MYANMAR: UNLOCKING THE POTENTIAL

A STRATEGY FOR HIGH, SUSTAINED, AND INCLUSIVE GROWTH

Ronald Findlay, Cyn-Young Park, and Jean-Pierre A. Verbiest

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ABSTRACT

Recognizing the need to formulate policy strategies for the changes it faces, Myanmar started a multifaceted reform process in 2011. But speeding up development requires a multipronged but more coherent strategy targeted at strong and resilient growth, employment generation and, ultimately, rapid reduction of poverty. The government needs to carefully prioritize and sequence reforms, and identify and address the constraints to allow acceleration of economic growth by expanding the large domestic market and developing a vibrant manufacturing export sector that can generate substantial employment. This paper briefly reviews Myanmar's history and its legacy, examines the economy and some of the main policy reforms undertaken since 2011, assesses development potential, and outlines medium- and long-term growth strategy based on the country's specific context and international best experiences and practices.

Keywords: economic diversification, macroeconomic stability, Myanmar, natural resource-based sectors, regionally balanced development, social inclusion

JEL Classification: E02, E61, O14, O25

I. INTRODUCTION

Myanmar has undergone historic political reform during the last decade. In 2003, consultations began formulating a new constitution that was adopted in 2008 (Ministry of Information 2008), followed by the first election in 20 years—of a national assembly—on 7 November 2010. These remarkable changes culminated in the formation of a new civilian government in March 2011. The new constitution states that Myanmar will be a multiparty parliamentary democracy, albeit where the role of the armed forces will remain important. Economically, the constitution defines the broad parameters for the future; namely a market-based economy where monopolies, pricing collusion, nationalization, and demonetization will not be allowed. It also emphasizes the importance of social development, particularly education and health.

President Thein Sein, in his inaugural address, acknowledged the enormous political, economic, and social problems Myanmar faces and that his government would address (New Light of Myanmar 2011). He clearly acknowledged the need to invest in physical and social infrastructure, including education and health. The President advocated the pursuit of a strong, growth-oriented development strategy based primarily on agriculture and the natural resources sector, but also on manufacturing for the domestic market and exports. And he emphasized the importance of transparency, accountability, good governance, and the rule of law, as well as the need to deal with corruption, cronyism, and a widening wealth gap.

The President's inaugural address was the starting point of extensive political, economic, and social reforms unseen in Myanmar for over half a century. The international community supported the changes by suspending and finally lifting most economic and trade sanctions in 2013. The Association of Southeast Asian Nations (ASEAN) further boosted confidence by giving Myanmar the 2014 chairmanship of the regional grouping. By the end of 2013, Myanmar had fully reintegrated itself in the international arena. But while much has been accomplished, myriad challenges remain.

As the multifaceted reforms began, the government recognized the need to formulate clear strategies for short-, medium-, and long-term changes. Such strategies are important not only to prioritize the multitude of necessary reforms, but also to manage the expectations of all stakeholders in Myanmar's development. With this in mind, it began preparing strategic documents for national planning in 2012, including the interim Myanmar Comprehensive Development Vision, the Framework for Economic and Social Reforms 2012–2015 (FESR) (Ministry of National Planning and Economic Development 2013), and the 20-year National Comprehensive Development Plan 2011–2031. Four 5-year implementation plans, of which the FESR is the first, will complement the latter. The Myanmar Comprehensive Development Vision sets out a development strategy of "two-polar growth—Yangon and Mandalay—with border development and better connectivity," while the FESR identifies a number of concrete policy reforms and actions to achieve quick wins, and lays the foundations for sustainable and equitable long-term development.

This paper briefly reviews Myanmar's history, examines the economy and the main policy reforms undertaken since 2011, describes its development potential, and outlines medium- and long-term growth strategy based on the country's specific context and international best experiences and practices.

II. HISTORY AND LEGACY

Myanmar is unique geographically, bordering no less than three areas of great civilization in the world—India, the People's Republic of China (PRC), and Southeast Asia—and interacting with them for millennia. Its modern neighbors also include Bangladesh, the Lao People's Democratic Republic (Lao PDR), and Thailand. The Ayeyarwady River, flowing from the foothills of the Himalayas into the Bay of Bengal, is the artery of the life and culture of the country and its people, as well as of commerce.

Most of Myanmar's many ethnic groups migrated from border regions in the PRC, including Tibet, and speak languages belonging to the Sino-Tibetan family. But Buddhism and concepts of statecraft and cosmology came from India more than a thousand years ago. The political unification of the country goes back to the Bagan Dynasty founded by King Anawrahta in the 11th century. Myanmar, or Burma as it was previously known, was a great power in mainland Southeast Asia for much of the past millennium, particularly in the 16th century under King Bayinnaung of the Toungoo Dynasty and in the 18th century under King Alaungpaya, founder of the Konbaung Dynasty, the last monarch to rule the country.

Under his descendants, the Konbaung Dynasty repelled two incursions by the Manchu Qing Dynasty of the PRC in the north and advanced to the borders of Assam and Bengal in the west. They then encountered the rising power of the East India Company, fighting the Anglo-Burmese Wars of 1826, 1852, and 1885 on increasingly unequal terms. The East India Company, and later the British crown itself, first took over the coastal strips of Arakan and Tenasserim in 1826, then all of Lower Burma in 1852, and finally the royal capital of Mandalay and the entire country in 1885. The capital of British Burma was established at the port of Yangon, renamed Rangoon (now Yangon again), strategically located near the mouth of the Irrawaddy (Taylor 2009).

The outbreak of the Second World War and the Japanese invasion of 1942 effectively ended British colonial rule, but the country was fought over twice with extreme damage to transport and other infrastructure before the Allied victory in 1945. Independence was gained in 1948, but the outbreak of Communist and ethnic minority insurgencies, which have not fully subsided to this day, held back economic recovery for several more years. Despite these setbacks, an Eight Year Plan was launched that was to run from 1952 to 1960 (Thein 2004). Although the plan fell short of achieving its full, ambitious goals, substantial progress was made in infrastructure, industrialization, and agricultural diversification.

In common with other newly independent Asian countries, such as India and Indonesia, the economic policy that followed during this period gave a considerable role to the state. An active indigenous private business community also emerged in both commerce and industry. Farmers were given security of land tenure up to a modest size and assistance was provided in the form of credit and the supply of fertilizer. Rangoon University, established in 1920 and staffed mainly by expatriate British and Indian faculty, made rapid strides, with most departments ably led by returning state scholars with advanced degrees from leading British and American universities.

However, political stability was dealt a major setback by the assassination of General Aung San, and finally the military took over in 1962 under the leadership of General Ne Win. The military regime somewhat surprisingly moved sharply to the left in its economic policy under what was called the Burmese Way to Socialism. Despite fitful attempts at reform, the economy stagnated over the next 2 to 3 decades while most of the rest of East and Southeast Asia enjoyed an unprecedented boom of export-led growth.

The Burmese Way to Socialism was discredited and abandoned after political disturbances in 1988. After a last attempt to reinvigorate the economy by the socialist government through the elimination of restrictions on procurement and trade in rice and major agricultural crops, a new government came to power in September 1988. The State Law and Order Restoration Council, later reconstituted as the State Peace and Development Council, accelerated reforms with the objective of re-establishing a market-based economic system, promoting the role of the private sector and opening the economy to foreign direct investment (FDI) and trade. The Foreign Direct Investment Law was introduced in November 1988 and most restrictions on private sector activities were lifted. Importantly, the development of agriculture was given high priority and was considered the base on which development of the rest of the economy would be built (Thein 2004).

A strong parallel can be drawn with the start of Viet Nam's 1986–1987 Doi Moi reforms. The Vietnamese Sixth Communist Party Congress held in December 1986 decided on the abolition of the "bureaucratic centralized management system based on state subsidies and to move to a multisector, market-oriented economy" (Van Arkadie and Mallon 2004). The development of agriculture, the expansion of consumer goods production (through the private sector in particular), and expansion of trade and FDI were the priorities for the allocation of resources. The similarity between the reform programs in Viet Nam and Myanmar—2 years later—is stunning.

In 1988 and during the first half of the 1990s, major fiscal, finance sector, legal system, and trade sector reforms were undertaken. The potentially important tourism sector was opened to private sector participation and administrative reforms were started to pacify the border areas. Understandably, coming out of a long period of economic decline, it took a few years for the economy to respond to the reforms (as in Viet Nam). But from FY1992[1] onward, growth accelerated markedly, with gross domestic product (GDP) growth averaging about 7% over FY1992 to FY1996, before slowing down to just below 6% in the 2 subsequent years due to the impact of adverse weather on agriculture. Income per capita overtook the level achieved 10 years earlier only by 1996. But despite healthy growth, consumption per capita stagnated between FY1995 to FY1999, probably indicating a significant worsening of income distribution (Thein 2004).

The strong response of the economy to the reforms gives a glimpse into the potential of Myanmar's economy. Growth was driven by the strong performance of the agriculture sector; rapid growth in the private sector, partly fueled by FDI inflows (including in oil, gas, and mining); exports' vibrant response to liberalization; and revival of tourism and construction.

In stark contrast to Viet Nam, however, the reforms did not put Myanmar's economy on a sustainable growth path. One of the main reasons was the lack of attention to macroeconomic stability and fiscal discipline. The Central Bank of Myanmar's (CBM) lack of control over money supply, combined with cost-push and demand-pull factors, resulted in high inflation and negative real interest rates. The government continued to accumulate large fiscal deficits, in part as tax reforms failed because of lack of implementation capacity and governance issues. Furthermore, the state-owned economic enterprises' privatization program started in 1995 was not really implemented, and the sector continued to accumulate massive deficits.

[1] FY refers to the fiscal year, which is from 1 April to 31 March in Myanmar. FY before a calendar year denotes the year in which the fiscal year starts, that is, FY2014 begins on 1 April 2014 and ends on 31 March 2015.

Two other external factors affected the economy in the second half of the 1990s: the Asian financial crisis, which happened as Myanmar appeared ready to benefit from large FDI inflows and strong export growth; and the start of economic sanctions by the United States (US) and the European Union (EU) in 1997. Notwithstanding exports' initially good response to the reforms, the trade and current account continued to deteriorate during the 1990s, leading to stronger import controls in the second half of the decade. Finally, despite the introduction of Foreign Exchange Certificates in 1993 and the de facto devaluation of the kyat, the official exchange rate was never changed, creating not only major distortions in the economy, but huge uncertainties and a lack of confidence in the reforms. This hurt FDI flows as well as savings and investment.

Compounding these developments was the lack of sustained effort to reform state enterprises and pervasive state interference in various private sector activities. Uncertain governance, micromanagement, and lack of transparency and accountability played a major role in dampening the investment climate and ultimately hindered the economy's takeoff. Later, in addition to these "man-made" difficulties, Cyclone Nargis devastated the heavily populated Ayeyarwady coastal region in May 2008, further delaying recovery. It was only after the adoption of a new constitution and the elections of 2010 that Myanmar appears to have entered a genuine transition period with a new regime of retired former military officers in charge.

The new administration has undertaken several initiatives, both in the political and economic spheres, which indicate its strong commitment to real reform and change. The sense of hope and optimism is palpable that Myanmar's long-suffering people are finally headed for sustained progress toward prosperity and freedom. Many obstacles remain, however, and these are examined later.

III. MYANMAR'S ECONOMY TODAY

Some 51.5 million people inhabit Myanmar's 676,000 square kilometers (km^2),[2] for a population-to-land ratio that is quite low compared to Thailand's 512,000 (km^2) and 67.7 million people. In 2014, GDP in current US dollars was estimated at about $65.3 billion, for income per capita of about $1,270 in current dollars and $4,752 in purchasing power parity (PPP) terms (IMF 2014). The major economic reforms already implemented and the re-engagement of the international community have visibly improved the economy over the past 3 years, with an acceleration in growth and a general improvement of socioeconomic indicators. In 2013, GDP grew an estimated 8.3%, up from 7.3% in 2012, largely driven by higher gas production and construction, and services growth.

