills mainly in the major rice producing areas. Most of them had been constructed in the 1980s with official development assistance (ODA) from Japan or other international organizations. Many of MAPT's mills were large scale with a capacity of 100 tons of milled rice per day, while most private mills had a capacity of less than 50 tons per day. There was far more paddy procured than MAPT could handle at its own mills, so it contracted with private mills. Table 4 shows the share of milling by MAPT and private mills after liberalization began in 1987. The share for MAPT mills was only 32% on average indicating the government's great dependency on private mills.

Table 4. Changes in the Share of Rice Milled by MAPT-Owned and MAPT-Contracted Mills.

(in millions)

Fiscal Year	Procurement (baskets)	MAPT Mills		MAPT-Contracted Mills		Share for MAPT Mills (%)	Share of Milled Rice in the Total Procured Amount (%)
		Paddy (baskets)	Milled Rice (tons)	Paddy (baskets)	Milled Rice (tons)		
1988/89	85.10	14.70	0.18	46.10	0.58	24.18	71.4
1989/90	63.00	19.10	0.24	59.20	0.78	24.39	124.3
1990/91	72.10	19.60	0.24	40.40	0.53	32.67	83.2
1991/92	74.70	20.30	0.25	45.90	0.59	30.66	88.6
1992/93	76.50	25.00	0.31	57.70	0.75	30.23	108.1
1993/94	92.30	27.00	0.34	50.90	0.67	34.66	84.4
1994/95	97.30	32.10	0.40	76.50	0.97	29.56	111.6
1995/96	92.90	27.40	0.35	67.10	0.85	28.99	101.7
1996/97	73.00	22.60	0.28	49.90	0.65	31.17	99.3
1997/98	44.70	21.70	0.27	37.20	0.48	36.84	131.8
1998/99	105.30	26.20	0.33	46.00	0.61	36.29	68.6
1999/2000	105.83	30.90	0.38	53.30	0.69	36.70	79.6
2000/2001	101.74	28.10	0.35	51.80	0.67	35.17	78.5

Source: Tin Htut Oo and Kudo (2003, p.114)

One reason for the high dependency on private rice mills after liberalization, even with the decrease in the volume of procured rice, was the run-down condition of MAPT mills. These facilities could not be maintained or repaired after the halt of ODA following the government's suppression of the democracy movement in 1988. Also the chronic shortage of electricity greatly lowered their rate of operation as most of MAPT's mills were power by electricity. Some mills operated only 6-10 hours a day because of blackouts although they had 24-hour operating capacity.¹⁷

The biggest problem with the milling of procured paddy was the low milling fee paid to contracted private mills. It was half to one-third of the prevailing free market milling rate. For example, in 1998/99 the market milling fee was 20-30 kyat per basket while MAPT paid only 10 kyat per basket. The government kept this low milling fee in order to curb the growing expenditures incurred by the state marketing sector. This meant that not only the farmers but also the private millers were burdened by the rice rationing system.

¹⁷ Based on the author's interviews in Myaungmya in January 2002.

c. Problems Related to Rationing and Exporting

The quality problem of procured paddy, which was pointed out above, had two results.

First, although the rice ration system was a benefit to recipients in terms of volume and price, this was not sufficient enough to overcome the inferior quality of the rice, which led recipients to sell it to traders as feed for livestock rather than consume it at home.¹⁸ The increasing availability of a wide variety of rice at varying prices on the free market, as will be seen later, further accelerated this trend. Consequently, the rice ration system no longer worked as a benefit to its recipients as the government originally intended.

Second, the inferior quality of procured paddy limited the destinations for exported Myanmar rice. A breakdown of Myanmar's rice exports (Table 5) shows that most go to South Asia, Africa and Southeast Asia which have a large share of the world's low-income countries where demand for low quality rice is high. Myanmar rice has failed to generate stable export demand because of its export regime which depended greatly on the state marketing sector. Due to the nature of the state marketing sector to place importance for quantity of supply rather than the quality, Myanmar was not able to meet demands for wide range of quality to expand the export.

¹⁸ Relatively affluent people tended to purchase rice on the black market during the socialist period.

However, it is likely that the compulsory delivery system absorbed not only the surplus for sale but also part of the rice for home consumption of farmers. Therefore, the volume of rice sold in the black market could not have been large and most of the rationed rice was actually consumed during the socialist period.

Table 5. Breakdown of Myanmar Rice Exports

Destination	(%)										
	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01
Southeast Asia	11.2	25.7	2.0	6.1	61.0	73.7	50.5	3.6	55.0	36.4	18.3
South Asia	49.3	26.2	37.7	18.8	9.5	7.3	21.5	96.4	15.8	41.8	69.3
the rest of Asia	0.0	4.9	0.0	3.1	0.0	5.1	0.0	0.0	0.8	0.0	0.0
Africa	29.9	43.2	57.3	66.7	26.5	6.5	26.9	0.0	25.8	0.0	10.0
Middle East	2.2	0.0	3.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
North and South America	7.5	0.0	0.0	0.0	1.4	7.3	0.0	0.0	0.0	0.0	0.0
Europe	0.0	0.0	0.0	4.2	1.5	0.0	1.1	0.0	2.5	21.8	2.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: *Statistical Yearbook* (1997, 2001)

2. The Private Rice Marketing Sector after the First Liberalization

2.1 Development of Private Marketing Sector

The rice ration system and its supporting procurement system were scaled back after the first liberalization, and the private sector came to play a larger role in supplying rice to the general consumer. The first liberalization abolished the restrictions on private millers and traders, and the geographical restrictions on rice trading that existed in the socialist period were basically lifted (Okamoto 2004, p.165-166).

