

THE BURMESE ECONOMY AND THE WITHDRAWAL OF EUROPEAN TRADE PREFERENCES

by Stefan Collignon

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Abstract

Both external and internal pressures have built up in terms of the restoration of democracy in Burma. Amongst the external pressures are the US congressional proposals for sanction as well as the recent withdrawal of GSP preferences by The European Union, decided by the EU Council of Ministers on 24th March 1997. This briefing paper analyses the economic impact of such a withdrawal of preferences on the Burmese economy. The paper finds that since Europe's trade with Burma represents less than 3% of Burma's total exports, only 31% of which were eligible for GSP treatment, a temporary withdrawal of GSP-preferences will have a very limited economic effect on Burma's existing reports. There will however, be a political impact, albeit measured: The European Union is sending strong signals to SLORC that the "constructive engagement" approach is no longer supported, and without significant reform, both economic and political, the EU is not prepared to endorse the SLORC regime.

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PREFERENCES

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The purpose of this report is to assess the impact of a possible "temporary withdrawal" of the scheme of generalised trade preference for Burma (Myanmar). The European Union's Generalised System of Preferences (GSP) envisions suspension in the following cases:

- Practice of any form of forced labour
- Export of goods made by prison labour
- Inadequate controls on the export or transit of drugs (illicit substances) or of money laundering.

There is ample evidence that each of these practices applies to Myanmar¹. However, the withdrawal of GSP is not automatic, but subject to a political assessment. Other countries have taken the lead. Thus, since 1991 the US. government has not granted GSP preferences to imports of Burmese origin and has declined to renew its bilateral textile and garment trade agreement. Suspending trade preferences for Burma by the European Union should take the following considerations into account:

- What impact will it have on the Burmese economy?
- What impact would it have on the political regime in power?
- What impact would it have for the long term transition to a democratic regime in Burma?

In this report I will concentrate on the economic side of the assessment.

¹ICFTU, 1995; State Department, 1996; Burma Debate, Vol. III, No 2 March/April 1996; Mon Information Service, 1996; Article XIX, 1996; and many others. The author has witnessed personally forms of forced labour in Myanmar.

1. The Country

Burma is a large country in Southeast Asia, in surface equivalent to Spain, Portugal, and Austria, with a population of 45 million, slightly less than Spain and Austria. It is surrounded by the Indian Ocean, Bangladesh, India, PR China, Laos and Thailand. With 140 ethnic groups, Burma is the country with the largest ethnic concentration in the world (one group per 5000 m² - the equivalent of a French "Department"). Politically, it became a British colony in 1886 and attained independence in 1948 under the leadership of General Aung San, who was assassinated in 1947. The first independent democratic government under U Nu proved unstable and incapable of dealing with the ethnic issue. It was replaced in a *coup d'état* by General Ne Win in 1962, who nationalised most of the economy and set the country on the "Burmese way to Socialism". During this time, Burma became one of the most isolated countries in the world. In 1988, a general uprising by the impoverished population was violently repressed by the Army. Approximately 2 - 3000 people were shot dead in the streets. Subsequently, the Army set up a military junta called SLORC (State Law and Order Restoration Council) which has ruled the country since then. Although the government held fairly free elections in 1990, it never recognised the results which gave an 82% majority of the seats to the opposing National League for Democracy (NLD) led by Aung San Suu Kyi, winner of the Nobel Peace Prize in 1991 and daughter of the Independence Hero. In fact, she was put under house arrest for six years and her freedom is still heavily constrained to this day.

2. Economic Growth and Standard of Living

Foreign visitors arriving in Burma often notice a visible improvement in apparent signs of wealth in the major cities, particularly Rangoon and Mandalay, since 1988. This is manifested in the substantial construction boom between 1988 and 1991, although it has somewhat faltered since then. However, as soon as one leaves the larger cities, the situation becomes different. Poverty is widespread and infrastructures like roads and railways are derelict. In fact, despite apparent improvements, sustained economic growth is still not taking place.

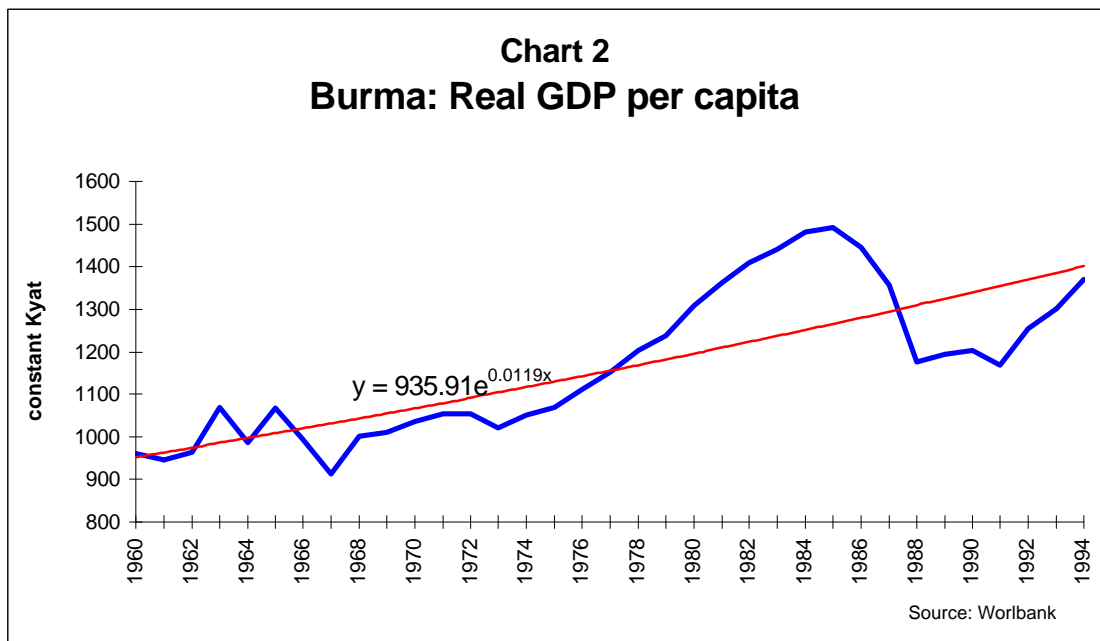
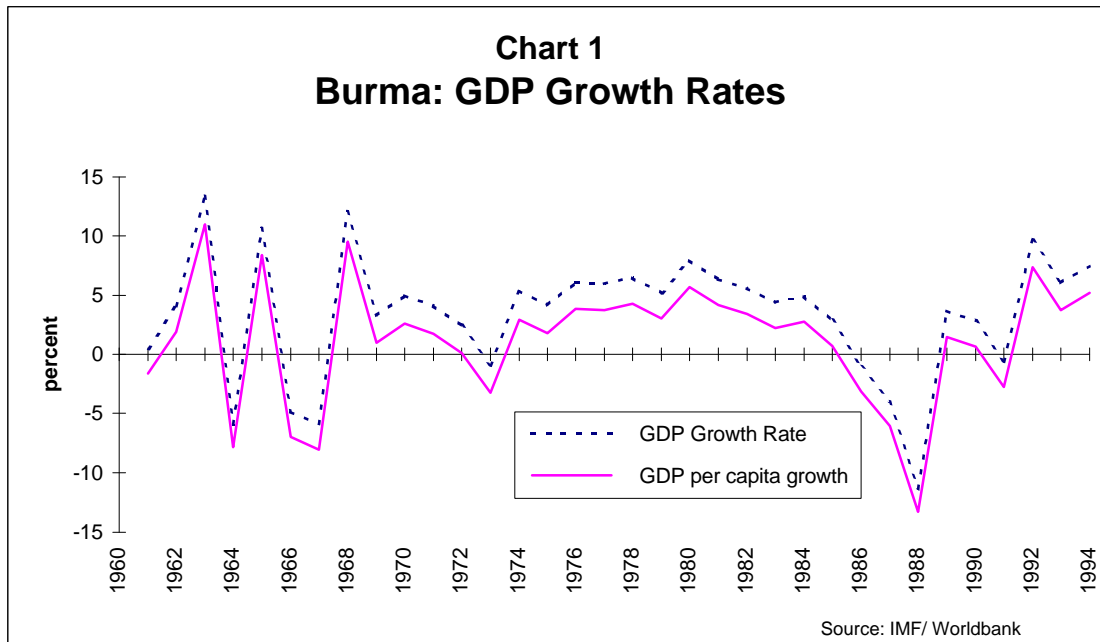