Natural gas production has been a major driver of growth since the early 2000s, and is now by far the most important export, with the sector attracting large FDI. Myanmar's balance of payments has improved significantly as a result, with an increase in foreign exchange reserves. Royalties and taxes have also raised government revenues. To some extent, the natural gas bonanza has helped the country cope with the impacts of Western trade and economic sanctions, which devastated the flourishing garment industry started in the 1990s. Besides natural gas, the mining sector also expanded rapidly over the past decade, with jade becoming a major export.

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[2] According to preliminary results of the 2014 Myanmar census released in August 2014.

Table 1: Key Macroeconomic Indicators
(%)

	Period Averages						
	1980s	1990s	2000s	2010	2011	2012	2013
Real GDP growth	1.8	5.5	4.7	5.3	5.9	7.3	8.3
Share in GDP							
Agriculture	50.5	60.1	48.0	36.7	32.5	30.5	33.2
Industry	12.0	9.7	16.8	26.4	31.3	32.1	29.9
Services	37.5	30.2	35.2	36.9	36.2	37.5	36.9
As ratio to GDP							
Fixed investment	15.6	13.1	13.2	22.9	29.2	29.6	35.7
National savings	13.1	12.6	13.4	21.2	27.5	29.6	31.8
Memo items							
Inflation rate	21.3	23.3	17.8	7.7	5.0	1.5	5.5
Unemployment rate	2.5	4.1	4.0	4.0	4.0	4.0	4.0

GDP = gross domestic product.
Sources: World Bank, World Development Indicators; ADB, Key Indicators, various years; and IMF, World Economic Outlook database (all accessed January 2015).

Agriculture still dominates economic structure, still accounting for about a third of GDP—about the same size as in the early 1960s—and for 70% of employment. This indicates that productivity is only about half of the average for the economy as a whole, while agriculture's dominance also accounts for low urbanization, at slightly above 30% in 2010. Industry, which includes mining and the natural gas and energy sectors, accounts for about 30% of GDP, and services, 37%.

Investment, also a major driver of growth, was well below 20% of GDP for several decades before 2009. The investment ratio picked up modestly after reforms started, growing from an estimated 23% in 2010 to about 30% in 2012, compared with 17% in Cambodia, 34% in Indonesia, 24% in Malaysia, and 31% in Viet Nam in the same period. But Myanmar's prolonged underinvestment over several decades has led to the deterioration of its capital stock and basic infrastructure. The resulting poor transport infrastructure in all areas (road, rail, maritime, and air)—as well as the lack of modern telecommunications infrastructure and significant power shortages—are impeding growth prospects. The absence of rural infrastructure is constraining productivity gains in agriculture, and the lack of transportation and hotel accommodation is holding back tourism, including in the major cities of Yangon and Mandalay.

Past low public expenditure on health and education also poses a serious challenge to building strong foundations for growth. Public expenditure in these two areas together has been less than 1% of GDP—one of the lowest rates in the world, according to data from the mid-1990s through 2011. While literacy is high at over 90%, average schooling for adults aged 25 and over is only 4 years, below Cambodia and the Lao PDR. Myanmar ranked 149th out of 185 countries in the 2012 Human Development Index, also below Cambodia and the Lao PDR. The government urgently needs to boost public investment in infrastructure, particularly transport and power, while having to mobilize substantial resources for the education and health sectors. This raises particular challenges for fiscal management.

Revenues rose to about 25% of GDP in 2013 and are projected to remain at 24%–25% of GDP over the medium-term. Tax revenues, while rising to 7% of GDP in 2012, are projected to remain at about 7.5%–8% over the medium-term, still relatively low. A complicated tax structure (with heavy reliance on regressive indirect taxes), weak tax administration and implementation, corruption, and a large "parallel" economy are among the main reasons behind low revenue collection.

On the expenditure side, the government has embarked on a program to improve public financial management, which includes a public expenditure review. Given the public investment needs, expenditures have been rising and are estimated to reach 28.7% of GDP in 2014, increasing further to about 28% of GDP over the medium-term. By 2014, 4 years into the reform process, developments in the fiscal area appeared rather positive; but, in view of the needs, much remains to be done to continue improvements in revenue collection, manage fiscal decentralization, and reform the state economic enterprises.

The Central Bank Law in July 2013 gave the CBM operational autonomy to conduct an active monetary policy and accelerate reforms in the finance and banking sector. The CBM's legacy of monetizing government deficits not only fuelled inflation, but also hampered the development of an efficient financial system. Extensive administrative controls on financial intermediation further constrained finance sector development. These ranged from administratively set interest rates on both deposits and lending, which were not adjusted for a long time; maximum 1-year duration for loans; stringent rules on collateral; and high capital requirements for new branches.

The government embarked on a broad financial reform program in the second half of 2011; it allowed private banks to open foreign exchange counters and, importantly, more frequently revise fixed interest rates on deposits and loans. The CBM gave preliminary approval to limited banking licenses for nine foreign banks on 1 October 2014, with operations expected to start within a year.

The most important reform undertaken so far was the unification of the exchange rate in April 2012 through the adoption of a managed floating exchange rate regime. This abolished the highly overvalued exchange rate and replaced it with a largely market-based system. Partly because of the lack of an interbank foreign exchange market, there are still several exchange rates, but the differences between them are relatively small. At the time of the exchange rate unification, the market rate was about 820 kyat (MK) per dollar, a rate considered too high. The parallel market exchange rate was well above MK1,000 to the dollar between 2005 and 2009. The kyat thus appreciated significantly starting in 2006 to 2012. Taking into account inflation, which was about 20% during the period, the real exchange rate appreciated much more. Such appreciation—an early sign of Dutch disease—threatened agricultural and fisheries exports, as well as labor-intensive exports such as garments.

The reasons behind the foreign exchange appreciation are not entirely clear as foreign exchange earned by state enterprises, which include the proceeds of natural gas exports, should in principle go into the public foreign exchange budget. This centrally allocated these earnings to other state enterprises as needs arose, and was therefore completely segmented from the private sector, which had no access to these resources. But there was no "market" for foreign exchange within the state sector. Export earnings by the private sector, such as from exports of pulses and beans or garments, were credited to their account in state and private banks and were available—at a "price"—for purchase by importers. After the unification of the exchange rate, these transactions were based on the reference rate posted daily by the CBM, itself based on supply and demand for foreign exchange by the private sector. Because of foreign exchange market "segmentation," the appreciation of the kyat can probably not be traced to rising foreign exchange earnings due to natural gas exports, since these earnings were not available in the private sector market where this rate is determined. Kubo (2013) attributes the appreciation to the repatriation of privately held foreign exchange for conversion into kyat to take advantage of the massive sale of state assets before the transition to the new regime, as well as to private sector earnings from gem sales and exports. The multitude of controls on imports holding back demand for foreign exchange was another major reason. One consequence of the inflows and the appreciation of the exchange rate has been a sharp rise in land prices in Yangon in particular.

To stem the appreciation of the currency, the government started to liberalize imports in 2012, particularly for automobiles. Hence, the exchange rate depreciated slowly, ending 2012 at MK880 per dollar and trading at over MK950 by mid-2013, a rate better aligned to long-term fundamentals (IMF 2013).

Reforms in the finance sector accelerated in 2013. These made branch openings by private banks easier, broadened the definition of collateral for lending to include agricultural export goods, partly liberalized deposit interest rates, extended loan duration, and introduced mobile banking. With the end of economic sanctions, banks could access SWIFT for international bank transfers and establish relations with correspondent banks abroad. In addition, a formal foreign exchange market began operating. Credit card use was allowed and is expanding. An ATM network is fast developing and an interbank payments network is in place.

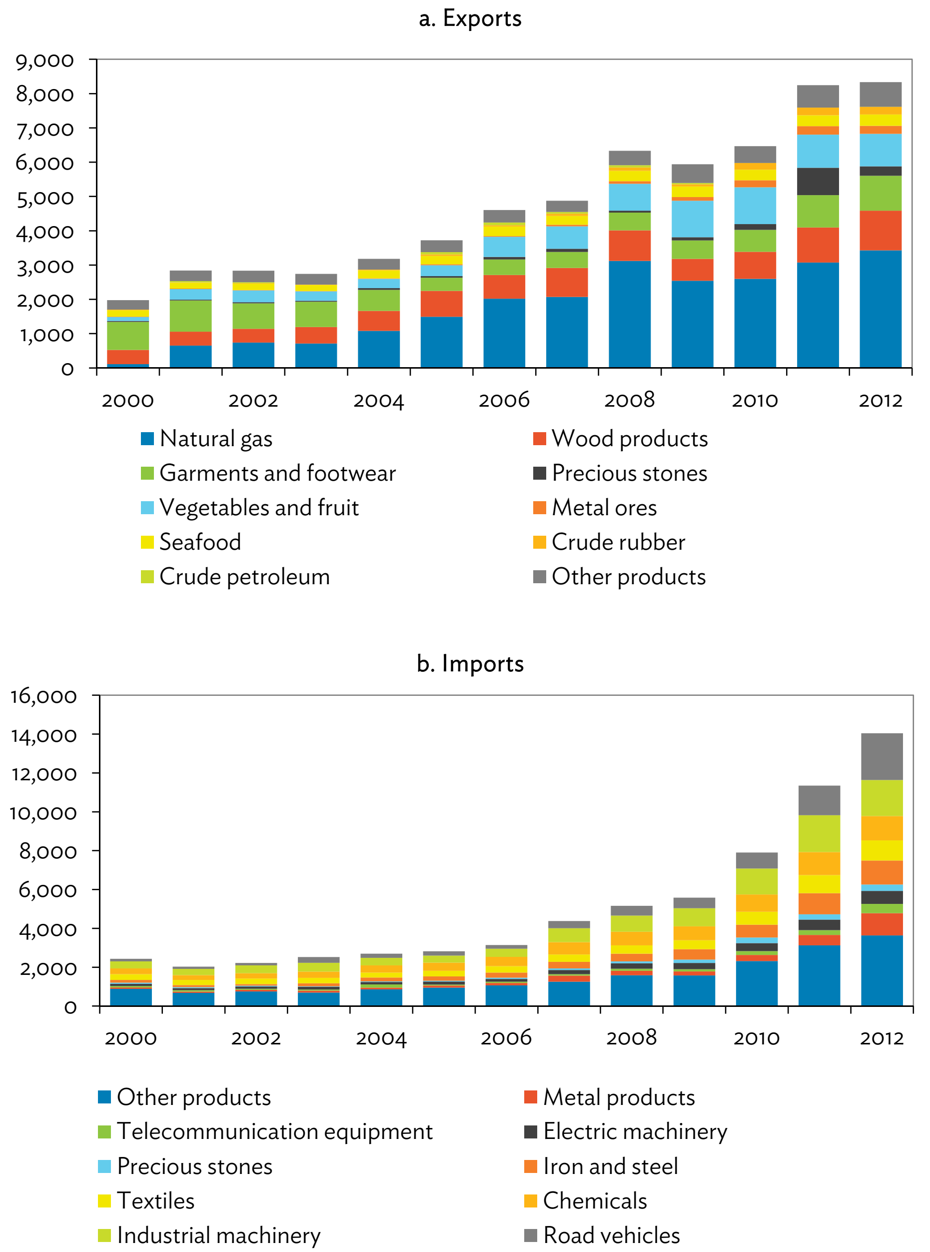
But an active interbank market is still not operational, delaying the market determination of interest rates. And although a large number of microfinance institutions have been established, there are serious concerns about their supervision. A number of insurance licenses have been allocated and several insurance companies have started operations, although their operations remain limited to simple products. Further, the law on financial institutions, which will guide the development of the finance sector over the medium-term, is still awaiting final approval by parliament.