The shrinking of the state marketing sector along with the government's policy in the 1990s to raise rice production brought a steady increase in the volume of rice on the free market.¹⁹ The volume reached 30%-40% of total production by the end of the 1990s (Table 2).²⁰

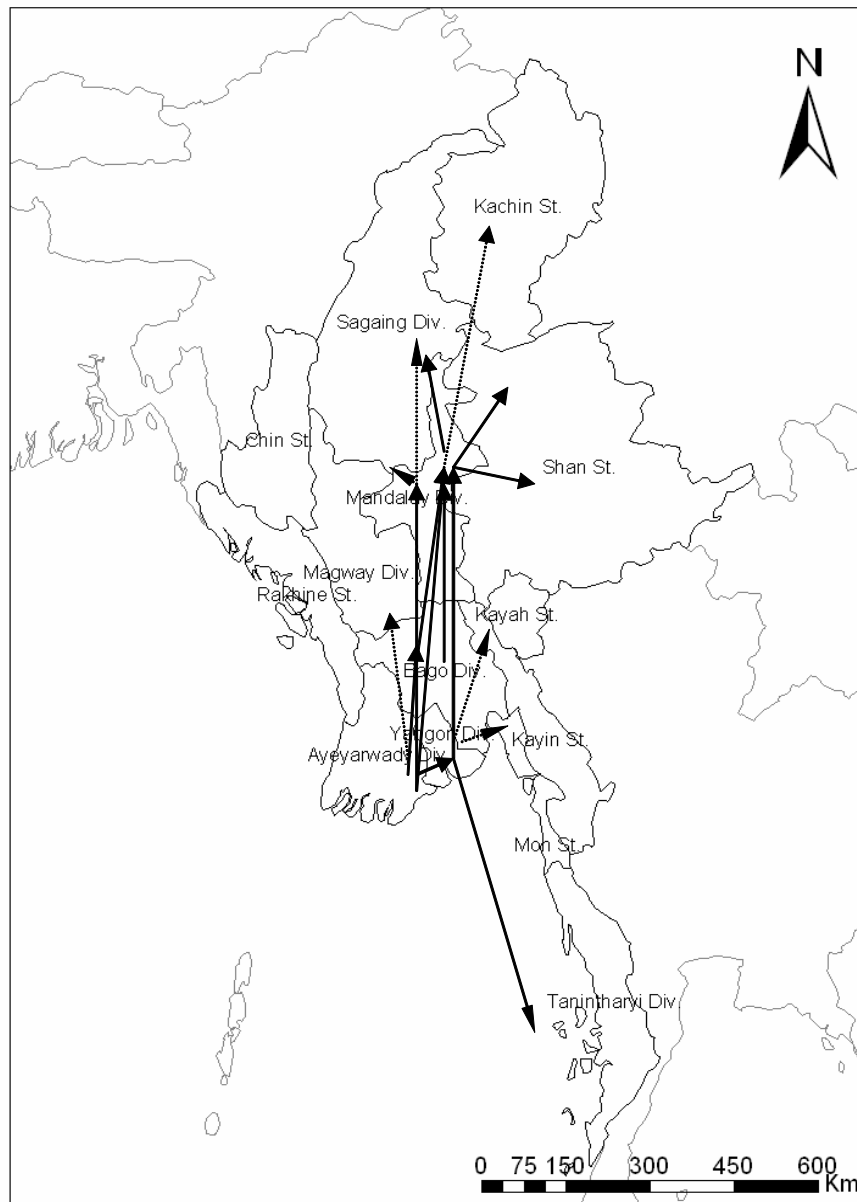
¹⁹ For analyses of the government's policy to increase rice production in the 1990s, see Fujita ed. (2005, Chapter 5), Takahashi (2000) and Fujita (2003) and Kurosaki et al. (2004).

²⁰ This estimation is based on the official statistics. As Fujita points out (Fujita 2003, p. 310), there can be some upward bias in yields in official figures, especially since the late 1990s. The volume percentage shown here is based on the officially estimated average yield of around 60-65 baskets per acre since 1995/96. However, according to field surveys by authors, there is a greater number of areas where the average yield for monsoon paddy is around 50 baskets per acre which is 20% lower than the official figures. Thus, if the estimation is made based on this 20% lower figure, the marketed volume of rice for 2000/01 decreases from 46% to 27%. In this estimation, however, the calculation of home consumption does not differentiate between adults and children. Thus, the volume for home consumption could be less than these figures suggest. Therefore, the marketed volume for 2000/01 could have been between 27% and 46%.

This section will examine how the private marketing sector developed in the midst of the increasing volume of marketed rice, focusing especially on the qualitative changes of the marketing system.

One important change was the spread of marketing over wide areas of the country. Myanmar has a diversity of agronomic environments, and not every area of the country is suitable for rice cultivation. Therefore rice has to be transferred from surplus to deficit areas. The rice flows are shown in Figure 2.

Figure2. Flow of Rice

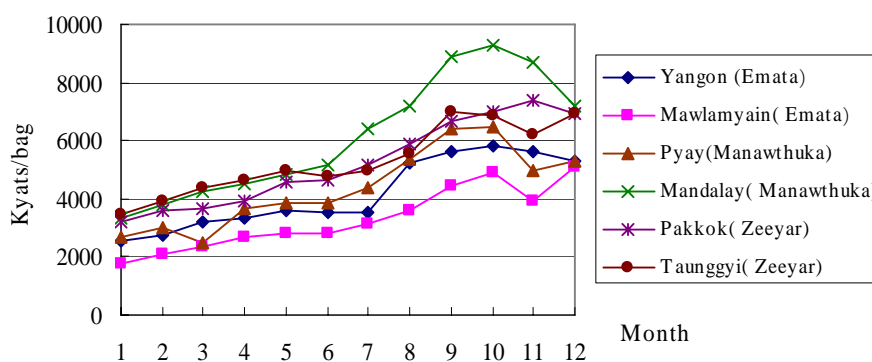


Source: Author.

The major commodity flows are from Lower to Upper Myanmar and Lower Myanmar to coastal areas. Rice is transferred via Upper Myanmar to the mountainous frontier areas. Yangon, the capital, functions as the central marketing point from which the flow of rice reaches 3-3.4 million tons annually (average figure for 2000-2002) (*MOAI, MIS*, various issues), accounting for 34% of the total marketed volume per year indicated in Table 2. The rice assembled in Yangon is transferred to markets in Upper Myanmar and the coastal areas while also feeding the capital's four million people. During the socialist period, only a scant volume of milled rice was marketed which had slipped through the mesh of government regulations. But now it is traded in large volumes over wide areas of the country.

The price trend of rice in different areas of the country is another indication that rice is now being marketed over a wide area. Figure 3 shows the change in the price of rice of similar quality in six different areas. Yangon, Mawlyamyaine and Pyay are in rice surplus areas; Mandalay and Pakkoku are in rice deficit areas, while Taunggyi is an important collection/transfer market in a rice deficit mountainous area. Figure 3 shows that the prices in the six areas moved closely with each other, although the prices in deficit areas were higher than those of surplus areas as would be expected.

Figure 3. Changes in the Rice Prices in Diiferent Areas(2002)



Source: MIS (various monthly issues).