Chart 1 shows GDP growth rates over a quarter century, Chart 2, per capita income. After the Military coup of 1962 with widespread nationalisation and the embarkation of the "Burmese Way to Socialism", growth became volatile and per capita income stagnated. Negative growth lead to hunger riots in 1967 and a change in policies: Eastern-European-style industrialisation were to

improve economic growth. This inward-looking, import-substituting development strategy turned out to be a disaster, despite significant investment in heavy industry. Growth rates fell and real standards of living did not improve. In 1974, anti-government riots sparked by UN General Secretary U Thant's burial again led to a change in policy (though not in the political regime). The internal rice price was raised, the agricultural sector expanded, and growth resumed at a decent rate, supported by loans from international donors and agencies. In fact, some observers argue that economic growth only started after Myanmar began to accept Overseas Development Aid (ODA)². However, the "boom" of the late 70's and early 80's was unable to be sustained. Exports fell, partly due to the world recession in the early 80's, but more importantly because of the grossly overvalued exchange rate and other incompetent policies. The Burmese government started to lose foreign currency reserves at a rapid rate. Contrary to other South East Asian countries, the State-run economy in Burma did not have the flexibility to adjust to the new environment. With the official real exchange rate being hopelessly overvalued, competitive exports went illegally over the border to neighbouring countries. At first, the economic deterioration was masked by substantial foreign borrowing. Burma's foreign debt rose from US \$1 billion in 1979 to over US \$4 billion in 1988. To alleviate this problem, the government obtained "Least Developed Country" Status in 1987. In the mid-eighties, the bubble burst: per capita income fell by 22% from 1986 to 1988. Keeping with the established pattern, this deterioration in living standards again led to widespread public riots and military repression by the newly formed SLORC. Given the new government's human rights record, it was immediately considered as an outcast by the world. ODA was stopped by industrial countries and the SLORC was forced to open its economy in order to attract foreign investment, despite a fundamental xenophobic attitude. This new development strategy ("open door" policy) has recently produced some improvements in economic growth rates. But even with a growth rate of nearly 10% in the budget year 1995/6, per capita income has just caught up with the long term trend over the last quarter century with an abysmal growth rate of 1.12 percent p.a.. Thus, Burma is far from joining East Asian Dragons or Tigers. There is no evidence of a fundamental break in the growth dynamics of Myanmar.

Today, Myanmar must be counted as one of the poorest countries in the world. The World Bank ranks Myanmar as the 41st poorest country without indicating GNP data. The UNDP Human

²Kazushi Hashimoto, Economic Development Issues in Burma; in: S. Ichimura, Challenge of Asian Developing Countries: Issues and Analysis; Asian Productivity Organisation, 1988.

Development Index gives a real GDP per capita of US\$ 595, calculated at purchasing power parities; it classifies the country in the "low human development"-group (index 0.385) on position 111 out of 160 countries. However, even this index seems overstated, for evidence in the rural areas of northern Burma does not coincide with the high literacy and educational values which keep the index from falling. Life expectancy seems to be in line with all developing countries, but the percentage of population with access to health services, safe water and sanitation is only half of this standard. The UNDP Human Development Report shows 16.7% of the total population living below the poverty line. This situation is also responsible for the increasing number of economic refugees into neighbouring countries. 200,000 Burmese are estimated to work illegally in Thailand. According to Asia Watch, 20,000 Burmese women were forced into prostitution in Thailand alone during the last two years, but many more are working in Burma.

Estimating growth and national income is precarious in Myanmar. Government and information policies are opaque, statistics often distorted. This report primarily uses World Bank statistics for the legal economy. However, the black market economy not only continues to exist in Myanmar, despite some liberalisation, but data are fundamentally biased by the illicit narcotics economy. The French Observatoire Geopolitique de la Drogue estimated that drug revenue from 2,800 tons of Opium (producing 200 tons Heroin) would yield an illegal income between US \$ 2-8 billion, which compares with official foreign exchange reserves of \$ 200-300 million and a GDP of \$ 1.460 billion at the unofficial exchange rate and \$26.953 billion at the official rate. This compares with opium production of 400 tons at the end of the 1950s and 800-900 tons in 1987. Other estimates calculate annual narcotic incomes of US\$ 1.2 to 1.5 bn, equivalent of 12-15% of GDP. In any case, Myanmar is the world's largest opium producer, responsible for nearly all of the heroin consumed in the United States and a large portion of Europe's narcotic trade.

3. Macroeconomic policies

Lessons from high performing East Asian Economies teach that stable macroeconomic policies and performance are essential for private domestic investment and rapid growth of human capital to become the driving forces of development (World Bank, 1993). The Burmese economy, however is profoundly distorted and highly unstable.