So, while the reforms have achieved some progress in finance sector development, considerably more is still needed at both the institutional and policy levels to support a well-functioning financial system.

Foreign trade has been perhaps the most encouraging factor in Myanmar's recent economic experience. Production of offshore natural gas, which began in 2000s, is leading exports, with offshore natural gas exports rising from only $109 million in 2000 to about $3.4 billion by 2012, accounting for 41% of total exports of $8.3 billion. Gemstones are another major contributor to foreign exchange earnings. Estimates suggest that Myanmar still accounts for 90% of the world's supply of rubies and 70% of jadeite production. Revenue from gem exports rose from about $200 million in 2005 to some $650 million in 2008, and annual sales of jade rose from $436 million in 2008 to $2 billion in 2010. The government's sale of gems at an annual fair in Nay Pyi Taw in March 2011 yielded $2.28 billion (Egreteau 2012).

Exports of primary commodities remain strong at about 35% of total exports in 2012, of which pulses and beans account for 26%, and teak and other hardwoods for 42% (Figure 1.a). In the manufacturing sector, garment exports, which collapsed in the 2000s under the pressure of Western trade sanctions, are rising rapidly. In 2014, for instance, one new garment factory came on stream each week.

Figure 1: Myanmar's Trade, 2000–2012
($ million)



Source: UN Comtrade database (accessed April 2015).

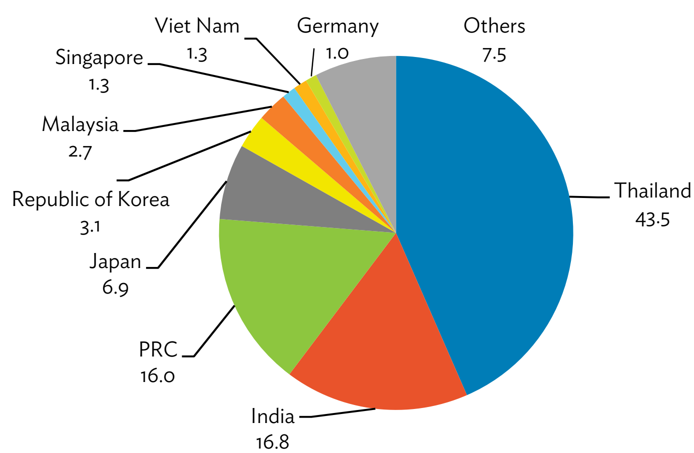
Imports began to grow more steadily as growth accelerated with the opening of the economy. The annual value of imports rose from $5.6 billion in 2009 to $7.9 billion in 2010, $11.3 billion in 2011, and $14 billion in 2012 (Figure 1.b). Consumer goods constituted about 40% of total imports on average in each of those years, with the rest divided between capital equipment and intermediate goods. The balance of trade showed a small surplus of $645 million in 2010 but, as a result of the progressive liberalization of imports in 2012, it turned increasingly negative, with deficits of $195 million in 2011, $2.12 billion in 2012, and an estimated $2.68 billion in 2013 (4.7% of GDP).

Similarly, the current account deteriorated from a deficit of about 1.2% of GDP in 2010 to an estimated 5.4% in 2013. The deficit was largely financed by FDI inflows, representing about 4.6% of GDP in 2013 (IMF 2014).

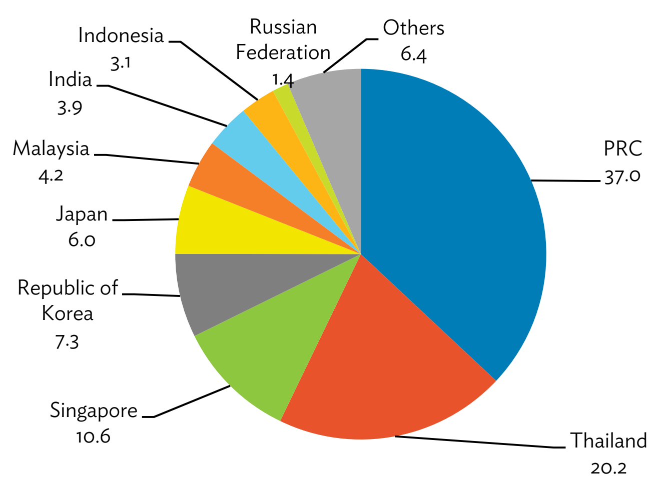
Because of sanctions imposed by the US and the EU, over 95% of Myanmar's foreign trade was with Asia, with exports going mainly to Thailand (Figure 2.a). India took slightly above $1 billion of exports every year during 2009–2012, mostly consisting of pulses and beans. Exports to the PRC doubled from $646 million in 2009 to $1.3 billion in 2012, with most natural gas exports going to that country. Exports to Japan also doubled, at about half the level of exports to the PRC. Exports to the Republic of Korea were only $78 million in 2009, but have risen rapidly since then, reaching $351 million in 2012.

Figure 2: Myanmar's Direction of Trade, 2009–2012 Average
(%)

a. Destination of Exports



b. Origin of Imports

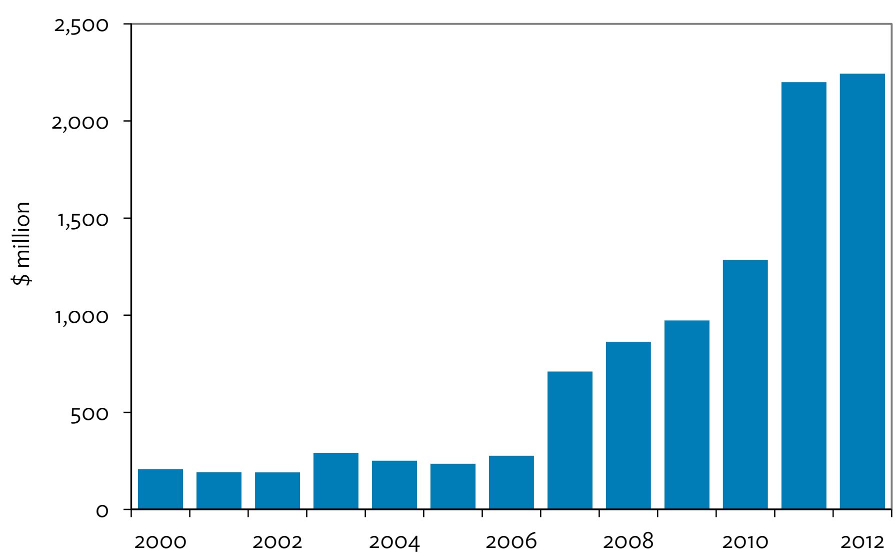


PRC = People's Republic of China.
Source: UN Comtrade database (accessed April 2015).

The PRC is the main source of Myanmar's imports, accounting for 37% of the total from 2009 to 2012, growing from $2.2 billion to $5.4 billion during the period (Figure 2.b). Thailand is the next largest source, rising from $1.5 billion to $2.7 billion during those years. Japan was the fastest-growing source of imports, up over sixfold from $201 million to $1.3 billion in the same period. Imports from the Republic of Korea also grew rapidly, more than trebling from $404 million in 2009 to $1.3 billion in 2012. Singapore, Malaysia, and India were also important sources of imports, providing $974 million, $598 million, and $524 million, respectively, of total imports of $14 billion in 2012.

FDI into Myanmar has been weak over the past 2 decades compared to Southeast Asian neighbors. The annual inflow rose gradually to reach $2 billion by 2011; it is up from a mere $191 million in 2002 in the aftermath of the 1997 Asian financial crisis, but significantly below $19.2 billion in Indonesia, $12.0 billion in Malaysia, $3.9 billion in Thailand, and $7.5 billion in Viet Nam. After the start of the reforms in 2011 and the enactment of the new FDI law in November 2012, FDI started to rise progressively (Figure 3). The majority of FDI went into the power and the oil and gas sectors, followed by manufacturing, transport and communication, and mining. The PRC has been the largest investor, followed by Thailand; Singapore; Hong Kong, China; and the United Kingdom.

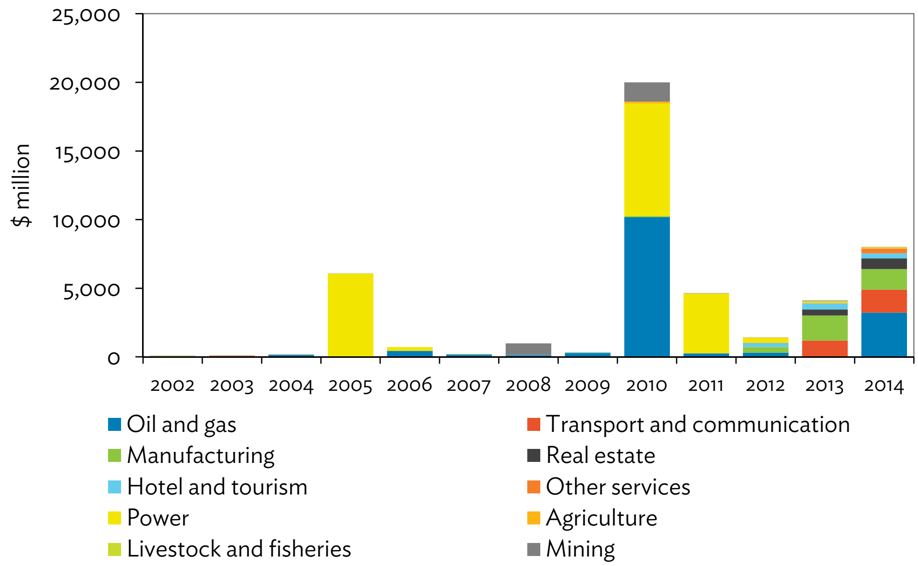
Figure 3: Myanmar's Total Foreign Direct Investment, 2000–2012



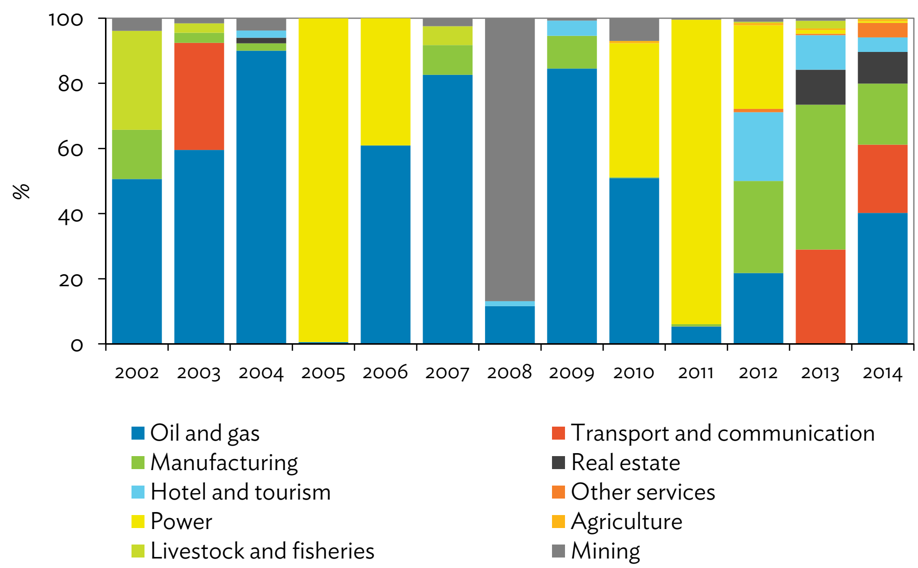
Source: UNCTAD Statistics (accessed April 2015).

Approved foreign investment fluctuated significantly between 2011 and 2014, however, depending on the approval of bulky power projects (Figure 4). In 2011, approved FDI was $4.6 billion with power accounting for $4.3 billion; but in 2012, approvals fell to $1.4 billion before rising again to $4.1 billion in 2013. In 2014, FDI approvals likely reached about $8 billion. In 2013 and 2014, FDI flowed into much more diverse sectors, as FDI in manufacturing and hotels and tourism rose substantially for the first time in decades. In 2013, FDI approved in manufacturing totaled $1.8 billion, and in tourism and real estate, $876 million.