A second change was the entry of private rice millers and traders who expanded the volume of marketed rice. The number of private rice mills increased throughout the 1990s. This was mainly due to the sharp rise in the number of small mills in the villages (often called huller mills which have a capacity below 15 tons per day). The exact number of these small rice mills is not available, but there are normally one to five of them in each village tract. For example, in a township in Yangon Division, where the author conducted a survey, there were 200 of these small mills.²¹ The township has 64 village tracts, which would mean that each village tract had 3.1 rice mills on average. Assuming that there are two rice mills in a village tract in the major rice producing areas (e.g., Ayeyarwaddy, Bago, Yangon and Mandalay divisions and Mon State), the total number of these small mills could be as high as 14,240. However, it is not unusual for a village tract to have more than 2 rice mills, so the above figure is a rather conservative estimate. The establishment of small rice mills was first permitted officially from around 1992/93; thus the dramatic increase in the number of these mills has taken place in the short time since then. Most of these mills handle paddy for home consumption in the villages, while only a few engage in milling for sale on the free market. The owners of these small mills are often farmers who do not have sufficient capital to invest a high quality machines. Thus, the efficiency of these mills is often low, and the quality of their milling poor. Oftentimes the rice they have milled, even when of the same variety, can be sold only at lower prices.²²

Not only the rice millers, but a large number of traders also entered the rice market. According to the author's survey of 47 wholesalers in eight major rice markets (Patheingyi, Pyawbwe, Mawlamyath, Myaungmya, Yangon, Pyaw, Mandalay, Pakkoku), 39 wholesalers (84.8%) began rice trading after liberalization in 1987, and only five (10.9%) were doing so before then.²³ By far the greater share of rice traders entered the market after liberalization. The formation of marketing networks over wide areas of the country as well as the increase in the

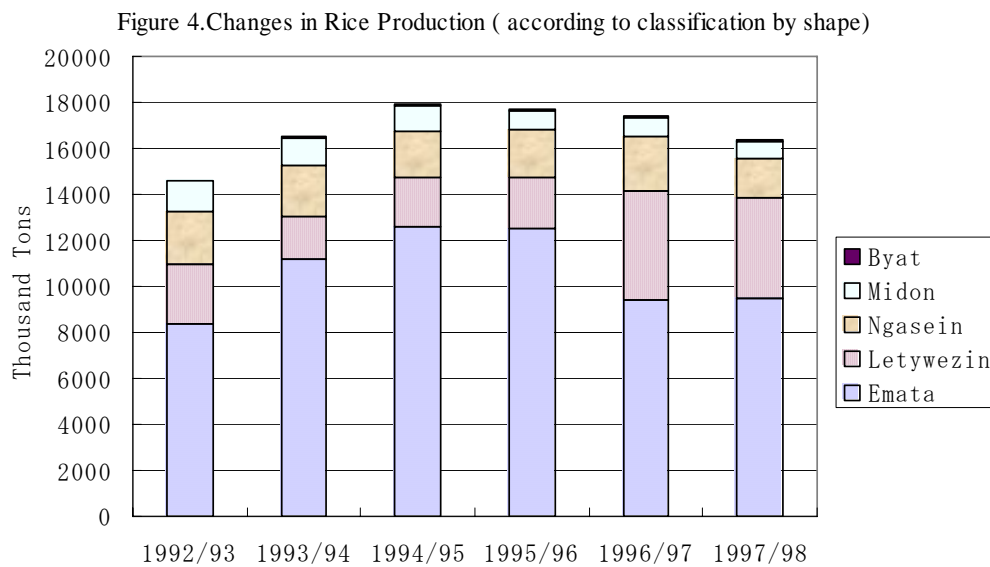
²¹ Author's survey in 1999.

²² This is especially the case for the high quality rice.

²³ Author's survey in 2002-2003. There was no pertinent information on the remaining two traders.

volume of marketed rice produced by farmers encouraged the entry of traders, especially in the late 1990s.

A third change was progress in the differentiation of rice varieties and production areas. This indicates a growing preference for high quality rice in Myanmar, although low- and medium-grade rice still predominates in the domestic market. The share for rice classified as *Emata* and *Ngasein* (classifications according to shape),²⁴ which are two groups of low- and medium-grade rice, accounted for a high share of total production even in the 1990s (Figure 4); thus their share of marketed volume was also large.

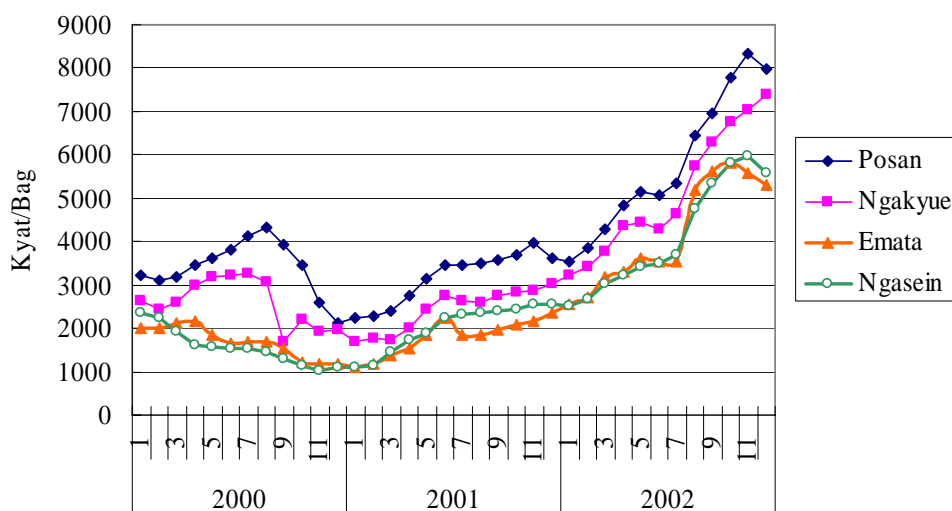


Source : MOAI (2001).

²⁴ In the British colonial period, rice was classified according to the nurturing duration at the farm level (*Kaukkyi*, *Kauklat* and *Kaukyin* for long, medium and short nurturing varieties). Myanmar’s rice traders adopted classifications according to shape (length and width), such as *Emata*, *Ngasein*, *Midon*, *Letywez in* and *Byat* (Cheng 1968, p.36-39; DOA 1936, p.12-14; MOAI 2004, p.46). These classifications continue to be used, but since the introduction of high yield varieties in the late 1970s, classification by variety name has become more common. However, the government’s procurement operations and the official statistics as well continue to be based on classification by shape.