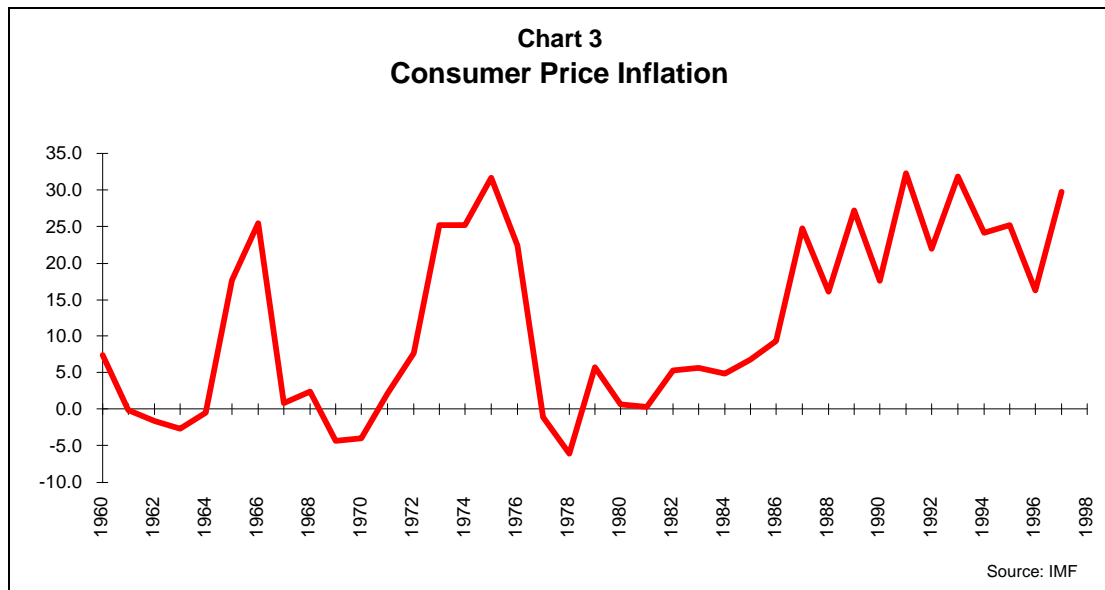
Inflation and monetary policy

Statistics on inflation in Burma are notoriously unreliable, as often several prices for one product exist.

- Official prices are administrated and the goods are sometimes only available in special stores to which a government/army pass gives access. This is a relic from the past which has not yet disappeared, despite some liberalisation measures.
- The free market has increasingly replaced the former "black market". Here imported goods are normally found at prices reflecting the "unofficial exchange rate". The dual price structure between state-controlled and private enterprises also makes it difficult to assess true prices.
- Finally, the black market still exists for a number of products where trade is illegal but often tolerated. Petrol for cars is an example. Trade in these goods is widespread, but subject to risks and uncertainty related to their illegality. Not paying the appropriate bribe to the local policeman or army officer can have unpleasant consequences.

While official national income data indicate an average rate of inflation (GDP-deflator) of 40-45% p.a., some diplomats in Rangoon estimate the truer rate closer to 60%. The French Trade Commission in Rangoon³ calculated consumer price inflation of 30.8% from October 1982 to 83 for the Capital, after 33% and 36.4 in the two previous years. However, their index includes a large number of controlled prices with zero variation and therefore does not fully reflect the effects of repressed inflation. The same is true for the SLORC-official Rangoon consumer price index, the IMF index and an UNDP estimate. However, when checked against monetary aggregates it would appear that the IMF index is a reasonably reliable indicator, broadly confirming the data by the French Trade Commission. Based on these data, annual inflation has roughly tripled in the five years from 1986-91 and doubled in the three years after the SLORC took over. Since then it has been volatile in the 20 to 35 percent range with a rising trend (Chart 3).

³Ambassade de France en Birmanie, Poste d'Expansion Economique: Evolution du coût de la vie en 1993; Rangoun, Octobre 1993



Monetary growth is essentially determined by the fiscal deficit; private sector credit remains small with 14% of domestic credit, although it has risen with economic liberalisation. All interest rates - deposit and lending - are Government controlled and remain highly negative in a range from -12 to -23 percent (World Bank 1995).

The official exchange rate is fixed to the SDR and given the high rate of inflation excessively overvalued. The weighted real exchange rate index, which takes into account the parallel market rate has risen by 200 percent since 1995 and even the parallel market rate has appreciated by 40 percent in real terms. This observation must be explained by the importance of border trade where this rate is applicable. It would indicate that the invisible border trade yields substantial surpluses. This is supported by manifold stories which circulate about individuals with significant foreign asset holdings. Given that most off the illicit trade is in narcotics, this is not surprising. It would therefore appear that Myanmar is suffering from a "Narcotics Dutch Disease".

Budget deficits

High fiscal deficits are the principal cause for high inflation in Myanmar. They reflect the slow but persistent breakdown of the State in Burma which has been at the root of the political problems over the last ten years - if not much longer⁴.

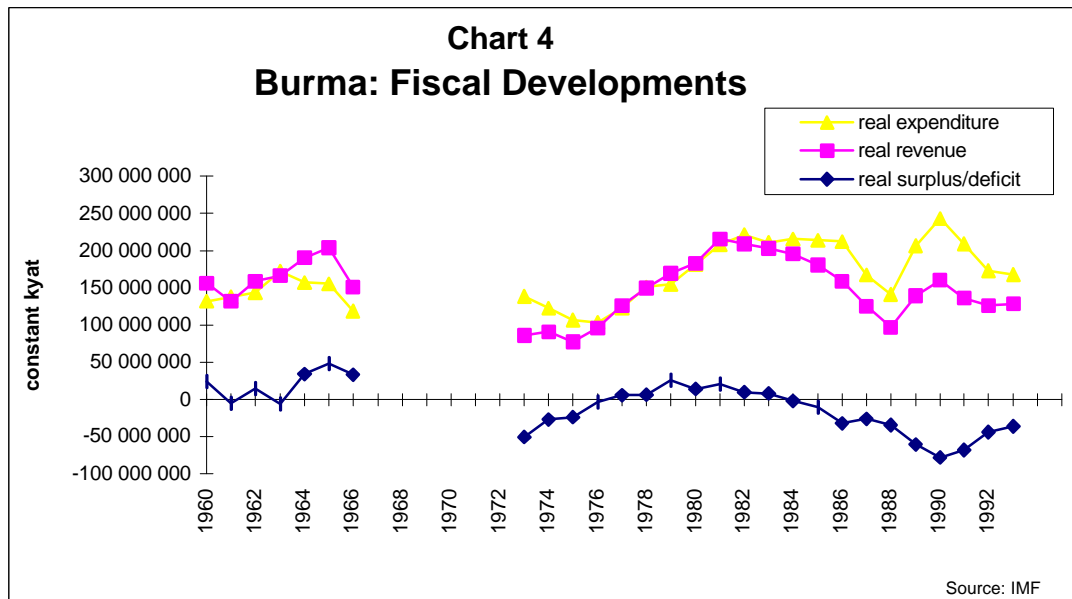


Chart 4 shows the long term tendency of fiscal developments. Government revenue has been falling in real terms in every year since 1986 with the exception of the first two years of the SLORC. The reason is a continuous shrinking of the revenue base. Tax income has fallen to less than five percent of GDP, lower than the budget deficit. Government grants have literally ceased, due to the SLORC's human rights record.