Figure 4: Myanmar's Approved Foreign Direct Investment by Sector, 2002–2014



Source: UNCTAD Statistics (accessed April 2015).



Source: Directorate of Investment and Company Administration (accessed April 2015).

Actual net FDI inflows based on balance of payments data show FDI rising from $2 billion in 2011 to $2.8 billion and $2.6 billion, respectively, in 2012 and 2013. Estimates for 2014 are $3.3 billion. While FDI is definitely trending upward in Myanmar, actual inflows are still only a quarter of those in Viet Nam, estimated at about $8 billion in both 2012 and 2013. Despite the negative current account balance of recent years, foreign exchange reserves have grown steadily and were at $4.5 billion in 2013. This seems respectable, but is less than 3 months of imports.

Turning to the social sectors, public expenditures on education and health have been very low, at below 1% of GDP until 2012. While literacy is high at over 90%, because of the traditional monastic training of youths in the reading of scripture, the average number of years of schooling for adults aged 25 and over is only 4, below Lao PDR and Cambodia. Myanmar's rank in the Human Development Index was 150 out of 187 countries in 2013, again well below Lao PDR and Cambodia. The past neglect has resulted in a severe skills shortage, which will undoubtedly be the main binding constraint on growth, even if all other reforms are fully implemented.

Life expectancy at birth is 65 years, lower than in Cambodia (72) and Lao PDR (68). Indicators for maternal mortality in childbirth and infant mortality, and nutritional intake, are comparably low. HIV incidence is high, with about 0.6% of the 15–49 year old population infected in 2009. The incidence of malaria and tuberculosis are also much higher than in regional peers. Past neglect of health, as in public education, further constrains inclusive growth prospects, while scarce resources needed for directly productive projects will have to be diverted to make up for the lost ground in vital health and other social services.

While information is limited, data on competitiveness, economic freedom, the ease of doing business, and logistics performance consistently show Myanmar with the lowest ranking in ASEAN. This information is important for determining the priority reforms that will enable Myanmar to participate in regional production networks, which itself will be essential to accelerate development over the next decade (Wong, Shankar, and Toh 2011).

IV. MYANMAR'S DEVELOPMENT POTENTIAL: STRENGTHS AND WEAKNESSES

What are the prospects for genuine, sustained economic reform to get Myanmar onto a path that will allow it to catch up with income per capita in its Southeast Asian neighbors and eventually the rest of the world? What development strategy should it follow to achieve this goal? How ambitious should the long-run targets for this strategy be, and at what pace should the nation seek to achieve them? We attempt to answer these difficult questions in this section, first by means of the SWOT analysis (Table 2).

What makes this analysis difficult is that it is not enough merely to make a list of strengths and opportunities on one side of the ledger and of weaknesses and threats on the other. This is because, as Myanmar's history shows, there is a "dialectical" interaction between the two sides of the ledger, with the possibility always existing of perceived strengths turning into weaknesses and vice versa. This requires a constant balancing and reconciliation between the latent tendencies in each direction, rather than attempting simply to enhance perceived strengths and reduce perceived weaknesses in isolation from each other.

A. A Unique Political Opportunity

Firm government commitment and, most importantly, the people of Myanmar have energized the current reform wave. The policy failures of the past have blighted the lives and prospects of two generations, and are threatening those of a third. The government and the armed forces, from which the country's leaders have been drawn, have drafted a constitution, held an election, and promised to hold another—and not under threat or duress, but from the realization that the previous course was unsustainable. The public, whether rural or urban, and of all income levels, regions, ethnicities, political parties, and persuasions, ardently support what they have long desired—the prospect of a better life for themselves and their children. There is no turning back when such high expectations have been unleashed. The corresponding weakness, however, is that these high expectations can turn into strong disappointment if the pace of progress is too slow, leading to public anger and frustration and civil strife.

Table 2: Myanmar's Development Potential: Strengths and Risks

Strengths	Weaknesses
• Strong commitment to the economic and political reform process • Abundant natural resources (land, water, gas, minerals) • Youthful population	• Macroeconomic management and capacity of core economic policy institutions • Fiscal management (taxation and decentralization of budget) • Underdeveloped banking and financial system • High dependence on natural resource extraction and agriculture sector—limited diversification of economy • Inadequate infrastructure (transport, power, telecommunications) • Low level of education and poor health infrastructure • Lack of reliable and detailed economic data
Opportunities	**Threats**
• Strategic location at the junction of East Asia, Southeast Asia, and South Asia • Potential as a regional hub for multi-modal transportation—land–bridge between ASEAN, the People's Republic of China, and India • Strong potential for agricultural production, tourism, and energy supply to cater to regional demand • High foreign direct investment potential for industrial development in global and regional value chains • Latecomer advantage—accumulated development experiences in the region and potential to benefit from proven technology	• Political uncertainty—threats from ethnic and religious inequalities • Corruption • Resources curse—danger of Dutch disease • Environmental vulnerability and impact of climate change

ASEAN = Association of Southeast Asian Nations.
Source: Authors.

B. Strong Potential of Rich Endowments

Youthful population. Myanmar's youthful population will be a demographic dividend in the coming decades. The 15–28 age cohort has 13 million people, accounting for nearly 40% of the working-age population. People below working age also constitute a large portion of the population (25%)—higher than in the PRC (19%) and Thailand (20%), although lower than India (30%). With proper schooling and skills or professional training, this population segment will provide the necessary human capital to drive the country's economic transformation. At the other end of the demographic spectrum, the old-age-dependency ratio is low, with the share of people aged 65 and over equal to only 7.4% of the working-age population, on par with India's 7.7%, but substantially lower than the PRC's 11.5% and Thailand's 12.9%.

In addition, a very sizable diaspora of 3–4 million people is working abroad, including many well-qualified professionals in medicine, business, academia, and information technology. As the economy develops and successful reforms provide economic incentives for returning citizens, many of them will be back, helping alleviate the severe skill shortage.

Rich natural resources. Myanmar's natural resources are among its most important assets. The country is particularly rich in natural gas, water, forests, and fisheries. Other resources include petroleum oil and several minerals, including tin, antimony, zinc, copper, tungsten, lead, coal, marble, limestone, and precious stones.

It also has a large supply of natural gas, with proven reserves of 10 trillion cubic feet (TCF) (BP 2014) and gas-fired plants accounting for 21% of total installed power generation capacity. While hydropower is currently the main source of electricity generation, gas is exported and it is now the country's most important source of export revenue. A large portion of gas exports goes to Thailand, while the PRC will become an increasingly important destination when a new (planned) gas pipeline comes on stream. The country has proven oil reserves of 3.2 billion barrels (bbl), more than Thailand and Brunei combined, although these are less than the reserves in Viet Nam (4.4 bbl), Indonesia (3.7 bbl), and Malaysia (3.7 bbl) (BP 2014). A third of approved FDI in the first half of 2012 (totaling $14.2 billion) went to the oil and gas sector (DICA).

Water. As of 2010, the country's total renewable water resources were 24,352 cubic meters per inhabitant per year, higher than nearly all other economies in Asia. Water is a key energy resource for Myanmar, with hydropower accounting for three-quarters of the country's total installed capacity for electricity. Myanmar uses only 5% of its water resources, of which agriculture consumes 90% and industry and domestic use account for the rest (Ministry of the Environment, Japan 2012). The potential is substantial for further utilization of water resources for hydropower, as well as for irrigation, livestock production, and industry.

Fisheries. The major rivers hold substantial fish stocks, providing considerable potential for aquaculture development in the low-lying river delta areas in the south and center. Myanmar also has significant marine fishery resources along its more than 1,900-kilometer coastline and in its 382,023 hectares (ha) of mangroves (FAO 2003). During 1998–2009, the total catch of freshwater and marine fish almost tripled (FAO 2012), with expanded aquaculture development as the main factor behind this increase.

Forestry. Forests cover about 33 million ha or just under 50% of total land area. They constitute one of the largest reserves in Southeast Asia and are still in a reasonably natural state, with closed forests accounting for 37% of total land area (Ministry of Agriculture and Irrigation 2011). Forest degradation is happening quickly, however, largely due to agricultural activities, illegal logging, and fuel wood collection. Forestry exports totaled $644 million in FY2011 (Lay 2012). Forested areas are also a major habitat for tropical and subtropical flora and fauna, meaning they are a major economic resource as well as an essential source of biodiversity and environmental sustainability for Southeast Asia.

Agriculture. The abundance of land, water, and low-cost labor contribute to the output of the agriculture sector and drive its contribution to the economy. Only about 18% of the country's total land area of 68 million ha is used for crop production and only 18.5% of this is irrigated. Between 1990 and 2010, the areas planted with rice, beans, sesame seed, and vegetables expanded, and output increased considerably. For example, the area planted with rice has nearly doubled and production has almost tripled, showing the impact of both the expansion of cropped area and enhanced yields. Productivity, despite numerous challenges, has been rising steadily. Despite the lack of irrigation for most of the rice, the current yield is about 4.1 tons (t)/ha of unmilled rice, up from 3.4 t/ha in 2000, and not far from Viet Nam's 5.3 t/ha. With irrigation and other inputs, this could rise to at least 5 t/ha (FAO 2012). This presents enormous opportunity to expand farm output, both at the extensive margin (more land under cultivation) and the intensive margin (increased productivity).

Livestock production also holds strong potential. Almost every rural household has livestock, including cattle, buffalo, pigs, and poultry, contributing to household income and constituting a sizable portion of household capital. But most of the livestock is raised using backyard methods, although some commercial production occurs near major cities. The growth in livestock production seems to have stagnated in the past decade, except poultry with the number of birds tripling as a result of the spread of commercial production techniques in peri-urban areas (UNDP 2011).

Tourism. Myanmar's virgin jungles, snow-capped mountains, and beaches, combined with a rich cultural heritage spanning more than 2,000 years, are potentially huge tourist draws. But that potential remains far underexploited. In 2012, tourist arrivals reached 1 million, compared with 3 million in the Lao PDR—a much smaller country—and 22 million in Thailand.

C. The Opportunity to Leapfrog

The very fact that Myanmar's current socioeconomic development is behind its neighbors implies the possibility of rapid catch-up. The Veblen-Gerschenkron Hypothesis in the literature, named after two distinguished social scientists, analyzed the "penalty of taking the lead" and the "advantages of relative backwardness" (Wigger 1993). Veblen observed that when the railway was first introduced in Great Britain around 1830, the gauge of the lines was very narrow since there was no assurance that the volume of traffic would be adequate to cover the high fixed costs involved. When the traffic was subsequently shown to be substantial, a broader gauge would have proved to be more economical, but was not installed since the narrow lines had already been built. Germany, however, observed what was happening in Great Britain and introduced a broader gauge from the outset, gaining an advantage over Great Britain. Veblen's example can be multiplied several times over in recent experience where it is noted that infrastructure such as airports, subways, bridges, and highways are usually so much better in newly industrializing countries than in the mature industrial countries such as the US. Similarly, Gerschenkron pointed out that "latecomers," such as the Russian Federation and Japan, were able to launch and sustain "growth spurts" that were much more rapid than the growth rates achieved by Great Britain and Western Europe. For instance, estimates by the McKinsey Institute (McKinsey 2013) show that it took on average 47 years to double GDP per capita in PPP terms from $1,300 to $2,600 prior to 1960, falling to 17 years by 2000. Thailand took 13 years to quadruple its GDP per capita in PPP terms from the level of Myanmar today, and the PRC took 12 years. Later on in this paper, we shall note how this crucial observation can play a major role in formulating an effective catch-up strategy for Myanmar with FDI as the engine for the diffusion of technology (Peri 2004).