It is rare for these two groups to be traded based on their individual variety names. Their prices are generally low (Figure 5), and the greatest demand for them comes from the low- and middle-income classes. The demand for rice of the *Ngasein* group, which is of low quality, is generally high in Upper Myanmar where a larger number of the country's poor areas are located. *Ngasein* group rice is generally referred to as “rough” rice, but it is preferred by the poor because its volume increases when cooked. Rather than quality, these people want rice that fills the stomach.

Figure 5 Changes in Wholesale Rice Price(in Yangon according to Group)



Source: MIS(various monthly issues).

Since the 1990s, differentiation by variety has progressed for some types of rice that have a certain added value. These are traded by individual variety name and not by group classification according to shape. Also their prices are determined by quality and production area. The best example is *Pawsan Hmwe*, a type of fragrant rice of high quality that is produced in the Ayeyarwaddy Delta. *Pawsan Hmwe* belongs to the *Midon* group when classified by shape. Looking at the price change for various types of rice (2000-2002), *Pawsan Hmwe* on average was 76% more expensive than *Emata*, but the price ranged from a maximum of 188% to a

minimum of 24% higher (Figure 5). The price of *Pawsan Hmwe* differs depending on the area of production and quality. For example, that produced in Pyapon in Ayeyawaddy Division is regarded as high quality and is priced 10%-20% higher than the same rice of regular quality (MIS, 2002).²⁵

The trend toward quality among consumers is most evident in Yangon which is the largest rice consuming area in the country. The brands of some wholesalers, especially those dealing in high quality rice, have come to be valued highly, and consumers now equate some specific brands with high quality. For this reason, some wholesalers in Yangon started to sell their rice in bags printed with their logos, a trend that became popular especially from the late 1990s. To secure the consumer's trust wholesalers had to maintain high quality. This required them to select rice mills carefully and check the quality of milling when purchasing rice.

In the past, rice was looked upon as a basic food, and there was less concern about quality. But consumers emerged who demanded better quality rice, and traders in large numbers responded to this demand. This significant change in the Myanmar economy came about with the development of private rice marketing following liberalization of the rice market sector.

Fourth, changes in the means of transportation were an important factor for expanding the area of rice marketing in the 1990s. There was a substantial shift from water to land transportation. Water and rail transportation had been the major means of transportation in Myanmar since the colonial period. Even today when rice is transported directly from producing areas in the Delta to collection markets in Upper Myanmar, such as Pakkoku, water transportation is still widely used. In Yangon Division as well, about 50% of all rice is transported on waterways.

However, if we look at the change in the absolute volume of rice shipped by water, by

²⁵ While their price comparisons are not as detailed as for *Pawsan Hmwe*, there are other varieties in strong demand and which are priced by the name of the variety. Some examples are *Shwebo Manaw* (the variety preferred in Upper Myanmar and produced in Shwebo; it belongs to the *Letywezin* group), and *Innma Yebow* (the variety preferred in Shan State and which belongs to the *Emata* group).

2001/02 it had decreased to one-fifth of that shipped in 1990/91, and to only one-tenth of that in 1980/81 (Central Statistical Organization, 2002).²⁶ In its place, truck transportation gained dramatically in importance during the 1990s. Behind this growth lay the gradual development of the country's highway system. The total length of miles increased about 30% in the 11 years from 1990/91 to 2000/01 (Central Statistical Organization, 2002), and the number of trucks (second-hand) increased 40% during the same period.

One clear reason for the rapid growth of land transportation was shortened transportation time. For example, if water transportation is used to move rice from the Delta to Pakokku, it takes well over one month, but it only takes several days if transported by truck. There are two benefits from the shortened transportation time. One is the lessened risk of deterioration in quality. If transported for a month in Myanmar's scorching heat, the quality of rice is certain to deteriorate. However, if it is transported by truck, deterioration can be minimized. The second benefit is the acceleration of commodity turnover. This is quite apparent in transactions on the Yangon market where there are more traders wanting to collect payments as quickly as possible to use as capital for purchasing the next shipment of goods. With greater speed of commodity turnover, traders can increase the volume of their transactions. In this sense, the expansion of truck transportation has not only helped expand the area of marketing, but has also helped increase the volume of transactions and the profits of traders.

A fifth change was the shift of traders from informal methods to using formal institutions for raising capital and settling accounts. Previously, most rice traders depended on loans from relatives and acquaintances for their working capital. Even for settling bills, they often utilized

²⁶ About 21% of the rice shipped to Yangon was transported by truck to the Bayintnaung Market, according to the average figures for 2002 (*MOAI*, various monthly issues). The remaining 79% was shipped by water. Of the volume transported by water, 50% was sent from the Delta to the Lamadaw and Bodataung areas. The rice shipped to these areas is often reloaded onto trucks for transport to the Bayintnaung Market where many of the rice wholesalers have their stores. Thus, along with the development of the road system in the Delta, the truck transportation has increased to avoid the reloading process.

the informal remittance system called “*Hondi*”,²⁷ or if not they accompanied the commodity and paid the price directly. However, after the government allowed the establishment of private banks in the early 1990s, 20 private banks came into existence in the country. Further, branch networks expanded even into some rural areas, and account settlement through banks increased quite dramatically. In one rural area (Pakkoku), a new 21-day short-term loan scheme with an upper limit of three million kyat was introduced to provide working capital to local rice traders. However, this scheme continued only up to the early 2000s. After the financial crisis in 2003, large banks were forced to close. This seriously hampered utilization of the banking sector for loans and account settlements, and many traders reverted to relying on informal loans and remittances. The development of the financial sector has yet to recover from this setback.

One more change was the development of infrastructure for conducting transactions, especially on the Yangon market. The Myanmar Rice Wholesalers Association took over responsibility for managing the rice trading center²⁷ in Yangon and helped improve the market’s efficiency and the environment for conducting transactions. The rice trading center is open to anyone who pays the entrance and annual fees, the number of members has been increasing annually (it had 6,000 members in 2002). In 2003, 500-600 traders visited the center every morning and transactions took place through negotiations with traders presenting different samples of rice. The center keeps records of the daily prices and volumes of rice traded, and these records are provided to the rice traders and to government organizations. This helps traders to judge the current market condition at least for Yangon market.