Expenditure has also fallen as a percentage of GDP, but the government is visibly trying to resist this deterioration, as manifested by the high deficit. Cuts have been more pronounced in capital expenditure and public sector wages, excluding military. The only category that has been protected against cuts has been Defence whose share of total expenditure has risen to over 33%.

**Table 1
Public Sector Operations**

⁴See for example Robert H. Taylor, *The State in Burma*, London 1987

	in percent of GDP					
	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95
Total receipts	10.9	10	9.8	8.3	8.2	7.5
tax	4.3	6	5.6	5.1	5	4.7
grants	0.2	0.2	0.2	0.1	0.2	0.3
Total expenditure	16.5	17.6	16.8	13.6	12.9	13.7
defence	5.1	6.7	5.5	6.0	6.5	6.2
social services	5.3	4.0	5.0	3.6	3.2	3.1
Deficit	-5.6	-7.6	-7	-5.3	-4.7	-6.2
financed by:						
domestic banks	5.3	7.1	6.8	4.9	4.6	6.2
foreign loans (net)	-0.1	-0.4	-0.5	-0.4	-0.3	-0.2
change in arrears	0.4	0.9	0.7	0.7	0.4	0.2

The deficit has recently started to close, mainly because of a reduction of public expenditures. But despite the economic recovery revenue shares have continued to shrink. This points at an unsustainable trend in public finance, for the breakdown of infrastructure is only too obvious to anyone living, working and travelling in Myanmar.

Monetary financing ("printing money") has filled most of the gap. Under Ne Win's socialism the domestic banking system played literally no role in providing finance to the government. After the establishment of the Myanmar Investment and Commercial Bank in 1989, new bank laws in 1990 and new rules and procedures in 1991, the banking system started to take greater prominence in financing the public deficit.

Thus the dire public finances and the irresponsible way of financing them are an essential element for explaining the disastrous state of the Burmese economy. They also explain the growing intensity of forced labour and human rights abuses. The SLORC sets revenue collection targets for each administrative district. At different levels (regions, towns, tax and customs offices, etc.) the "administration" (mainly the army) then has to raise the income by all means. Alternatively, they may replace financial outlays by forced labour. If targets are not met, the commander or responsible person loses his job. This system also explains why the problem of drug traffic is so

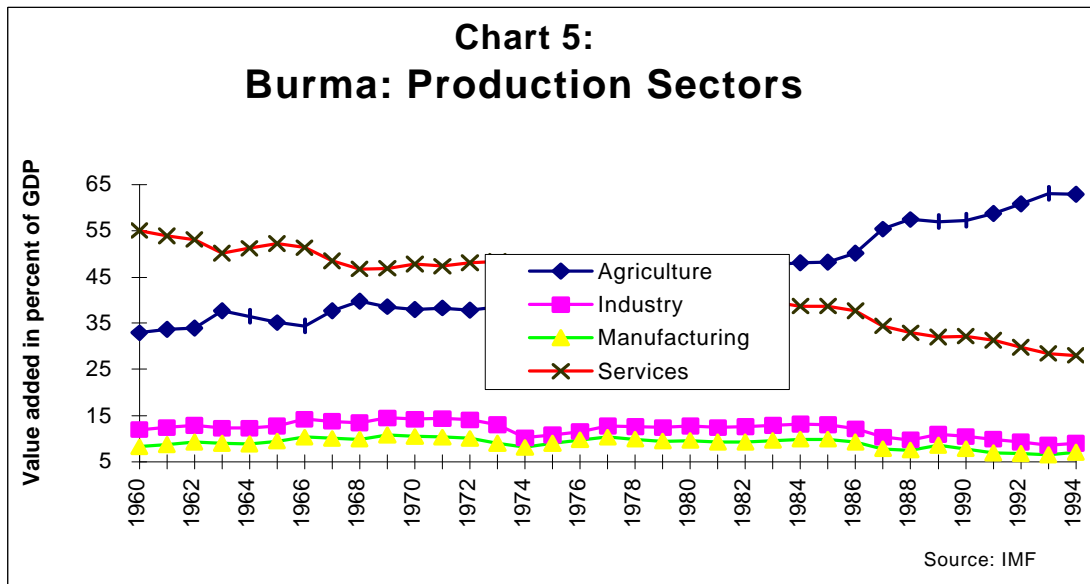
intractable: in order to raise the required revenue, "one closes one's eyes" to all kinds of illicit activities.

The described "system" may not be alien to traditional Asian societies of past millennia and to the earlier "Burmese Way to Socialism". But it is incompatible with a transition from the State-oriented to a modern market oriented economy. Given these circumstances, the only attractive opportunity for foreign investment are projects of very high short term profitability, normally linked to the exploitation of natural resource rents (forests, oil etc.). The absence of a properly functioning monetary economy creates the *conquistador*-economy. The solution to these problems will only be found in an acceptable political settlement; Burma is too poor to buy its way out of its troubles.