Developments in information technology have also created the possibility of such leapfrogging for Myanmar to take advantage of. With little infrastructure in place or with committed investments, or none in cases such as telecommunications, Myanmar can leapfrog directly to new digital technology solutions in areas such as education, health, and banking and finance.

D. Potential Strengths, Real Weaknesses

While most of the identified strengths represent potential only, the weaknesses are real. Myanmar has made a strong commitment to reform, but does not have a track record or substantial experience of sustained reform. Moreover, the potential of rich natural resources has not been effectively managed, because of misguided policies or coordination failures. Lack of public policy and investment support has also limited the potential of a young and eager-to-learn population that could contribute to growth. Weak infrastructure, inadequate public investment in education and health, and a severe skills shortage remain real challenges to the development process, and stand in the way of successful reform. Electricity supply, in particular, must be high on the agenda for economic recovery. The task of conceptualizing how to overcome these weaknesses and to unleash full economic potential is the domain of a properly conceived development strategy.

Myanmar needs to ensure that economic growth translates into adequate jobs to achieve sustained high and inclusive growth. Open, transparent, and cooperative industrial relations will be critical to the successful realization of ongoing labor market reform. There is no doubt that institutional capacity and strong governance is required in the employment and labor sector. The government should ensure reliable safety measures at the workplace and a proper work environment to be provided by potential employers, both foreign and domestic. Such measures are essential for productivity growth, allowing the country to maintain strong competitiveness compared to other South and Southeast Asian countries.

One of the major threats facing Myanmar is the income and nonincome disparity across different ethnic communities and regions. A severe imbalance exists in income levels among the river valleys and coastal regions, where most of the majority ethnic “Bamar” or “Burman” population lives, and the upland interior and border regions where the major indigenous minority populations such as the Shan, Kachin, and Chin are located. For example, poverty in Chin State, bordering Bangladesh and Assam, is 73% compared to the 25% national average, 11% in Kayah State (bordering northern Thailand), and below 18% in most of the ethnic Burman areas in the dry zone and delta regions. If growth is not adequately inclusive and efforts to address this vast inequality in living standards across different ethnicities and regions fail, this threat will become a real danger to the entire reform process. A further complicating factor is the ongoing conflict and drug trafficking in some border areas. Escalation of social unrest and potential ethnic conflicts around the border areas would also jeopardize the country’s chances of becoming a regional hub and fully realizing the economic potential of its geopolitical advantage.

Environmental sustainability is another critical element for policy consideration. Natural and man-made factors are severely damaging the Irrawaddy and Salween river systems, such as chemical use in mining operations, and strenuous effort is needed to regain sustainability in these systems. Timely carbon emission standards and other environmental protection measures for environmental integrity and quality of life are also needed to avoid much costlier efforts later.

Deforestation because of uncontrolled and clearly unsustainable mechanical logging, particularly of high-value teak and other hardwoods, needs immediate attention. And poor rural populations’ reliance on wood for energy compounds the problems. The country’s lack of industrialization has kept carbon emissions relatively low, but in this area also, steps are needed early to prevent them from rising too rapidly as manufacturing production increases. In addition, unclear property rights and the poverty of the farming population exacerbates soil erosion, and measures to protect and maintain the soil are neglected.

As Cyclone Nargis in 2008 demonstrated, Myanmar is highly vulnerable to catastrophic natural disasters. The massive storm devastated most of the Irrawaddy delta, killing an estimated 138,000 people and causing damage of more than $4 billion.

V. GROWTH TARGETS AND ASPIRATIONS

Myanmar has had many long-term plans since independence, starting with the Pyidawtha Plan of 1952–1960 (Thein 2004). A 20-year plan was proposed in the 1970s and the 30-Year Industrial Development Plan formulated in 2001 set unrealistic objectives, such as reaching Japan's level of development by 2020. More realistically, aspiring instead to reach the 2006 income per capita of middle-income Malaysia, U. Myint (2011) calculated that even if Myanmar grew 10% a year, this would take until 2034 to achieve.

Myanmar's GDP is estimated to have expanded about 4.9% average during 2000–2012 (IMF 2013). Growth accelerated toward the end of this period to between 5% and 6%. In 2012, GDP expanded 7.3% as economic and political reforms started to take hold and economic sanctions were eased.

Estimating potential growth trajectories for Myanmar over the next 2 decades is obviously highly uncertain, and depends on numerous factors. But it depends mainly on the extent, speed, and effectiveness of economic and social reforms, investment growth, including FDI, and increases in productivity. As the next section shows, these changes likewise depend on many complex factors.

One possible scenario is a simple projection by extending the current GDP growth of 5%–6% into 2030. This would more than double Myanmar's income per capita from about $1,000 in 2010 to $2,429–$2,997 by 2030.[3] This modest growth would raise the country to the lower-middle-income level, equal to the Philippines. This low-growth scenario is clearly well below what Myanmar can realistically aspire to in light of all the positive factors described in the previous section, as well as the notable difference to its future economic prospects made by the lifting of economic sanctions.

A more realistic scenario is based on the past experience of a sample of developing Asian economies. Myanmar's economy can be assumed to expand at the average growth of developing Asia in recent decades. The economies of Asia and the Pacific grew an average of 7.6% a year during 1990–2010. If the country grows 7%–8%, its GDP income per capita would increase to $3,515–$4,118, more than four times its current level. This would be similar to Indonesia and Sri Lanka now, based on current growth rates, and given that reforms are at an early stage, Myanmar should be able to achieve this. Indeed, a number of studies (ADBI 2014, ADB 2012, McKinsey Global Institute 2013) project that the country's GDP could quadruple by 2030, reaching $200 billion.

A more ambitious yet quite feasible growth scenario, given strong economic potential, would be a growth rate of 9%–10%. This would bring income per capita to $4,816–$5,625, similar to Thailand today, or about six times the current level and equivalent to high-middle-income status. In Asia, the PRC, Japan, the Republic of Korea, Malaysia, and Thailand have managed this feat, climbing from low-income to upper-middle-income, and high-income levels over several decades. The Republic of Korea achieved high-income status in the 1990s. These economies grew 9.4% on average during their respective take-off periods.

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[3] Based on the 2014 census population figures.

While 10% growth is very high by historical standards, one could argue that it is attainable in this global economic era and the rapid eastward shift of the global economy's center of gravity. The spillover alone from the neighboring PRC and Indian economies, which will likely continue to grow strongly, would contribute powerfully to the high-growth scenario. Road and rail connections with Myanmar will bind the three economies much more closely, as well as with Thailand and the rest of ASEAN, in what is very likely to be the most dynamic contiguous segment of the world economy over the next 2 decades. The new harbors of Kyaukphyu in the west and eventually Dawei in the east, alongside Yangon, will carry a vastly expanded volume of trade across the Bay of Bengal in both directions, linking the Americas, Europe, and the Middle East with a resurgent Asia. This will have the profound geopolitical effect of reducing the age-old centrality of the Straits of Malacca as the sole maritime artery connecting the eastern and western halves of the global economic system.

While empirical evidence generally suggests that economic growth has been the most effective tool for reducing poverty, the extent to which it does depends largely on a country's specific circumstances and policies (Ahluwalia, Charter, and Chenery 1979; Fields 1989; Roemer and Gugerty 1997). Cross-country analysis suggests that countries without an extended period of growth have been unable to reduce poverty significantly. However, past studies also suggest that growth alone is not sufficient to achieve inclusive growth, particularly if income distribution dramatically worsens as the economy expands. The experience of developing countries shows the importance of country-specific economic structure and policies in determining the extent to which growth benefits the poor. Poverty reduction, it is clear, also depends on access to growth opportunities and the distribution of growth benefits.

The effect of real GDP growth per capita on income distribution is often argued in terms of an inverted U-shape relationship between economic growth and income inequality, known as the Kuznets curve (Kuznets 1955). This hypothesis argues that, as income grows, income distribution will worsen in the early stage of development, before improving later when the broader population is able to participate in economic activity and benefit from growing income. The main idea is that structural transformation, shifts from agriculture to industry and services, and the adoption of new technologies initially benefit only a minority of the population with access to capital and technology. Later, as technologies are more widely shared and wages rise on increased demand for labor, the benefits from economic development start trickling down to the poor and income inequality starts declining with economic growth. This is a relatively well-established empirical regularity based on cross-country analysis. Since the seminal paper's release, however, there has been concern about the adverse effect of growth-oriented strategies on poverty in the early stages of economic development.

Myanmar's income distribution could worsen initially with economic growth, but past experience of most developing Asian economies shows that the poor benefit from economic growth through rising incomes. It is very unusual that income distribution worsens dramatically with economic growth and that the welfare of the poor deteriorates as incomes grow. Therefore, regardless of the Kuznets relationship, economic growth is still fundamental to reducing poverty rates, particularly in low-income countries.

Economic policies and development strategies can exert a large influence on poverty reduction through their impact on growth and income distribution. A key to inclusive growth is employment. The patterns and sources of growth, especially how employment is generated and income distributed, are extremely important for poverty reduction. The main difference between East and Southeast Asia in the pre-1997 Asian financial crisis and other developing regions was the difference in the employment elasticity of economic growth.

As its level of development rises, Myanmar needs to enhance inclusiveness to maintain strong growth momentum in the long-term. Studies suggest that widening income inequality could hurt growth performance through its impact on political stability, social cohesion, human capital formation, and other human development. Lack of inclusion can be destabilizing and undermine an economy's ability to sustain growth in the long-term. Rising disparities between different geographic regions or sections in the society can also lead to social unrest and upheaval. Development strategies for inclusive growth are those that facilitate structural transformation to generate large and broad employment, with adequate support for the development of human capital.

VI. THE DEVELOPMENT STRATEGY FOR ACHIEVING INCLUSIVE AND SUSTAINABLE GROWTH

A substantial acceleration of development in Myanmar, as noted, requires a clear and multipronged development strategy targeted at economic growth and employment generation and, ultimately, the rapid reduction of widespread poverty. Reform measures will need to be carefully prioritized and sequenced. Binding constraints need to be identified and quickly addressed to accelerate economic growth based on the expansion of the large domestic market and the development of a vibrant employment-generating manufacturing export sector.

Despite Myanmar's huge and widely acknowledged economic potential, past development experience of the country makes clear that time is of the essence. The FESR 2012–2015 (Ministry of National Planning and Economic Development 2013) rightly identified "quick wins" and sent the right signal to investors and markets. As the review of the past and present economic situation has indicated, the country faces difficult challenges in all aspects of economic and social policy. The role of growth or development strategy, while recognizing this fact, is to select a set of priorities from the list of multiple objectives crowding the policy spectrum. This is to prevent overwhelming the agenda with a mass of detail that would undermine performance. This is particularly important given Myanmar's very weak institutional capacity. The first major challenge is therefore probably the most complex and yet most urgent and essential—developing core institutional capacity (Box 1).

Box 1: Development Theories and Asian Development Experiences

One prominent idea in the early days of development economics in the 1950s, associated with the names of Arthur Lewis and Ragnar Nurkse, was to promote balanced economic growth while avoiding pushing any one sector or component of gross domestic product (GDP) too far ahead of the others, that is, attempting to do everything at once but in the right proportions. This was to avoid gluts and shortages disrupting growth.

Albert Hirschman, on the other hand, recommended that initially, a country should select and concentrate on those sectors with the greatest backward and forward linkages in the production chain. He argued that it is a necessity to overcome such crises in an "unbalanced" development process through a creative response, leading to eventual success.

In the 1960s, the debate on development strategy shifted to the role of the external sector in relation to the rest of the developing economy. Following on the early work of Raul Prebisch and Hans Singer on an apparent secular tendency for the terms of trade to turn against the primary producing developing countries in favor of the manufactures of the developed countries. This popular strategy, adopted in much of Latin America and South Asia, advocated import-substituting industrialization as the best way forward, shutting out imports of manufactured goods by tariff protection and so creating the markets for domestic industries to emerge and be the driving force for development.