²⁷ In this system the amount of money for a transaction is not paid to the seller directly, but to the *hondi* agent located in the area where the buyer lives. The *hondi* agent in the seller’s area pays the amount to the seller after receiving confirmation from the agent in the buyer’s area that the amount has been received. The money the *hondi* agents use for payment is the money that has accrued from previous transactions for other traders. Therefore, for the system to function, there have to be various kinds of commodity transactions taking place for the *hondi* agents on both sides.

2.2 Problems that Private Rice Marketing Sector Has Faced

In the previous section we noted various positive aspects of private rice marketing in Myanmar after the first liberalization. However, there were also problems in the development process, and these were closely bound with the official rationale of the rice marketing system which was the maintaining of a stable rice supply at a low price. The private rice marketing sector did not dare to interfere with this rationale. Consequently, the sector had to limit the scope of its transaction activities to dealing in the government's procurement operations (for the Budget Group) and to the domestic rice market. This next section will discuss the problems for rice millers. This will be followed by a discussion of those faced by rice traders.

a. Problems Facing Rice Millers

It was pointed out earlier that there was a remarkable rise of small rice mills in rural areas in Myanmar. However, contrastingly enough, mid and large-scale rice mills (mills with milling capacity more than 16 tons of rice per day) decreased in numbers. Table 6 indicates the changes in the number of MAPT registered mid-and large rice mills.

Table 6. Number of Mid- and Large-scale Private Mills Registered with MAPT

State • Division	1998/99	2000/01	1998/99 (%)	2000/01 (%)
Ayeyawaddy	489	369	47.2	53.7
Bago	208	133	20.1	19.4
Yangon	123	69	11.9	10.0
Mon	66	32	6.4	4.7
Rakhine	5	4	0.5	0.6
Sagaing	49	41	4.7	6.0
Mandalay	68	11	6.6	1.6
Magwe	6	0	0.6	0.0
Kachin	8	10	0.8	1.5
Tanintaryi	2	2	0.2	0.3
Kaya	11	16	1.1	2.3
Total	1035	687	100.0	100.0

Source: MAPT, Tin Htut Oo & Kudo (2003, Annex 7)

The figures show that the number of these rice mills decreased greatly in only two years. Another example of this big drop comes from the author's 1999 survey. There were 13 mid- and large-scale rice mills in a township in Yangon Division, but only seven of the mills were actually operating. The other six had closed down.

The great majority of these big rice mills had been established during the British colonial period or the socialist period. Those opened during the colonial period had played a primary role in making Myanmar one of the giant rice exporters of the world. However, when rice exporting became a government monopoly in the socialist period, these rice mills were required to mill the government procured paddy at the official fixed rate, though they were not nationalized in the strict sense. After the first liberalization in 1987, these mid- and large-scale mills also started operating in the private rice market. But business was difficult because of their large capacity. The main reason that the rice mills closed down in the township stated above was capacity underutilization.

One reason for this underutilization was the decreasing demand for milling at mid- and large-scale rice mills. The rapid increase in the number of small mills in the villages following the first liberalization reduced the need to transport paddy to the distant big mills and their rate of operation declined. Before liberalization the rice for rural household consumption was milled at the big mills located in town. But during the 1990s this rice came to be processed mostly at the newly established village mills, and the big town mills lost business. Competition also arose from some rice traders, especially from those in Patheingyi and Myaungmya in Ayeyarwaddy Division, who procured paddy over a wide area. These traders set up their own rice mills. As noted earlier, the rice price can fluctuate widely on the Yangon market, and the timing of transactions has a big impact on the profit of traders. If the rice sent to Yangon has to be milled at one of the big mills, traders sometimes have to wait their turn which can make them miss the best timing for a sale. To avoid this problem, some traders set up their own mills, even if these were small. Given the downward trend in the demand for milling at mid- and large-scale rice

mills, and in an effort to raise their rate of operation, some of these big mills turned from the specialization on custom milling and started regular milling whereby the mill bought up and milled paddy at its own expense and then sold the rice itself. This was another indication of the unfavorable business conditions facing the big rice mills.

A second problem for mid- and large-scale rice mills was that the milling of MAPT paddy often became a burden both financially and physically. Even though MAPT bore the cost of labor for the milling of its paddy, big mills contracted by MAPT still often found that milling for the organization did not pay. The mills also needed to handle all the cumbersome procedures to abide by the requirement that MAPT prescribed.²⁸ There were also cases where MAPT required mills to store its paddy or milled rice for medium to long periods without paying any charges. These mills were then hard pressed to find space to store their own rice or paddy. From the statistical figures, government dependency of rice storage on the private sector is less than 10% (Okamoto 2004, p.170). However, considering the above examples of required storage, it was very likely more than that. All these difficulties made the big rice mills reluctant to contract with MAPT. Table 7 shows the change in the number of mills contracted by MAPT to mill government procured paddy. It has been declining over the past decade. This can be interpreted as reflecting the general reluctance of private rice mills to contract with MAPT.²⁹

²⁸ One example of the quality check burden was the report that even though contracts prescribed a rate of 25% for broken rice, millers were sometimes required to meet a rate of 15% at the time of quality inspections.

²⁹ The year 2001/02, although showing a decline, was not an ordinary year. MAPT increased rice exports that year, and it had to contract with more private mills for these exports. To attract mills, it raised its milling fee to 30 kyat per basket which was close to the market rate. This attracted even those mills that had never contracted with MAPT before. Thus the figure for contracted mills in 2001/02 was likely rather higher than it otherwise would have been. MAPT also resorted to coercive methods to employ mills. In some areas it notified mill owners that their milling licenses would be revoked if they refused to contract with MAPT.