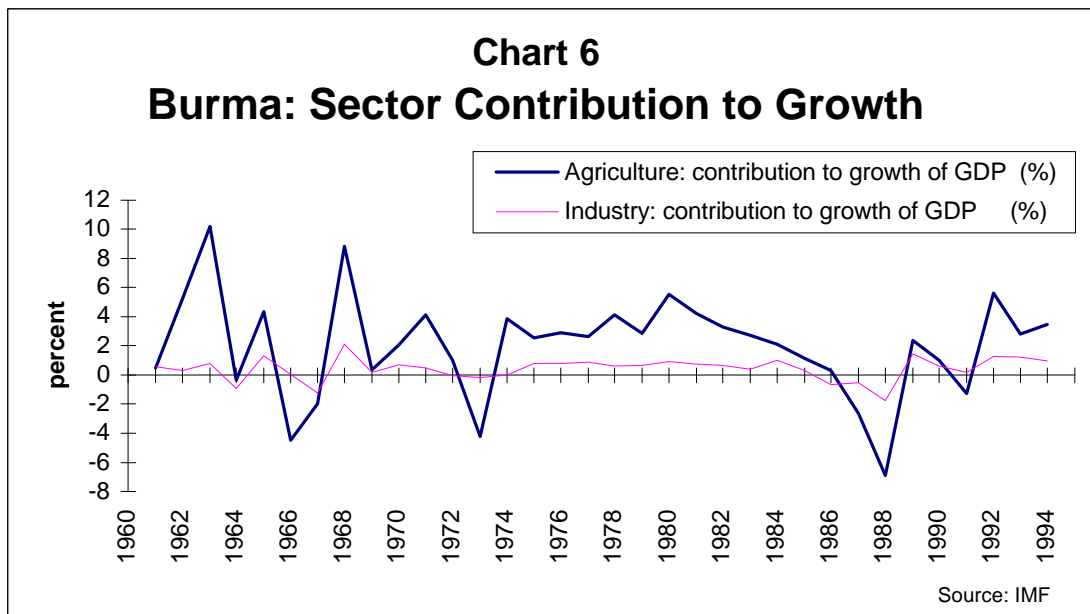
4. The Structure of the Burmese Economy

Recent catch-up growth to long term trend levels has extended to all sectors of the economy, although it has been most rapid in the primary sectors, particularly agriculture and forestry. Within the industrial sectors, mining and construction have grown faster. This reflects in part an inflow of foreign investment into these activities. Manufacturing growth has resumed but has remained variable due to its links to agricultural performance. (World Bank 1995).

The evolution of Burma's production sectors is at the opposite end of those of high performing Asian economies. Typically, as an economy develops, agriculture shares in GDP decline and industry and services expand. In high performing countries like Indonesia, Japan, Korea, Malaysia, Thailand, or Taiwan, this transition has been more rapid than in other developing countries. In Myanmar, however, the trend is for agriculture's share to grow at the expense of services, while industry and manufacturing have stagnated or declined since 1988. (See Chart 5: Production Sectors).



Thus, it is not surprising that agriculture's contribution to growth (and recession) is substantially higher than that of industry (see Chart 6: Sector Contribution to Growth).

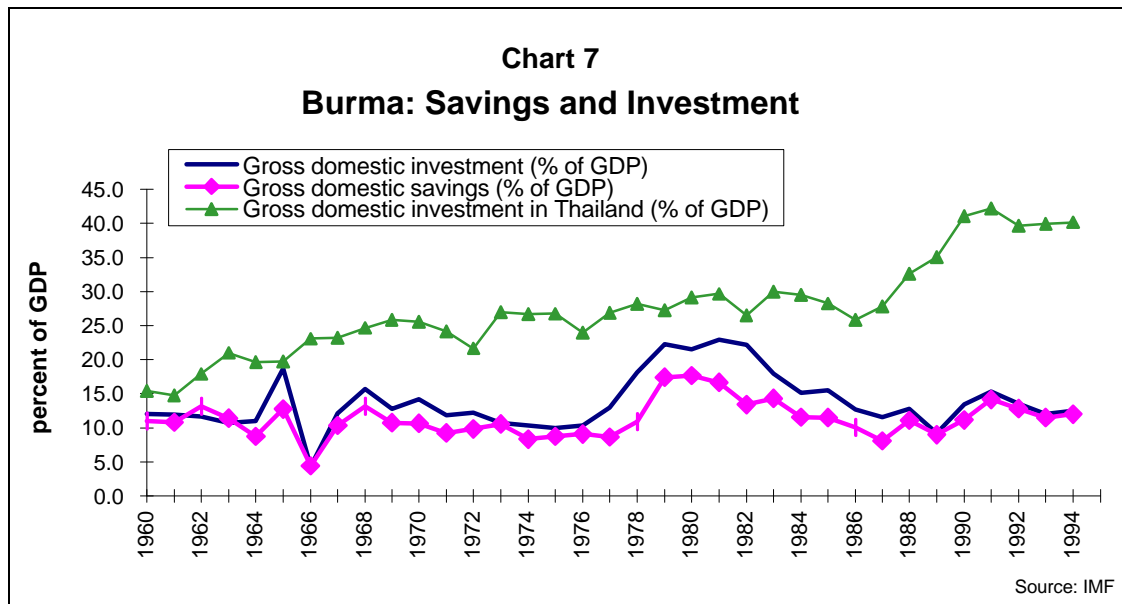


Part of this sector expansion has come from forestry, due to increased timber extraction. Agricultural output has grown as well, reflecting a timid response to liberalisation measures. But the production of many crops, including paddy, has only just returned to mid 1980 levels.

Moreover, yields of all crops including paddy have remained stagnant (World Bank, 1995). Despite this mediocre performance, Myanmar has exported 1.2 million tons of rice (valued at 100-130 million US \$) in 1994-5 for the first time in thirty years which implies that domestic consumption is still at low levels - and a political contingency.

Savings and investment

The performance of investment and saving is hardly more impressive. The investment ratio has persistently remained below those of Burma's high performing partners (see Chart 7: Savings and Investment), who today realise savings and investment ratios three to four times as high. Investment has recently recovered, reflecting an increase in private investment following liberalisation measures and tax incentives, which more than made up for the continued fall in public investment. Savings have also somewhat recovered since 1988, due to dissavings (higher deficits) in the public sector. However, the narrowing of the saving-investment gap has been achieved entirely due to the fall of investment. This reflects the high dependence of the Pre-SLORC-Regime from ODA which covered a large part of the gap and from excessive external borrowing. Since foreign aid was cut after the 1988 uprising due to persistent violations of human rights, the government is no longer bailed out for its policy mistakes. This creates pressure for change.



So far, the new strategy has been to "open doors" for private foreign investors. An impressive list of "liberalisation measures" has been promulgated:

- New domestic investment law
- New mining law
- New foreign investment law
- The private sector was allowed to engage in internal trade, manufacturing, and some financial activities
- Private exportations other than rice have been permitted
- Border trade was legalised
- Exporters were permitted to retain foreign exchange earnings in foreign currency bank deposits
- Private banks were permitted although financial repression⁵ and government controlled interest rates persist
- Given the dual exchange rate regime and the introduction of Foreign Exchange Certificates (FEC), a de facto devaluation of the Kyat has taken place
- State procurement of agricultural surpluses at below-market prices were limited to paddy.