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Box 1 continued

Alone among the first generation of the pioneers of development economics, Hla Myint resisted this trend. He argued that international specialization on the basis of comparative advantage offered the best prospects, particularly for Southeast Asian countries, to raise living standards and prosperity, with import substitution taking place only on the basis of the natural evolution of market forces and not under the umbrella of protection.

He first drew the distinction between the "outward-looking" and "inward-looking" strategies for development in a 1967 paper, pointing out that Thailand and Malaysia after independence had experienced high growth while relying on expanding their natural resource-based exports under relatively free markets, whereas Myanmar and Indonesia had run into difficulties, largely as a result of squeezing their primary sectors too hard by state intervention to promote costly industrial projects (H. Myint 1971).

This diagnosis proved to be exactly on target in subsequent decades. After President Sukarno fell, Indonesia changed course from looking inward to looking outward under President Suharto and the advice of the "Berkeley Mafia," leading to sustained progress thereafter. Myanmar doubled down on state intervention to divert resources from primary to industrial production without achieving success in either during the Burmese Way To Socialism regime for the next 2 decades.

Malaysia and Thailand continued to export natural resource-based products, but then began to increasingly produce and export manufactured products as their capacity to do so was enhanced by the gains from their earlier specialization, drawing extensively on foreign direct investment (FDI) to not only provide capital, but also to transfer technology. Rapidly rising GDP per capita arising out of this outward-looking strategy also enabled these countries to substantially improve health and education standards, with results that can be seen today. While Thailand's success relative to Myanmar was arguably because it was never colonized, both countries also had to contend with Communist and ethnic insurgencies.

The early 1960s also saw the emergence of the four "tiger" manufacturing export economies of East and Southeast Asia, namely the Republic of Korea; Taipei,China; and the two city states, Hong Kong, China and Singapore. Their double-digit GDP growth, most of the time led or exceeded by their export growth, propelled them to developed high-income status within a generation. Lacking natural resources—and entirely so in the case of the two city states, they were forced to rely on the only resource they could command, the brains of their increasingly well-educated populations. As their physical and human capital endowments per capita increased, they were able to climb the ladder of comparative advantage, in keeping with the Heckscher-Ohlin factor proportions theory, to produce and export increasingly sophisticated and capital-intensive goods by companies that are now at the cutting-edge of world technology in a number of fields.

Although all four of these economies followed an export-oriented strategy, they differed in the mix of reliance on state intervention or laissez-faire market forces to execute the strategy. In Hong Kong, China before the handover, British civil servants confined the role of the state to the provision of law and order, physical infrastructure, and macroeconomic stability, leaving the allocation of investment between production sectors and the composition of exports to private entrepreneurs, following the path dictated by changes in relative factor supplies and prices. Many of these entrepreneurs were from Shanghai and other places on the mainland, who brought their capital and business acumen with them.

Singapore also concentrated on providing world class infrastructure and peaceful labor relations, but combined this with rapid upgrading of the skills and quality of the labor force by an ambitious program of public education which, taken together, served as a powerful magnet attracting a flood of FDI from all over the world. The state frequently attempted to anticipate the future direction of market forces, nudging FDI out of what it felt were lagging sectors into more progressive ones. It also raised the fraction of GDP allocated to domestic saving and investment to almost 50% by means of a Central Provident Fund, to which all employers and workers were obliged to make contributions. The domestic private sector was somewhat neglected, with reliance placed mostly on FDI and a few strategic state enterprises run very profitably on commercial lines by hand-picked civil servants who were paid competitive salaries to attract top talent.

The Republic of Korea and Taipei,China are of course much larger economies than the two city states, but, like Hong Kong, China and Singapore, they were also colonialized. Despite the ill-effects of any form of colonial rule, familiarity with the Japanese language and culture on the part of the elite, and with the country's institutions and administrative practices in government and business were positive benefits that both economies enjoyed when they began their industrialization drives. In Taipei,China, the state took the lead in opening up new industries, but tended to turn them over later to private ownership, and was receptive to FDI. In the Republic Korea, the government of General Park Chung Hee, who took power

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Box 1 continued

in 1961, developed close ties with *chaebol,* large conglomerate enterprises modeled on the prewar Japanese *zaibatsu,* supporting them with loans and other privileges contingent on strong export performance. Strategic economic decisions were centralized in an Economic Planning Board directly under the president and staffed by highly competent technocrats, a common feature of all the four East Asian tiger economies. Unlike the city states, the Republic of Korea and Taipei,China had larger populations to feed and so agriculture could not be neglected, with food self-sufficiency secured by rapid increases in productivity. Exports, initially in labor-intensive sectors like textiles, were rapidly upgraded to the level that both countries have reached today as world leaders in electronics, information technology, and other fields.

The success of the four tigers inspired Deng Xiaoping in 1979 to turn away from the disastrous policies of Chairman Mao and open the PRC up to world trade and investment. The PRC's success in turn inspired Rajiv Gandhi to put India on a similar path a decade later. The members of the Association of Southeast Asian Nations, meanwhile, opened up to outward-looking policies, leaving Myanmar the last to adopt the development strategy first expounded by its native son Hla Myint almost 50 years ago. It is, however, never too late to be a latecomer. Myanmar can only benefit, now and in the future, from the success and prosperity of its neighbors, as models to follow, markets to export to, and sources of FDI that can serve to effectively transfer modern technology.

A common feature of all of these examples of successful development has been a close degree of cooperation between government and the private sector, a government–business partnership in other words.

While this feature has often been noted, another crucial aspect has been overlooked; namely, that whenever the interests of the two partners have clashed, it was usually the case that government was able to preserve what is known in political science as "the autonomy of the state," ensuring that the national interest in long-term development prevailed over the narrower special interests of business in making profits as a result of the privileges granted by the state.

This is where the role of exports as the key indicator of success is so important, since it forces private business to meet the challenges of global competition in order to continue to receive government support. This is as opposed to the situation under import substitution where favored domestic sectors are protected independently of how efficiently they perform. In short, it is what distinguishes the true developmental state from crony capitalism, in which the political leadership and the state bureaucracy have been corrupted to serve business interests rather than the true national interest of long-term growth.

Source: Findlay (unpublished).

A. Institutions and Governance

The World Bank's Worldwide Governance Indicators place Myanmar in the fourth percentile of government effectiveness, which captures "perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies" (Kaufmann, Kraay, and Mastruzzi 2010). This may be one of the most complex and difficult issues Myanmar faces.

The capacity of core socioeconomic policy making institutions in Myanmar is limited and needs to be addressed urgently to make reforms effective and sustainable. In addition, after the start of reforms and the lifting of economic sanctions, assistance from the international community increased dramatically, including international financial institutions to the government, straining weak capacity and requiring significant coordination. All policy making institutions need considerable strengthening. At the same time, highly hierarchical administrative processes and procedures, a legacy of decades of centralized rule, need to be revised to reduce micromanagement. Institutions need to be given independence of decision making in their areas of competency, and a new coordination mechanism must be put in place at the same time.

The government has already embarked on wide-ranging reforms to improve governance by establishing laws and regulation, initiating comprehensive public administrative reforms, improving transparency, and fighting corruption. The FESR also lays out a series of government actions in this area, especially short-term priorities such as improving the national budget process and enhancing the transparency of the extractive industries by adopting global standards.

The reform of governing structures and institutions is another area that could improve government effectiveness by reducing inefficiency and mismanagement. Myanmar has a rather large number of ministries, which could complicate collective decisions and coordinated policy implementation, hampering government effectiveness. Ministerial- and cabinet-level appointments could be substantially streamlined and remaining institutions given greater independence of decision making in their areas of competency.

Capacity building and public administration reform is urgently needed in policy decision-making bodies, particularly the ministries of national planning and economic development, finance, agriculture and rural development, education and health, and justice. Coordination among these ministries is essential for the effective design and implementation of reforms, and appropriate mechanisms are needed to facilitate this coordination. Civil service reform is just as urgent in these agencies. As economic growth quickens, opportunities are expected to flourish in the private sector, and innovative approaches beyond compensation schemes will be needed in civil-service reform if these agencies are to retain their most talented staff and prevent corrupt practices.

B. Macroeconomic Stability

Maintaining a sound and stable macroeconomic environment is a precondition for successful reforms and economic development. Macroeconomic stability includes sound monetary policies to keep inflation in check, stable financial policies to ensure credit availability, adequate government revenues to finance budgetary outlays, and a well-managed exchange rate. There are many examples of how sound macroeconomic policies buttressed rapid sustained economic growth in the region. Thailand enjoyed an extensive period of rapid growth up to the Asian financial crisis on the back of macroeconomic stability established during the late 1970s and early 1980s to support an export-oriented development strategy. Indonesia, the Republic of Korea, and Malaysia all experienced prolonged periods of high growth when macroeconomic stability was maintained. In Viet Nam, the Doi Moi market-oriented reforms started at the end of the 1980s and gave high priority to sound monetary and fiscal policies (Van Arkadie and Mallon 2004). Myanmar's own inability to maintain macroeconomic stability in the early 1990s was a major reason why market reforms rapidly failed, contrary to the Viet Nam case.

The tremendous changes in economic policy present great opportunities for Myanmar, but they also increase the risk of economic instability. The experience in other Asian countries shows that as economies open, and investment and growth accelerate, inflationary pressure and the risk of macroeconomic instability can increase sharply. As noted, inflation is already rising in Myanmar, with prices of nontradables such as land and buildings in urban areas soaring in recent years. Given these emerging signs of economic strain, it will be important to ensure macroeconomic stability for a predictable environment amenable to rapid short- and long-term development.

Another important objective of macroeconomic management in a small open economy is a stable exchange rate, which promotes international trade and investment, and hence is important for growth. Especially in Myanmar, where commodity exports are currently important sources of growth and foreign exchange earnings, excessive exchange rate volatility and terms-of-trade fluctuations can pose a serious economic threat. Resource-based export booms could also affect real exchange rates and lead to Dutch disease if the influx of foreign capital is not managed properly. While a trade-off exists between exchange rate stability and flexibility, priority should be given to maintaining a degree of exchange rate stability through foreign exchange interventions and capital controls for the time being, if needed, given the weak capacity of the private sector for risk management.

On the fiscal side, wide-ranging tax reform is needed. Since the monetary policy framework began to develop only recently, fiscal policy will remain the main instrument for managing macroeconomic stability and growth in the short- to medium-term. At the same time, as rapid economic growth and social development require urgent budgetary planning and support, fiscal policy management should also consider longer-term development issues. With recent reforms, the government has restored fiscal discipline and improved budget transparency. But to achieve the ambitious fiscal objectives laid out in the FESR, further reforms should focus on improving the strategic allocation of government resources, new resource mobilization, fiscal decentralization, macro-fiscal links, and the overall public financial management system. A review of the role of state-owned enterprises and of the importance of their financial losses must be undertaken and eventually fed into reforms for this sector to mitigate potential fiscal risks. Viet Nam is instructive once again, as its failure to deeply reform state enterprises resulted in rapidly rising budget deficits in recent years, leading to macroeconomic instability and a financial crisis.

C. The Revival of Agriculture

Myanmar's initial development process will be fundamentally based on agricultural and rural development. The main objective for this sector is to increase food supplies and reduce food prices while raising farm incomes, thus creating higher real purchasing power and higher demand for other goods. Higher labor productivity in the agriculture sector will also allow surplus labor to contribute to other sectors of the economy. Indeed, agricultural growth has huge poverty-reducing potential in the country, with agriculture employing half of the population. The sector could also help alleviate the socioeconomic gap facing ethnic minorities, given their disproportionately large numbers active in agriculture.

A number of the recent government reform initiatives highlight the importance of agriculture and rural development in Myanmar. The National Strategy on Poverty Alleviation and Rural Development identifies eight priority areas for agriculture and rural development. The FESR identifies 10 priority areas, including food security and agricultural growth. Many of the other priority areas indirectly relate to agriculture and rural development.