Table 7. Number of Private Mills Contrated to Mill MAPT Paddy

Division/State	1991/92	1995/96	1998/99	2000/01
Ayeyawaddy	220	208	144	138
Bago	173	136	100	51
Yangon	75	61	49	38
Mon	40	37	30	43
Rakhine	19	15	12	0
Sagaing	101	81	78	68
Mandalay	56	66	38	39
Magwe	32	19	20	15
Kachin	20	25	14	14
Tanintaryi	19	14	12	17
Kayin	9	1	1	0
Kaya	1	1	1	0
Tota;	765	664	499	423

Source: MAPT, Tin Htut Oo & Kudo (2003, Annex 5)

While the long-term trend of private rice mills has been away from MAPT, there are mills that find a benefit in contracting to mill MAPT's procured paddy. One reason is that they can at least secure a certain amount of paddy to continue operating. With general demand decreasing for milling at mid- and large-scale mills, they need to find ways to keep themselves running. It is a rather passive response. But they have workers to pay, and they see it as better to get whatever paddy they can to keep operating. Another reason is the deterioration and obsolescence of their milling facilities. These mills have found that they cannot meet the quality demanded of rice for sale on the free market. However, when milling for MAPT, the quality is less important. These are rice mills that are less inclined to expand their business or improve quality, so they are willing to contract with MAPT. Most of the rice mills that have closed down in recent years have been these sorts of passive operators who have relying mainly on milling MAPT paddy for their business.

But the biggest problem facing the mid- and large-scale mills is the dilapidated condition of their milling facilities and equipment. Important parts of these mills, such as engines, are now very old and have been in use since the 1930s; the most recent are from the 1960s. A survey by the author of mid- and large-scale mill in Ayeyarwaddy Division in 2002 found that even those

millers who had started business after the 1987 liberalization had often not constructed completely new mills; rather they had made use of second-hand equipment or had purchased old mills. In the survey, there were 22 mid- and large-scale mills; seven of them were new entrants into the business, but only two of these were constructing new facilities. The other five had purchased old, second-hand mills. Even with new ownership, the cost and maintenance of running these old, second-hand mills with their worn-out equipment can be very high. But no support or assistance for maintenance or improving efficiency has been forthcoming from the government despite its dependence on the big mills for milling state procured paddy.³⁰

In the view of most of the big rice mills, any substantial investment to upgrade facilities and improve quality will not pay given that the market is still dominated by trading in medium and low quality rice. Replacing their steam engines with electric motors would in all likelihood lower their rate of operation because of the chronic shortage of electricity. The limited supply of spare parts at reasonable cost and sufficient quality has also detracted from the willingness of millers to undertake new investment. The great majority of mid- and large-scale millers say that they are ready to undertake new investment once private rice exporting is allowed and the market for high quality rice expands. This clearly indicates that the present condition of Myanmar's rice market, characterized by government restrictions on exporting and the dominance of low and medium quality rice, has narrowed the business opportunities for big rice millers, and this in turn has narrowed their business perspective.

b. Problems Facing Rice Traders

The first liberalization gave rice traders the freedom to deal in the domestic rice market, and this new market environment encouraged the entry of new rice traders. However, this new freedom was only on the condition that their dealings did not jeopardize the government's rice policy. Herein lay the nature of the first liberalization. Rice traders were not entirely free from

³⁰ During the socialist period, there was some loan assistance to private mills from the Asian Development Bank.

government intervention. There were three situations where the government intervened in the domestic rice market.

One was when rice transactions were done with remote regions. In general after the first liberalization, there were no longer any restrictions on the marketing of rice over a wide area of the country. However, transactions with some remote regions bordering neighboring countries were an exception. These regions were Shan, Chin and Rakhine states, and Tanintharyi Division. For any rice transactions with these regions, it was necessary to get permission from the local authorities (the State or Division Peace and Development Council). For some regions, there was a set monthly quota for the volume of rice to be transacted.³¹ The rationale of this regulation, of course, was to keep the domestic rice price stable. With Myanmar's domestic rice price kept far below the international price, if sizable amounts of rice were exported (even informally) to the neighboring countries of Thailand, China, India and Bangladesh, there would be inevitable upward pressure on the domestic rice price. To prevent this, the authorities made every effort to strictly regulate the volume of rice transacted with these remote regions. This regulation actually made the people in these regions, which are rice deficit areas, pay a high price in relative terms for the rice they consumed.³² Nevertheless, the government put tight controls on the transactions of rice with these remote regions because it placed top priority on maintaining a stable price for the domestic rice market as a whole.

The second situation was when the volume of procured rice fell below the government's

³¹ For example, when rice wholesalers in Tanintharyi procured rice from Yangon, they had to submit the planned amount of procurement to the Tanintharyi Peace and Development Council every month. At the same time, the selling trader in Yangon also had to submit it to the Yangon Peace and Development Council. In the case of northern Shan State, buying traders in the state had to submit the volume of purchase to the Mandalay Peace and Development Council where the selling traders were located. For the sale of rice to traders in Chin State, traders had to submit the transacted amounts to the Peace and Development Councils where both the buying and selling traders were located. In Rakhine State as well, there were strict regulations when rice was transferred to townships in the northern part of the state. (This information is based on field surveys done by author in 2001-03).

³² According to the author's survey in 2001, the retail rice price in these remote regions was higher by 10%-20% compared to the average rice deficit area in Upper Myanmar.

target. There was an unwritten rule, even when the harvest was normal, that traders could not buy paddy or rice from farmers who had not met their procurement quotas for that year. However, when procurement was not progressing well in an area, the government often prohibited all private sales of paddy or rice in that area. In the rice deficit remote regions discussed above, the government generally did not permit such sales during the procurement season.

The third situation was when an abrupt rise took place in the rice price. The government was noticeably wary about depending on the private sector for the marketing of rice. This was because it basically viewed traders as evil,³³ and the private sector has often been blamed for hikes in the price of rice.³⁴ Whenever the authorities judged that the rice price had gone above the level they could tolerate, government officials were ordered to start inspecting rice traders in various parts of the country, in both rural and urban areas. Taking one extreme example, in

³³ Kikuchi (1998) points out that the view still persists in many countries that traders exploit producers and consumers, and governments use this to legitimize their intervention in the market. Myanmar is very much an example of this.

³⁴ The following quotes from a speech by a high ranking official clearly shows the stance of the present government on the marketing of rice. “. . . The price of rice should not be raised because of the scarcity of rice or exporting. The central authorities sent directives to the concerned local authorities to ensure that rice is transported freely, that the transport and flow of rice are not controlled, and that rice mills and hullers are not closed down. . . . There was instability in the price of rice in February [2002]. That was because of paddy being stored by some private rice mills in the townships, the manipulation of market [rice] price and rumors about government purchases of rice for export, and the storage of rice by those who are not rice merchants. There are some conditions in which the purchase and sale of rice cannot be regarded as merely a business undertaking. An unstable or soaring rice price is sometimes linked to unscrupulous instigations. Stability in the price of rice is linked to the need of the people for food, clothing and shelter, and to the stability of the State. Therefore, it can be assumed that there will always be the danger of destructionist existing in the paddy and rice trade. Moreover, whenever there has been an unusual occurrence and instability, some merchants in Myanmar, who have no scruples about the interests of the nation and the people, have taken advantage of the situation and have served their own self-interests by exorbitantly hiking the prices of rice, edible oil, gold, silver and other commodities. The manipulation of commodity prices is harmful and a burden on the grass-roots-level workers who live hand to mouth, on the poor and government personnel; and it must be prevented.”