⁵ Financial repression" refers to the theory developed by McKinnon 1973.

However, although some positive effects of these reforms are noticeable, they seem to be primarily cosmetic and do not make a decisive break with the past. Economic liberalisation since 1993 has slowed down and even, at times, been reversed:

- Importers are required (and receive preferential licenses) to import government designated "priority" goods in amounts equivalent to one fourth of their total imports or more.
- The SLORC refuses to comply with the exchange rate regime precondition of an IMF staff monitoring program, i.e. a simple market-determined exchange rate.
- As the investment ratio has declined, forced prison labour and uncompensated people's "contributions" to state construction projects have increased (Department of State, 1996).
- No large State Economic Enterprises (SEE) have been privatised.
- Most SEE monopoly privileges continue to dominate Burma's economy.
- Fundamental macroeconomic disequilibria persist and distort the incentive structure of the private and public sector

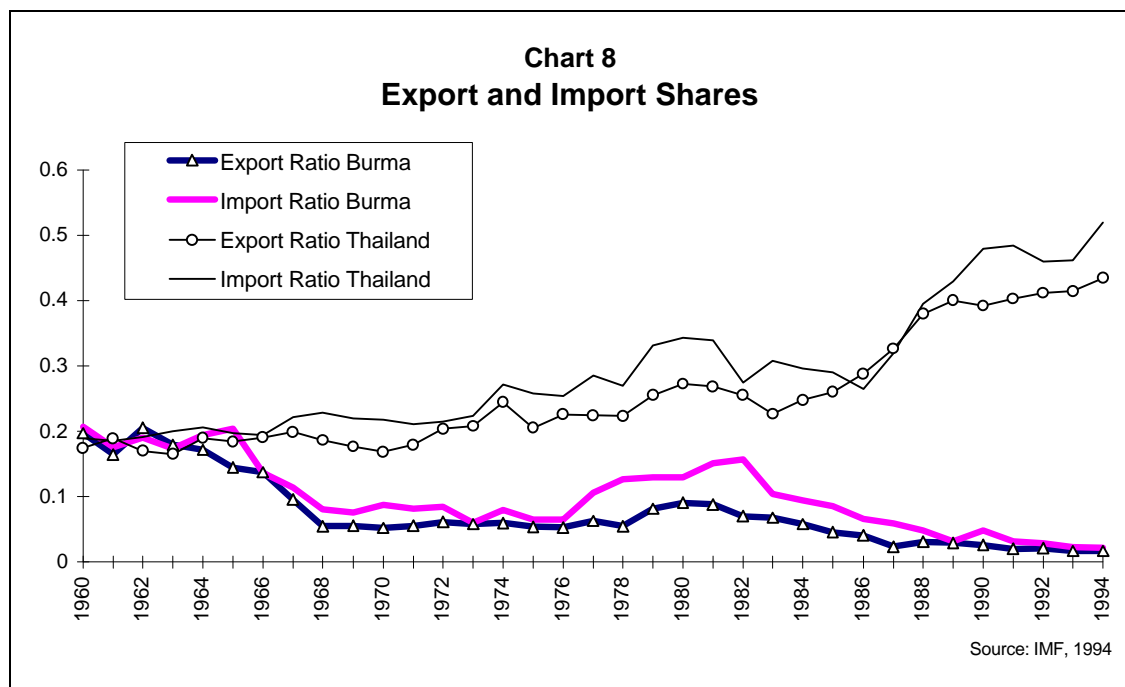
According to some observers, the new economic policies of the SLORC were introduced "with haste and incompetence" (Nord Sud Export, No 172/173, 10/07/89). Although one of the most generous and liberal investment codes for foreigners ever seen in a developing country has allowed 100% capital ownership by foreigners and gave remarkable tax breaks, these measures have so far failed to produce the desired results. Foreign investors have come to exploit Burma's natural resources, but industrial investors have started to withdraw again due to an unworkable business environment. Domestic manufacturing and exports - both primarily urban activities - seem to have reacted most sensitively to the new policies, but have quickly faded out. They remained unsustainable given that insufficient macroeconomic reforms remain a major development obstacle. Interestingly, little change has affected the state sector in the economy which has maintained its share in the economy (22.6% in 1988/89 to 22.9 in 1991/2); instead, the co-operative sector has been absorbed by the private sector and is now on the way of disappearing (down from 5.3% to 2.7%).

This is not surprising, given that concrete business support measures will only work with the right macroeconomic framework (World Bank, 1993). This requires the stabilisation of the economic

disequilibria (reduction of inflation and budget deficits) and that the law provides security as a guarantee of the general incentive system. None of this is present in Myanmar today.

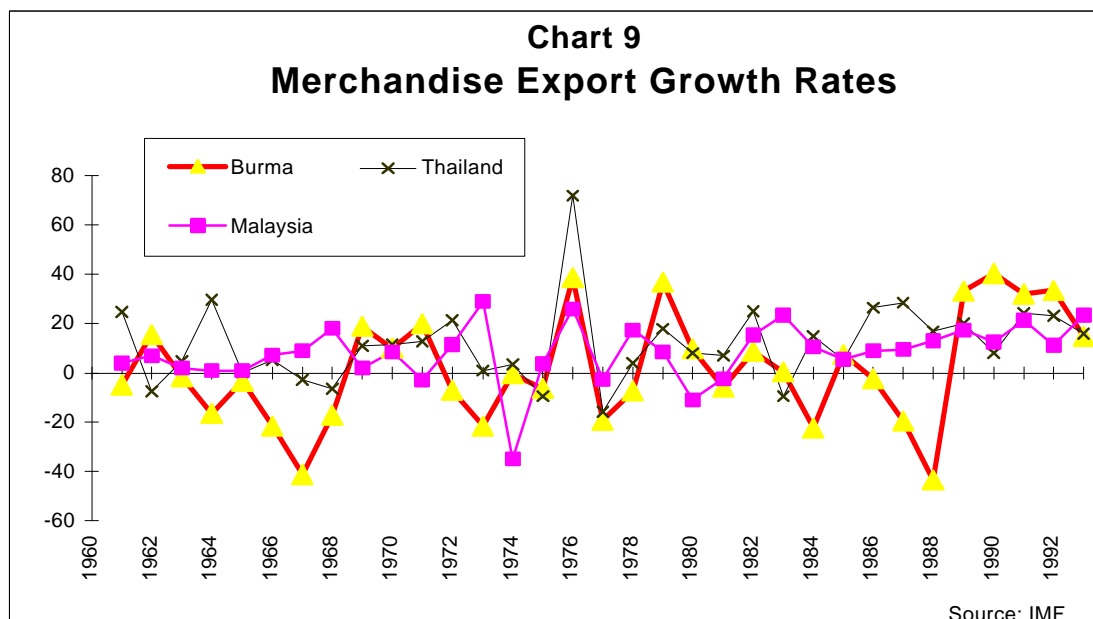
5. The Export Sector

Given these limitations, it seems more appropriate to refer to Myanmar's "reform" policy as "prison bars behind the open doors" (De Sacy, 1996).