The National Comprehensive Development Plan lays down three targets for the agriculture sector and five short-term objectives to achieve them. In line with these initiatives, and particularly the National Comprehensive Development Plan, three government ministries—agriculture and irrigation, livestock and fisheries, and environment conservation and forestry—have conducted various meetings and workshops with the state and regional governments, as well as farmers, traders, and millers, to come up with strategies. With appropriate reforms establishing more secure property rights, loans at reasonable rates, supply of fertilizer and extension services, small farmers, given sufficient price incentives, can still make a huge contribution to exports and GDP in the short-term.[4]

Reviving the agriculture sector, just as in other sectors, requires a multipronged approach and careful sequencing to achieve rapid gains. Domestic agriculture markets have been fully liberalized, by and large. But, as noted earlier, many areas relating to agriculture development have been neglected for decades and require reforms and significant investments. Land tenure, land use, and protection of smallholders remain major problems, and are often linked to access to financing for agriculture. Support services and research, and access to affordable and quality seeds and fertilizer inputs, all need major improvements. Massive investment in rural infrastructure, including rural roads and irrigation schemes will be needed to facilitate market access and reduce post-harvest losses. Policy support to facilitate the development of value chains in agriculture and raise productivity needs to follow. Some cities in agriculturally rich areas, such as Patthein in the Ayeyarwady Division, could be developed as agricultural hub cities, attracting investment to agro-industries, including FDI. To expand agriculture and fisheries exports and access high value markets in Japan, Europe, and North America, Myanmar will need to introduce strict phytosanitary controls; these are complex and could be implemented faster by partnering with producers and exporters in ASEAN. Attracting FDI from ASEAN in agriculture and fisheries is therefore particularly important to increase agricultural exports rapidly.

Because of the low ratio of population to cultivable land, Myanmar has the potential to develop large commercial agriculture through contract farming and FDI, and already some contract farming projects have been launched. While commercial agriculture is a viable avenue, care should be taken to protect small land owners and farmers against land grabbing. Land use should be clearly defined by laws and regulations and, more importantly, these laws and regulations should be effectively enforced.

D. Natural Resources-Based Sectors

In the immediate future and even over the medium- and long-term, the largest and fastest-growing sectors of the economy and biggest source of exports will probably be those that are resource-based. In 2013, the main exports were natural gas at $3.8 billion, comprising 36.2% of total exports, followed closely by teak and hardwood, at $1.3 billion (12.6%), and jade at $1.1 billion (10.3%).

Current proven natural gas reserves are not particularly high, and at 10 TCF are about the size of Brunei's or Thailand's (BP 2014). However, large areas with strong potential both on and offshore that are not yet explored suggest that Myanmar could become one of the largest gas producers in the region—this is also possibly true for oil—though some promising areas are in deep water and will be costly to exploit. A US Geological Survey analysis estimates that Myanmar's technically recoverable natural gas reserves could be as high as 79.6 TCF , in addition to the current proven reserves of 10 TCF. These estimated reserves combined would be the world's 12th largest, and similar to the current proven reserves of Indonesia or Malaysia (Verbiest 2014). Major recoverable discoveries and production will, however, take at least 10 years to come on stream. Exports of natural gas, until recently mainly to Thailand from the Gulf of Martaban, nearly doubled in 2013 and 2014 as new production started in 2014 in the Shwe field off the Rakhine coast for export to the PRC via a new pipeline, and in the Zawtika field in the Gulf of Martaban for export to Thailand. Being energy deficient, demand from

[4] In 2012, of total exports of $8.3 billion, pulses and beans accounted for $806 million (9.7%) and teak and hardwood $1.02 billion (12.3%). Rice exports were a mere $144 million (1.7%), less than $219 million (2.6%) for raw rubber. Sesame ($40 million) and maize ($13 million) were both below 1% each. Fish and prawns combined were $329 million (4%).

both the PRC and Thailand will expand strongly, and so the limitation on Myanmar's export earnings will come from the supply rather than the demand side.

Similarly, as noted earlier, the minerals sector could grow rapidly as many areas of the country have not yet been surveyed. Jade exports accounted for about 25% of the total in 2010–2011. Demand is strong, driven by the PRC and overseas Chinese, and Myanmar has a near monopoly on jade production, with 70% of the world's jadeite deposits said to be there.

But for sustainable growth in the natural resources sectors, clear understanding is needed of the rate of growth in export volumes as well as of pricing and revenue-sharing arrangements with foreign companies.

Myanmar also has huge hydropower potential, estimated at 100,000 megawatts (MW), of which about 40,000 MW has been identified for development. By comparison, installed hydropower capacity was about 3,000 MW in 2011. The development of hydropower raises complex issues, including environmental—the Salween River, for instance, is Southeast Asia's longest undammed river—and social, as many of the potential dam sites are in minority areas.

The employment potential of natural gas and mining exports is limited and, over the medium-term, the opportunities to develop value-added linkages will be very limited. The main contribution of this part of the economy will be from foreign exchange generated for investment in other sectors. But if not managed properly, a large inflow of foreign exchange associated with a surge in FDI drawn to the natural resources sector could raise the risk of Dutch disease; the danger that the booming natural resources sector could crowd out the rest of the economy must constantly be kept in mind. Diversification of the industrial sector and the development of manufacturing are therefore critical for long-term economic development.

Furthermore, because the development of Myanmar's natural resources is in its early stages, there is plenty of scope for fostering the sustainable and responsible use of this wealth. This should include the efficient use of resources, environmentally responsible and sustainable consumption and production, and climate-resilient development. Need is now urgent to develop environmental regulations on natural habitat conservation, pollution, waste treatment, and remediation, and to strengthen enforcement capacity. Without a proper regulatory framework, safeguard processes at the project level remain the only effective tool available for mitigating the potential environmentally destructive effects of such projects. This means establishing appropriate regulations to ensure that the exploration and exploitation of natural resources are environmentally and socially sustainable while providing time to build domestic capacity for value-added production in these industries.

E. The Need to Diversify the Economy: Manufacturing and Services

While agriculture and natural resource exports will be important in the initial phase of an export development strategy, diversification of the industrial sector and the development of manufacturing and exports will be the cornerstone of a successful development strategy. With its large population and low labor costs, Myanmar's manufacturing sector could grow rapidly, both to serve the domestic market and for exports. The country once had a thriving garment industry (Box 1.2), but trade sanctions since the 1990s substantially damaged the industry. Even so, the sector is recovering and, in 2013, garment exports were the largest manufacturing export, at 11% of total exports, or $1.2 billion.

Box 2: A Brief History of Myanmar's Manufacturing Exports

The industrial sector in Myanmar during the Burmese Way to Socialism, from 1962 to 1988, was dominated by state enterprises, most of which were very inefficiently run.

After 1988, the country pursued a more liberalized, market-oriented approach. But as Kudo (2009) shows, progress over the next 20 years was very disappointing, with the share of industry to gross domestic product increasing from 11% to only 13% over 1990 to 2003. The comparable figures for Viet Nam (23%–40%), Cambodia (11%–28%), and Lao People's Democratic Republic (15%–26%) were much more impressive. Although the number of private firms increased very rapidly, most of them were highly undercapitalized and were prevented from competing not only with existing state enterprises, but also with several new ones introduced during this period.

The number of public industrial enterprises rose from 616 in 1990 to 1,132 in 2002. The only opportunity open to the domestic private sector at that time was exporting garments to the United States (US) and the European Union (EU) under the auspices of the Multi-Fiber Arrangement. Exports rose rapidly from $190 million in 1997 to a peak of $829 million in 2001, before falling to $312 million in 2005. These exports operated on a "cut, make and pack" basis, whereby the foreign buyer provides all the raw materials and components needed and the local firm takes on the required value-added operations before shipping the completed work back to the foreign buyer. Once this transaction has been completed, the buyer deposits the foreign exchange earned in a state-owned commercial bank. Under this arrangement, the local firms did not have to search for customers abroad, design products, and select imported and domestic raw materials, all of which would have been beyond the limited scope of the private sector in Myanmar (though these could of course have yielded much higher returns had they been undertaken).

Interestingly, the success of garments exports in manufacturing, as in the cases of beans and pulses, can be largely traced to government neglect. This was because the government at that time was focused on what it considered more strategic issues connected with rice prices and supplies in agriculture, and preserving loss-making state enterprises, such as the sugar refineries (Kudo 2009). In other words, development by inadvertence, where concentration by the authorities on failing or stagnant sectors gives scope and freedom for some neglected ones to make an important contribution. The influential economist Albert Hirschman would no doubt have been delighted by the irony.

The examples of pulses and beans and the garment industry show how resourceful the domestic private sector can be in Myanmar, even under a system where it received no support or encouragement at all from the state. As Kudo (2009) says about the garment industry, "indeed, the success of this sector was neither intended nor promoted by the government. On the contrary it was a self-sustaining growth led by the private sector through export market incentives". A properly functioning system, with open access to finance, imported and domestic raw materials and the opportunity to form joint ventures with foreign firms would allow the local sector to flourish on a much greater scale, and attract greater foreign direct investment.

Access to the US and the EU markets, cut off by the sanctions but now restored, clearly creates huge opportunities for Myanmar's garments industry.

Source: Authors.

Three main sources of growth can be seen as drivers of Myanmar's economy: its large domestic markets, Asian markets, and the markets of the advanced economies. First, a sizable population and huge pent-up demand for nearly all products suggest huge growth potential for the domestic market for manufacturing goods. Industries in food and beverage, household products, construction-related industries, and transport equipment (including automobiles and motorcycles) could expand rapidly with proper support.

Second, Myanmar's strategic geographic location presents an opportunity to benefit from a new wave of Asian FDI as well as from integration into the ASEAN-based production network. Although productivity remains generally low, the country's young labor force is eager to learn. With labor costs rising in the PRC, the ASEAN countries, and in competitors such as Bangladesh, Myanmar can become an attractive location for more labor-intensive manufacturing in Asia, including garments.

And third, as sanctions are lifted, Myanmar's exports to advanced economies could grow rapidly. The elimination of the trade sanctions and the granting of Generalized Scheme of Preferences by the EU should allow the country to rapidly develop a labor-intensive manufacturing sector in garments, footwear, furniture, and jewelry, among other areas. Foreign investment in many other underdeveloped industries is also being considered; for example, medical and optical appliances, and even the electronics sector.

With the upcoming ASEAN Economic Community, a significant amount of ASEAN FDI in manufacturing can be expected to flow into Myanmar, which stands to benefit enormously from the implementation of a proactive regional cooperation and integration strategy. In this context, Myanmar needs to review its commercial policy. This includes the elimination of remaining tariff barriers and, in particular, numerous nontariff barriers, and streamlining and modernizing behind-the-border trade facilitation, including the modernization of its customs operations and regulations. At the same time, the country must upgrade and modernize border infrastructure and facilities and streamline border procedures. These reforms will allow it to fully benefit from regional cooperation and integration programs, such as the ASEAN Economic Community, the Greater Mekong Subregion, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, and the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy. This will enhance the country's attractiveness for FDI and allow it to integrate rapidly into regional and global value chains and production networks.

Significant government support at the policy level and in the provision of infrastructure will be required to attract foreign investment, and raise domestic investment in industries. At the policy level, the adoption of a new foreign investment law is an important step. Several other related laws, such as the Myanmar Citizen's Investment Law of 2013, have been passed or are in the legislative pipeline to support the investment environment.