August 2002, when the price of rice sky-rocketed, the government instructed rice traders in Bayint Naung Market in Yangon to sell rice below the market price (500 kyat below per 50 kilogram bag) for distribution to the poor. Later, other wholesalers in the market were told to provide another 1.5 tons of rice per trader for free because the previous amount had not been sufficient to cover the distribution. The effect of this government action was the equivalent of 150,000 kyat suddenly being seized from the traders. This episode suggests that, compared to other commodities, the rice market in Myanmar faces a much higher risk of sudden, unexpected intervention by the government. One rice trader commenting on the government's stance on rice said, "If you want to make a profit, don't go into rice trading; choose some other business."³⁵ Rice traders have to accept such intervention because the government has not changed its stance against an unstable rice price.

3. The Second Liberalization

The second liberalization in 2003 abolished the rice rationing system for the Budget Group and the paddy procurement system that took from the farmers. Forty-two years after the establishment of Myanmar's socialist government, the domestic rice market was finally completely liberalized. MAPT, long the main organization responsible for the rice procurement and rationing systems, lost its purpose for existing. Sizable reduction began in its personnel, and its rice mills were put up for sale.

As with the first liberalization, the second liberalization went through twists and turns as it progressed. Initially the procurement system was to be abolished, but the rice rationing system for the Budget Group was to be retained by relying on procurements from rice traders paid at the market price. However, just before procurements were to start, the government realized that it would be difficult to cover the whole cost of rice procured at the market price, and in the early 2004, it suddenly announced that the rice rationing system was to be abolished. To compensate

³⁵ From the author's interviews with rice wholesalers in Yangon in August 2002.

government personnel for the loss of rationed rice, each person would receive a payment of 5,000 kyat per month.³⁶

One of the main components of the original reform plan in 2003 was opening rice exporting to private traders. The idea was to issue export licenses to private exporters within a quota set annually by the government, and the government would take half of the foreign exchange earnings (it was equal to the 45% of the total earning after the deduction of the 10% export tax). In turn, the government would pay the marketing cost equivalent to 45% exported rice in local currency, kyats. After the second liberalization, export licenses actually issued were for 0.5 million tons of rice, out of which 0.27 million tons were actually exported. However, this private rice exporting was halted at the same time that the rice rationing system was abolished in January 2004.

The government's original objective in the second liberalization was likely to earn a larger amount of foreign exchange through rice exporting. As pointed out earlier, it appears that from the late 1990s, the government sought to export larger volumes of rice by increasing the volumes procured from the farmers. However, it seems that this effort did not work as planned, and apparently the government decided to try another way, which was to earn more foreign exchange by increasing rice exports via the private sector.³⁷

Behind this increased importance on exporting was the government feeling that the

³⁶ If we calculate using the market rice price for *Emata* in January 2004, this amount of compensation would be equivalent to 16 pyi (33.6 kg), an amount of rice larger than compared to when public workers received 12 pyi under the rationing system. However, January is normally the time of the year when the rice price is lowest, so this amount of compensation would not necessarily assure them of the same amount of rice throughout the year. Moreover, some ministries also halted the rationing of other items, such as eggs and edible oil. Therefore, it has been argued that this monetary compensation in place of the ration system was actually a reduction in the real salaries of public workers.

³⁷ Private rice millers and wholesalers also became members of the Rice Trading Leading Committee, which was in charge of the reform. This indicates that the government had become more attentive to motivating the private sector to become involved in rice exporting with the hope that this would ultimately enlarge the government's export earnings. This effort was epoch making, as Myanmar's economic policy has by and large always been decided in top-down style.

domestic rice price was more or less under control. Thanks to its aggressive rice production policy during the 1990s, the rice supply on the domestic market had steadily increased, although the profitability of rice traders had deteriorated over the same period. The direct result of this was the collapse of the rice price in 2000-2001. In 2002 the price started to rise again, but this was a temporary phenomenon caused by the farmers' strong reluctance to sow paddy in response to the price collapse, as well as by the fall in production due to the unfavorable weather that year. By 2003 the rice price started to stabilize, and it is very possible that the government saw this as a good time to start deregulating private rice exporting.

However, the decision to abolish rice rationing and replace it with fixed cash payments had ramifications. If these payments were as the only compensation for the cost of rice, very likely discontent would break out among civil servants and military personnel if the price of rice went up even just a little. This was a real concern because there were signs that price increases would accompany export liberalization. This possibility unnerved the government, and it decided to freeze private rice exporting³⁸ The reform plan was then modified without discussions with the private sector. In the end, the stable supply of rice at a low price had top priority. The fundamental rationale of government rice policy prevailed over earning a larger amount of foreign exchange.³⁹

As for the rice procurement system, the reason it was abolished was that it no longer yielded the benefits to match the cost of retaining it. This was an indirect effect of the low rice price as a result of increased rice production. Because of the depressed domestic market price, rice production in general suffered a deterioration in profitability. This increased the difficulty of sustaining the procurement system because the government had to procure paddy at a price even

³⁸ Along with rice, the export of chilies, onions, maize and sesame were also banned. This also reflected the high priority that the government put on self-sufficiency in important crops.

³⁹ However, the rice for the military (excluding family members) is procured separately. For 2003/04, each army command set quotas for traders in some producing areas. However, there are no clear details about how this procurement system operates.

lower than the repressed market price. Added to this was MAPT's deficit which had begun to widen again from the late 1990s.⁴⁰ The situation was beginning to resemble the adverse conditions for the rice sector at the end of the socialist period. Worse still, even with greater government effort to secure rationed rice, the recipients were finding little merit in it because of its generally low quality, a problem hampering the expansion of exports as well. Ultimately with the abolition of rice rationing, the need for the procurement system totally disappeared.

