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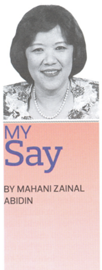
Inclusive growth is a must for Myanmar



The Institute of Strategic and International Studies (ISIS) Malaysia recently held a Roundtable on Myanmar to better understand the rapid political and economic changes taking place in the country and to learn more about the available business and investment opportunities. The delegation from Myanmar comprised a good mix of young and energetic corporate leaders as well as senior policymakers. Also present was an American academic who has been a longtime watcher of Myanmar.

Needless to say, all were brimming with confidence about the country's potential, although they were also remarkably frank about the challenges and possible pitfalls. One theme that came across, however, was that the country's leaders were highly committed to continuing the reforms.

The changes in Myanmar have been dramatic to say the least. First came the appointment of U Thein Sein, who had been prime minister earlier, as president in March 2011. Then a new democratically elected government was sworn in. The president then met with Daw Aung San Suu Kyi, released political prisoners, and culminated with the April 2012 by-elections, which saw "the Lady" being elected as a member of parliament.

Alongside these political changes, there have been a series of economic and other reforms. Investment and land laws were amended and the press is now much freer. One of the most significant economic reforms was the unification of the various exchange rate regimes into a managed floating one. It was certainly not easy to unify the official exchange rate of six kyat to the US dollar with the informal market rate of around 880 kyat to the dollar. The unification, however, went smoothly and more changes were promised by the President U Thein Sein, who announced the Second Reform Initiatives last month.

One cannot help but admire the depth and pace of changes in Myanmar given the enormous challenges. Compared with China, Myanmar's reforms are compressed in terms of timing and are taking place across almost all fronts - political, economic and societal.

China took much longer to open up and reform its economy. Liberalisation started in 1978 and continued progressively over the next 20 years. In contrast, Myanmar's reforms are being implemented at lightning speed, starting in 2011 where fundamental changes took place in less than two years.

China's political system remained unchanged over this transformation period while Myanmar had to find a political solution and ensure rapid transition from military rule to democracy. Myanmar also has to resolve conflicts with the many ethnic groups (more than 70) and make national reconciliation a top priority.

For these reasons, it is understandable why foreign investors and the international community who are pushing for change are optimistic but also cautious. This cautious optimism also applies to Myanmar's path for socio-economic development. To achieve lasting peace, harmony and stability, Myanmar must produce inclusive, sustainable and lasting growth. Inclusive economic development is closely linked to the country's peace and security.

The country can be easily seduced by the many offers of investment, loans and aid, and by the attention it is receiving from the international community. Its strategic importance in geopolitical, natural resource and mineral terms has catapulted it onto the radar screens of global powers. But as in all countries, the domestic constituency will decide on the success or failure of Myanmar's efforts to reform and achieve socio-economic development.

It is imperative then for Myanmar to ensure that every level of society participates in and benefits from the economic growth that will follow the reforms and liberalisation. There is a rising expectation from the population about the benefits of these often painful reforms. Providing basic needs such as electricity, infrastructure, clean water, housing and education is just the beginning of meeting those expectations.

Although the official level of poverty is 26%, many believe the real rate is much higher than that. As the majority of the population lives in the rural areas where poverty is widespread, the Myanmar government must tackle this fundamental problem by putting rural development at the top of its economic agenda.

The task is complicated because the rural areas are mainly populated by the minority ethnic groups. So the economic distribution issue has an ethnic dimension and thus equal opportunities must be given to all regions and states.

Myanmar also needs to develop a balanced economic structure. Currently, nearly all foreign investment is focusing on the power, oil and gas and mining sectors (88% of total foreign investment as at April 2012). This large investment interest in oil and gas and mining needs to be balanced soon by investments in the agriculture sector. Agriculture employs 63% of the total workforce, while 70% of the population live in the rural areas. Investments in the agriculture sector should increase productivity and the valueadd, which can increase farmers' income.

Myanmar is keen to develop and modernise its agriculture by attracting more foreign investment. It also needs to have strong manufacturing industries. However, the immediate profits from mineral extraction and other natural resources will be more attractive than the longer-term and more risky prospects of industries involved in the downstream processing of those materials. Economic growth driven by investment needs to be more broad-based and increase the national productive capacity and nurture a solid domestic private sector.

The rush to open up the economy has to be balanced with protecting national interests. The Myanmar market has been closed to imports for almost 60 years, as a result many of the companies there are not internationally competitive; they may collapse if the liberalisation is not managed or if their capacity is not improved. Local companies will find it hard to compete with foreign ones that have more capital, higher efficiency, better skills and advanced technology. This concern is reflected in the ruling that foreigners cannot buy a fully owned Myanmar business entity.

Human capital development is another very important and urgent task for Myanmar. Universal access to free primary education has yet to be achieved, and improvement is needed to access secondary, tertiary and vocational education as well as skills development. The older Myanmar people have a good command of English, but the new generation is less skilled in this area.

Some people have even suggested that the estimated two million Myanmar people working outside the country is a good way to quickly train them so that when they go home, Myanmar will have a readymade workforce.

With these challenges, Myanmar has to carefully choose its development path in order to produce inclusive, sustainable and lasting growth. It should learn from the experience of some developing countries, particularly its Asean neighbours, about what to do and what to avoid.

The close attention and offers of assistance from Western countries, especially in terms of the development model, have to be compatible with the reality on the ground. The Western fully market-driven economic model is not without its shortcomings, as shown by the recent crises, such as the disproportionally large role of the financial sector, serious income inequality, environmental degradation and unfettered capital flows.

Asean can provide lessons and examples of success and drawbacks in many areas. Malaysia can provide lessons in agriculture, rural development, poverty eradication, infrastructure and export - oriented industries. Likewise, Thailand has rich experience in agriculture, tourism and industrialisation, and Indonesia in tourism and rural industries. For financial services and light industrialisation, Singapore has many success stories.

Asean should be more proactive in helping Myanmar develop its economy. True, Asean countries are major investors in Myanmar, but they also have much to offer in terms of experience and capacity building. For example, an immediate assistance that Malaysia can give is to invite Myanmar civil servants to visit Malaysia to understand the role of the public sector in socio-economic development as well as to observe private sector operations. These observations and exposure can be useful in Myanmar's efforts to build inclusive, sustainable and lasting growth.

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