How little the Burmese economy has really opened up is also apparent from trade shares in GDP. While high performing countries, like Thailand, have persistently increased their export and import shares as a consequence of their export promoting development strategy, Burma's share has steadily declined since the early 1980's. (See Chart 8: Export and Import Shares). Official exports amounted to 2% of GDP in 1994, the lowest in the world (World Development Report 1996). Even if one adds to this the illicit trade in narcotics, this is still only about half of Thailand's foreign trade share. Legal exports remain relatively undiversified, consisting of unprocessed and semi-processed raw materials and agriculture commodities, such as rice, wood pulses and beans. According to US import data, garment exports have increased, although the recent withdrawal of

some American companies, threatened by boycotts from human rights groups, may have had an adverse effect. Merchandise export growth rates have improved since 1988, presumably because liberalisation measures allowed the repatriation of foreign currency earnings which led to a re-integration of the former black market and illegal border trade into the legal economy. However, given the small base from which growth in exports has to start, these figures are rather insignificant when compared to Thailand or Malaysia (See Chart 9: Merchandise Export Rates).



One major obstacle to improved exports is certainly the exchange rate regime. The official rate, which still applies to official government transactions is 5.8 Kyat per US \$ (1/3 of imports and 1/4 of exports). The unofficial market rate was 123 Kyat/\$ at the beginning of 1996 and has since fallen to over 168 Kyat/\$. A third exchange rate, the "Near Market Rate", applies to the calculation of import and export customs duties since June 1996. Its rate is 100 Kyat/\$, still substantially above market rate. Given that duties are calculated on Kyat basis, this new assessment has increased government revenues, even though it was linked to a reduction of tariff rates. However, a side effect has been an acceleration in the rate of inflation, which had been stable at approximately 30% in recent years (De Sacy, 1996).

Imports are still to a large degree controlled by the government. The liberalisation in foreign trade since 1988 have shifted their composition massively towards consumer goods imports (cars,

electronic, luxury consumption related to tourism). The main suppliers (80%) are Asian neighbours (Singapore, Malaysia, Thailand, China, and Japan). Exports from Burma are also heavily concentrated on the region: nearly 90% go to close neighbours:

Table 2
Direction of declared legal external merchandise trade,
 Government of Burma data, FY 90/91 - 93/94⁶

	FY 1990/91		FY 1991/92		FY 1992/93		FY 1993/94	
	<u>Exp.</u>	<u>Imp.</u>	<u>Exp.</u>	<u>Imp.</u>	<u>Exp.</u>	<u>Imp.</u>	<u>Exp.</u>	<u>Imp.</u>
East & South Asia	<u>93.7</u>	<u>70.1</u>	<u>92.9</u>	<u>80.7</u>	<u>83.6</u>	<u>85.8</u>	<u>83.4</u>	<u>86.7</u>
China/Hong Kong	21.8	22.4	22.4	17.3	18.3	18.4	15.7	16.6
<i>China</i>	<i>13.4</i>	<i>21.8</i>	<i>15.0</i>	<i>16.8</i>	<i>9.3</i>	<i>17.7</i>	<i>5.0</i>	<i>15.9</i>
<i>Hong Kong</i>	<i>8.4</i>	<i>0.6</i>	<i>7.4</i>	<i>0.5</i>	<i>9.0</i>	<i>0.7</i>	<i>10.7</i>	<i>1.7</i>
Japan	7.5	16.3	6.5	21.9	4.1	28.6	4.4	25.5
Singapore	28.6	9.7	23.3	12.4	16.5	10.7	19.4	10.3
Thailand	13.1	10.1	19.6	15.0	16.4	13.0	17.4	10.9
India	17.7	0.7	11.1	2.8	16.8	2.3	15.0	3.6
Malaysia	1.4	7.0	1.3	7.2	1.6	6.1	2.3	7.2
Indonesia	---	0.3	1.8	1.0	0.4	2.2	1.7	4.1
Korea (South)	0.5	3.6	0.8	2.5	0.8	3.3	0.9	3.7
Other	3.1	---	6.1	0.6	8.7	1.2	6.6	3.8
Rest of World	<u>6.3</u>	<u>29.9</u>	<u>7.1</u>	<u>19.3</u>	<u>16.4</u>	<u>14.2</u>	<u>16.6</u>	<u>13.3</u>
European Union	3.1	10.6	2.2	10.8	2.9	4.6	2.9	5.7
<i>Germany</i>	<i>0.8</i>	<i>3.3</i>	<i>1.1</i>	<i>5.5</i>	<i>1.8</i>	<i>2.1</i>	<i>1.2</i>	<i>3.1</i>
<i>UK</i>	<i>0.2</i>	<i>2.7</i>	<i>0.1</i>	<i>1.8</i>	<i>0.3</i>	<i>0.9</i>	<i>0.5</i>	<i>0.7</i>
<i>Rest of EU</i>	<i>2.1</i>	<i>4.6</i>	<i>1.0</i>	<i>3.5</i>	<i>0.8</i>	<i>1.6</i>	<i>1.2</i>	<i>1.9</i>
United States	0.1	12.3	0.4	3.1	2.0	4.2	3.7	3.5
Other industrial countries	0.1	1.4	0.3	1.5	0.7	0.8	0.8	0.9
Africa, West Asia	2.1	1.8	3.5	0.9	4.5	2.1	5.1	1.6
Other	0.9	3.8	0.7	3.0	6.3	2.5	4.1	1.6

Source: Department of State, 1996.

⁶As a percentage of total declared legal merchandise exports or imports. Export values are mainly F.O.B. basis, with destination on shipments basis, not on ultimate-consumer basis; import values are mainly C.I.F. or customs basis, with sources on country-of-origin basis. Fiscal Year 93/94 figures are not final.