The significance of the second liberalization in deregulating domestic rice marketing in Myanmar cannot be overemphasized, and it is expected to have three effects. First, the profitability of rice production is expected to improve along with an increased awareness among farmers for quality. By benefiting from an appropriate level for the price of rice on the market, the profitability of rice production, and thus farmers' income, can be expected to improve. In marginal rice producing areas where rice is grown mainly for home consumption, it is expected to lead to the reduction of rice purchased on the market. At the same time, the sale of rice on the market is expected to increase by 10%-20% and rice production will become more market oriented. This will make farmers more concerned about the quality of the rice they produce. The second effect of this liberalization is a reduction in the number of situations where the government will abruptly intervene in the market. This will reduce transaction costs for private rice traders. Thirdly, inefficiency in the rice marketing system arising from heavy-handed government intervention will be reduced. The procurement system carried with it numerous political and economical costs and also was a breeding ground for corruption. Its abolition is expected to lead to improvements in economic efficiency as a whole.

However, the failure to open rice exporting to private traders following the second liberalization is a big setback for the rice marketing sector in Myanmar from a mid- to long-term perspective. Rice traders were very much anticipating export deregulation and were greatly disappointed when it failed to take place. More than 20 export companies were set up in

⁴⁰ See footnote 12.

preparation for liberalization, but these efforts have gone totally for naught. Though the government said the freeze on exporting was only temporary, it still has not been put back on the policy agenda even after the passage of two years. The government's fickleness on the export issue has intensified rice trader non-confidence in the government, and traders are increasingly taking a risk adverse attitude toward new investment in facilities and the expansion of business. Without doubt this is very much dampening the future outlook for the rice marketing sector in Myanmar.

Conclusion

The stable supply of rice at a low price continued to be the principal rationale of the rice marketing system in Myanmar even after the two liberalizations of the rice marketing system. The transition from comprehensive state control over rice marketing that began with the first liberalization and continued with the second can be seen as an ad hoc transformation of the marketing system. The transformation proceeded with twists and turns in response to the changing economic and political situation, and eventually took the form of gradual rice price deregulation.

The major reason for the collapse of comprehensive state control over the rice marketing system of the socialist period was because of deteriorating productivity and fiscal stress that made it difficult to sustain the low-rice-price rationing system targeting the whole population. There was a contradiction inherent in the system. It had been set up for the purpose of avoiding political instability, but ultimately it came to be the cause of social instability in the countryside.

The first liberalization became caught up in the political turmoil of the big democratization movement in 1988, and this determined the process of its implementation. The government decided that rice rationing to civil servants and military personnel, whose support underpinned the political regime, was indispensable, and to secure the rice for this rationing, the paddy procurement system was revived. To placate the general consumers who were excluded from the new rationing system, the government attempted to keep the domestic rice price far

below the international price by controlling rice exports. This was done by maintaining the government's monopoly on all rice exporting. Initially these measures were generally successful in maintaining the supply of rice at a low price while allowing the government to avoid scrutinizing the defects inherent in the state marketing system, such as the diminishing economic welfare of the farmers and deteriorating quality of rice. Whenever it became difficult to keep the rice price sufficiently low, the government without hesitation resorted to intervention in the operations of the private sector of the rice market. At the same time, the government continued to feel that it could depend heavily on the private sector whenever it found the need to do so. Thus one is led to the conclusion that although the government embarked on its first liberalization of the economy in 1987, its policy lacked all perspective for promoting the private marketing of rice.

Satisfied that the domestic rice market had largely stabilized, the government began its second liberalization effort in 2003, reviving its objective of expanding rice exports to increase the state's foreign exchange earnings. The reform also did away with the long-standing rice procurement and ration systems that were having negative economic and social effects. However, just as the liberalization was to be implemented, the stability of rice supply at a low price to general consumers again took first priority, and the government postponed the start of private rice exportation. Consequently, the second liberalization can be characterized as a transformation of Myanmar's rice marketing system from one supported by the rice procurement and ration systems and export controls to one solely dependent on rice export controls.

Under the government's policy framework, private rice marketing was allowed to develop only in the remaining sphere of the rice marketing sector and on condition that it did not jeopardize the stable supply of rice at a low price. This was the inevitable consequence of the rationale for Myanmar's rice marketing policy. In the liberalization process, however, the private rice marketing sector was able to achieve self-sustaining development. The government's policy to promote rice production and cutbacks in the volume of rice procurement

increased the amount of rice sold in the market which induced more traders to enter the rice marketing business. At the same time there was improvement in infrastructure in the areas of transportation, market facilities and financial services which are indispensable for an efficient marketing system. These improvements enabled the establishment of a rice marketing system that expanded over a wide area of the country, clearly demonstrating the latent willingness of Myanmar's traders to grasp whatever small opportunities arose to increase profits, opportunities that had been closed off for the more than quarter century of the socialist period. The rice traders who expanded business while avoiding conflicts with the government's rice policy were the ones who could survive during the 1990s.

By the end of the 1990s, however, the private rice marketing sector had reached a crossroads as the domestic rice market approached the point of total saturation. This problem was most evident in the tough business conditions facing mid- and large-scale rice millers. The decrepitude and worn-out state of their mills grew apace, but they could not risk venturing into new investments under the existing market structure where low and medium quality rice was in most demand. Even in the milling of lower quality rice, the big mills were losing out to the growing number of small-scale rice mills in the villages. Thus, by the time of the second liberalization, mid- and large-scale rice mills were facing a crisis in their business operations.

The commercial and processing industries of Myanmar's rice marketing sector continue to be based on the rural economy of the country. In neighboring Thailand, rice millers turned to exporting, and with that accumulated capital, they expanded their business to other industries with great success (Usui and Mishima ed. 1994, p.98). In Myanmar as well, one would hope that the same scenario could play out of the private rice traders and millers. However, in reality there is little prospect that private rice exporting will be allowed in the near future.⁴¹ The present government is unlikely to change the rationale of its rice policy that prioritizes a low price for the sake of political stability. If export controls become the sole direct policy tool that

⁴¹ It is reported that some companies has obtained export license in 2005. However, it is limited to only a number of companies and exporting amount is not large, either. It should be regarded that they are allowed to export in line with the decrease of rice exports through MAPT.

the government has for keeping the price of rice low, the government will remain reluctant to undertake any rapid deregulation of rice exports. This means that the private rice marketing sector will have to survive within the confines of the present domestic market which limits the demand largely to the low and medium quality rice. Thus the government's rice policy and its primary rationale have again thwarted the development of Myanmar's private rice marketing sector and its potential to stimulate growth in the economy as a whole.

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