The government needs to monitor and, if needed, regulate two major areas: the operation of the labor market and the land market. In the former, regulations to protect workers and working conditions—and avoid factory safety disasters—need to be put in place and, importantly, enforced. At the same time, the role of trade unions and labor dispute procedures need to be made clear through dialogue between workers, domestic and foreign employers, and government authorities. Land acquisition and prices remain a major concern for investors, particularly foreign investors. This is an area where the government needs to intervene, set clear rules, and clarify ownership. Similar problems arose in Viet Nam in the 1990s and one solution pursued was to create industrial parks, often jointly with state-owned enterprises or local authorities that owned land. The government should also look at some of the best practices in labor relations and land acquisition in other Asian countries. Labor and land are complex areas to deal with at the beginning of an economic reform process, but they are critical for the success of reforms.

To make its industrial strategy clear, the government should also formulate an industrial policy outlining its priorities and its implementation plans such as planned investments in infrastructure. Such a policy could provide greater detail about what's needed and how to provide for the country's development priorities in line with the broader directions given in the National Comprehensive Development Plan 2011–2031, including financing plans. For example, the policy could outline government support for the small and medium-sized enterprise sector and the financing for this. The Myanmar Industrial Development Bank is being restructured to center its operations on small and medium-sized enterprises, but it could also take on a broader role as a development bank. The policy could also include a roadmap to encourage a balanced geographical location of industries and avoid overcrowding in some urban and coastal areas.

The services sector, which currently accounts for less than 40% of GDP, is still quite small. As economic reforms take hold and various areas in the services sector are liberalized, such as finance, insurance, and trade, the services sector should grow rapidly and become an important driver of economic diversification.

Tourism is one area of services where Myanmar has enormous potential. Provided that the necessary infrastructure is put in place, Myanmar's tourism sector could eventually match that of Thailand's. The Asian Development Bank and Government of Norway have been cooperating with Myanmar authorities to develop a tourism master plan for 2013–2020 to guide the development of the sector and to ensure it is done in an environmentally and socially sustainable way (ADB 2013). The plan's successful implementation must be part of the diversification of the economy, as tourism can generate a large amount of employment in many related manufacturing and service industries all over the country.

The lack or poor state of infrastructure in power and transport (including airports and ports), as well as information and communication technology, is a major constraint to investment and the development of the economy. Recent infrastructure expenditure has been generous but concentrated on large-scale, highly visible projects such as the new capital, highways, and bridges. But the greatest infrastructure need is to support productive growth in agriculture, manufacturing, and tourism that involves smaller-scale, but vitally necessary improvements in electric power, secondary roads, rail and water transport, and urban facilities. The main task of the government will be to provide not only all this physical infrastructure, but also to improve—and even, in many cases, to produce from scratch—a competent, well-functioning state apparatus within which all of these directly productive activities can prosper. Given limited resources and time, the government must prioritize support, including from the private sector, through public–private partnerships.

The establishment of special economic zones (SEZ) and industrial parks, which could eventually develop into industrial clusters, appears to be the best way to quickly develop infrastructure. Care should be taken to ensure that SEZs remain linked to the rest of the economy and do not grow into isolated "industrial islands" in the country. Myanmar can learn from best regional practices in developing SEZs and industrial parks. As noted, Viet Nam in the 1990s created many of these facilities to encourage FDI by providing infrastructure and one-stop administrative support. Over the years, the multiplication of SEZs and industrial parks in Viet Nam led to inefficiencies and duplication, and there is currently a halt to new developments.

F. Inclusive Growth through Social Investment and Regionally Balanced Development

Myanmar's youthful demographic profile is a notable strength. However, without substantial investment in human capital development, the potential demographic dividend could easily turn into a demographic curse. Given the prolonged neglect of education and the underinvestment that it engendered, huge effort is required to raise education standards and the qualifications and skills of the labor force. Apart from the short-term measures needed to support skills upgrading and vocational training, a comprehensive reform of the education sector is needed at all levels to support higher medium- and long-term growth.

Similarly, large investments and institutional reforms in the public health system are needed. Besides the public sector, a framework for private sector participation and financing of quality and affordable health facilities must be put in place. Both education and health care are crucial to ensure inclusive growth. In both cases, Myanmar has the opportunity to explore information-technology-based solutions to accelerate development.

Pervasive poverty, which is closely associated with geography and ethnicity, is a significant concern. The stark contrast in income and nonincome social indicators between ethnic majority and minority, urban and rural areas, and across different regions also presents a source of social instability. Special efforts are needed to allocate resources toward regionally balanced development to achieve inclusive growth and development. Potential exists to leverage the geographic proximity of some regions to the PRC and Thailand to create and expand economic opportunities through trade, which can improve living conditions by the natural operation of market forces and alleviate, but not remove, the need for special measures. Border areas host rich forest reserves and jade mines, and both can benefit from high demand from the PRC. While revenues from these resources are an important contribution to the national and state economy, they can also be a source of contention. Appropriate mechanisms need to be established to channel these valuable resources for the urgent development of both national and state economies, which will help improve regional disparities in income as well as promote balanced growth across different states.

These issues point to the crucial need for negotiating a peaceful resolution to all these conflicting interests by balancing the aspirations for local autonomy with a unified, if not necessarily unitary, national state. Conflicting interests have to be taken into account, however, making negotiation a very challenging tripartite process for reconciling the objectives of all parties. Given Myanmar's complex ethnic fabric, the participation of ethnic minorities in development and, in particular, in the equitable sharing of the revenues from the exploitation of natural resources is essential. If efforts by all sides to resolve these issues are even moderately successful, they could convert an existing weakness into a potential strength by eliciting a greater sense of participation and "ownership" by ethnic minorities in the entire reform process.

G. Sustainable Growth and the Environment

Asia's development experience shows that prolonged rapid economic growth puts enormous stress on the environment, which is difficult and costly to rectify later. Myanmar's strong growth potential and the prospects of large investment inflows suggest it could experience the same environmental degradation issues other Asian countries faced earlier in their development unless carefully managed.

Myanmar is still fortunate to have a relatively unspoiled environment, although deforestation has been rapid. But dangerous chemicals used in some mining activities have polluted soils and rivers; and industrial development, as well as the use of natural resources—water for hydropower, and land for commercial agriculture and mining—can bring severe environmental pressures.

Yet, the country does not have to go through the same painful experiences as other Asian countries. Developing best practice environmental protection legislation and regulations should be a major policy priority; perhaps more importantly, and more difficult to achieve, will be effective institutional capacity and enforcement. Given weak institutional capacity, effective monitoring and implementation of environmental safeguards and regulations are going to be very difficult. Innovative approaches could be looked at, such as partnering with environmental protection agencies in advanced countries to provide direct qualified staffing support, until Myanmar has the capacity to take on this task itself. The use of information technology and the introduction of new technologies such as Space Applications for Environment (SAFE) could also offer Myanmar opportunities for early actions on environmental sustainability.[5]

VII. CONCLUSION

Substantially accelerating Myanmar's development will require a clear and multipronged development strategy. This should be targeted at strong and resilient growth, employment generation, and, ultimately, at the rapid reduction of pervasive poverty. Reform measures will need to be carefully prioritized and sequenced, and constraints to growth need to be identified and addressed to accelerate economic growth by expanding the large domestic market and developing a vibrant manufacturing export sector that can generate substantial employment.

One of the key components of a successful strategy for growth is good governance backed by effective institutional, legal, and regulatory frameworks. Priority should be given to establishing these frameworks for the delivery of public services. The capacity of core policy-making institutions in Myanmar right now is limited and needs to be strengthened to make reforms effective and sustainable. Capacity building and the reform of public administration in the key policy decision-making bodies, which require a degree of independence and coordination mechanisms to facilitate cooperation among them, is crucial.

Myanmar should make a concerted effort to establish a favorable environment for the private sector to thrive in and become a partner in economic development. A sound and stable macroeconomic environment is a precondition for successful reforms, as well as for an economy to open its markets and pursue an export-oriented growth strategy. At the policy level, the adoption of a new foreign investment law and several other related laws, such as the Myanmar Citizens Investment Law, was an important step forward.

Appropriate sectoral planning is essential to form integrated, comprehensive development strategies and policies. Agriculture and rural development requires an integrated approach spanning from seed to shelf and that takes into account the links among inputs, production, processing, storage, distributive trade, and exports. Key agricultural support institutions can be restructured and redirected to drive agricultural productivity growth throughout the supply chain. Tourism has great potential for contributing to broad and inclusive economic development, and the Myanmar Tourism Master Plan 2013–2020 (Ministry of Hotels and Tourism 2013) outlines an extensive development plan. But substantial gaps and weaknesses remain in the sector and its supporting infrastructure that may limit the speed and effectiveness of implementation.

Scope is great to introduce and implement policies to help realize Myanmar's full industrialization potential. Here, the country can coordinate and calibrate its policies for incentives, investment, trade, and land usage so it can attract more FDI and technology transfer in sectors that can spearhead long-term growth and development. Increased FDI can be spurred by credible government

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[5] Environmental monitoring has become important to mitigate adverse impacts of the man-made and natural disaster hazards. SAFE aims to strengthen environmental monitoring for climate change mitigation and adaptation efforts, using space applications. In particular, satellite remote sensing technology enables observation of the earth from the space, and provides the basis to measure some of the changing environmental parameters in various areas, such as water resources, sea level, land cover, deforestation, agricultural production, and ecosystems.

policy actions in land, legal, and contractual reform; infrastructure; finance sector development; and education and vocational training.

A smooth and effective finance sector is central to rapid and inclusive economic growth. Myanmar's finance sector has made strides over the past 2 years and many reform initiatives are under way. It is important that this momentum continues, with the focus on ensuring stability, efficiency, and increasing access to financial services. The top priority is to build strong institutional foundations for the banking system to improve the efficiency of transactions and their security. Such foundations include an automated clearing and payment system, money market, and credit information systems, and financial accounting standards.

Improved infrastructure can facilitate the development of almost all sectors of the economy and should be planned in the context of the current and future needs of other sectors. Each infrastructure subsector requires integrated planning and appropriate investment to follow up those plans. Although Myanmar's infrastructure subsectors each face unique issues, potential solutions are common across all of them. The first is the need to develop an integrated approach to sector planning. Sector master plans should be better coordinated and prepared, with the explicit linking of infrastructure plans to development objectives. The second is the need to increase government human resource capacities to allow the prioritization of key development projects based on high-quality economic assessments. And finally, it is important to promote private sector participation in the provision of infrastructure and related services.

Growth and job creation can be limited by prolonged underinvestment in human capital. A review of Myanmar's education sector points to three major constraints: insufficient funding, inequitable access, and poor quality and lack of relevance. Due in part to the poor quality of education, much of the workforce remains largely unskilled. To help address the skills gap, the government initiated the Comprehensive Education Sector Review and created the National Skills Standards Agency, but stepped-up investments in education and vocational training can help to meet the demands of rapid growth and economic transformation, and help drive that growth.

The overall development strategy needs to be anchored on inclusive and environmentally sustainable growth. Poverty remains high and there are considerable inequalities in access to opportunities and services across regions. A development strategy anchored on inclusive growth requires three policy pillars:

- Keep economic growth high and sustained to create sufficient economic opportunities, especially quality jobs.
- Promote social inclusion to ensure equal access to opportunity, which in turn requires adequate investment in education, health, and basic social services to enhance human capacity, especially of the disadvantaged. It also requires the elimination of market and institutional failures and social exclusion to level the playing field and broaden access to productive assets such as infrastructure, credit, and land.
- Implement effective social safety nets to enable households to mitigate transitory livelihood shocks caused by such factors as natural disasters and economic downturns, and then put in place safety nets to protect vulnerable groups. The current pattern of growth is heavily reliant on natural resources, stressing the environment. Sound planning is therefore needed to counter such environmental threats.

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Myanmar: Unlocking the Potential
A Strategy for High, Sustained, and Inclusive Growth

Recognizing the need to formulate policy strategies for the changes it faces, Myanmar started a multifaceted reform process in 2011. This paper briefly reviews Myanmar's history and its legacy, examines the economy and some of the main policy reforms undertaken since 2011, assesses development potential, and outlines medium- and long-term growth strategy based on the country's specific context and international best experiences and practices.

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Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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