6. Trade with Europe and GSP

Europe's role as a trade partner is of minor importance: less than 3 % of Myanmar's exports, that is 0,06 % of GDP are directed toward the European Union, with Germany as the largest importer (1,2 % of total exports). In Myanmar's 1994/5 fiscal year, legal merchandise exports amounted to 810 million US dollars or ECU 623 million. Of these, ECU 40.3 million were eligible for GSP treatment, i.e. 31 percent of Burma's exports to Europe. However, only ECU 14.7 million benefited of GSP, i.e. 2.4%.

The General System of Preferences (GSP) allows a suspension of the principle of non-discrimination (Most-Favoured-Nation clause, MFN) and preferential tariff treatment in favour of developing countries. Under GSP, these countries would be charged no duty for their exports to the developed countries, while each developed country would continue to levy the MFN tariff on products from developed countries. GSP therefore provides developing countries with a margin of preference equal to the MFN tariff in the developed country. The European Union's GSP scheme has undergone several changes over the years, its fundamental principles, however, are still the same. They are intended to facilitate economic development in less developed countries. (Langhammer and Sapir, 1987).

In the E.U.'s trade with Burma, principal beneficiaries were frozen shrimps, amounting to ECU 14.7 million eligible EU imports of which only ECU 11.2 million were realised. This amounts to 160% of the fish and fish product exports classified as " goods exported privately and by government ". Therefore, part of these exports must come from "other goods exported privately". Other goods do not exceed a trade volume of 1 million Ecu. Even if eligible, Myanmar is not capable to satisfy its GSP-quota.

A temporary withdrawal of GSP-preferences would therefore have a very limited effect on Burma's existing exports, hurting a small group of exporters, some of them private, some of them public. However, given the new taxation practice after the introduction of the "near market" exchange rate, it is likely that the withdrawal of GSP-preferences would also cost the SLORC some government revenue. In economic terms, suspending GSP for Burma would therefore not be of great significance. The political impact would, however, be different.

7. Political implications of a GSP withdrawal

Burma has been for many years one of the most secluded countries in the world. As a consequence Myanmar is not only economically introverted, but also politically isolated. In recent years the SLORC has, however, made some efforts to rejoin the non-aligned Countries and to be admitted by ASEAN. There is also evidence that it is sensible to votes by the United Nations on the human rights situation in Burma. Even if such public condemnations rarely change anything substantial, the SLORC is usually seen to mount some PR activities before important UN meetings (Geneva in spring, General Assembly in autumn). Losing face does not come easy to the SLORC.

Nobody really knows how policy making works in Burma. Is the SLORC a homogenous, closely-knit group or do some people dominate? Are there fractions more open to reform than others? Are they genuinely interested in reform and only incompetent? The answer to these questions colours the recommendations of how to deal with the Burmese Government.

One approach is "constructive engagement", often favoured by ASEAN governments. The underlying philosophy is to "engage" the SLORC with the outside world, so that it "learns" how to reform the Burmese economy. It is hoped that this would ultimately lead to political change. Indeed, there is little doubt that in the long run democracy requires a strong middle class to be sustainable. Policies which encourage the growth of a vibrant middle class in Myanmar - like in Thailand, Malaysia or Singapore - should therefore be welcomed.

However, the question is, whether engaging the SLORC is likely to have this effect. There is little evidence for this. This report has pointed out that

- there are no signs of a structural break in the performance of the Burmese economy over the last 30 years.
- recent growth, although high, is likely to be unsustainable, only catching up to long term levels and does not reflect new dynamism.
- the macroeconomic framework is unstable and economic incentives are grossly distorted.
- the political environment is not conducive to create a climate of rationality and security as long as the army rules with unconstrained arbitrariness.
- economic reform has to start with a reconstruction of the State and a legitimate government.

Consequently, there is little chance that "engaging" the SLORC is likely to contribute to the emergence of a dynamic middle class. In fact, the ASEAN approach of "constructive engagement" has not produced any substantial results in eight years with respect to improving the political situation in Burma.⁷ It is more likely that foreign investment and preferential trade arrangements would benefit a small oligarchy of generals and their families, increasing their personal wealth and consumption. The situation in Myanmar is in no way comparable with other neighbouring countries in the region, where sound macroeconomic policies did indeed provide the background for a rapidly growing middle-class.

Consequently, the alternative route of public condemnations of human rights abuses, trade sanctions and investment boycotts is more appropriate. The SLORC is under significant economic pressure: it cannot make ends meet, foreign exchange reserves are running out and economic growth is steadily faltering. The economic bonfire of recent years may have allowed the SLORC to stabilise its rule. But this will not last. Either it will change policies fundamentally, or it will be confronted with a new public uprising - as history has shown consistently.

External pressure may, however take different forms.

- Industrial countries and multilateral aid agencies should withhold any economic aid as long as a fundamental reform package is not acceptable to the Burmese government. Such a package must include both, structural economic reforms and a political solution to the legitimacy of the State. In the long run only a political reform can provide the political support necessary for the reforms of public finances.
- Full economic sanctions by industrialised countries, as already supported by 45 US senators, may be appropriate to set a political signal. Their threat has already produced the withdrawal of numerous international companies.

⁷One exception may be the numerous cease-fires concluded with ethnic minorities. However, despite the initial hope of some ethnic leaders, no sign of a political settlement seems to be in sight. Economic development in the "pacified" regions is severely constrained by the overall performance of the Burmese economy. A resumption of the civil war cannot be excluded, if the practical living conditions in the peripheral regions of Myanmar does not improve. See also Möller and Ziem, 1995.

- ASEAN countries should explain to the Burmese authorities that they have little to lose and much to gain from reform. After all, it is their own high performance that serves as an example to many developing countries in the world. ASEAN countries and their governments should remember that it was a stable macroeconomic policy framework and the rule of law, respecting property rights and reducing insecurity and uncertainties which have made them prosper. Is it so difficult to export this message?

For Europe, it might be useful to have GSP at hand as an instrument to support economic development when fundamental changes have taken place.

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Paris, March 1997

Annex 1: Importations dans l'UE en provenance de Birmanie en 1994 éligible au SPG

en milliers d'écus	courte définition	éligibles	Bénéficiaires	taux de couverture
Total		40.332	14.762	36.6%
numéro d'ordre				
Produits industriels sensibles non pétroliers		1.829	1.059	57.9%
10.05 Pneumatiques neufs et chambres à air		19		0.0%
10.058 Vêtements et accessoires du vêtement en cuir		1		0.0%
10.063 Bois contre-plaqués		859	454	52.9%
10.064 Ouvrages de menuiseries et pièces de charpente		1		0.0%
10.069 Chaussures en corde, carton...		5		0.0%
10.074 Vaisselles et articles de ménage en faïence		2	2	100.0%
10.1051 Tourne-disques, électrophones, magnétophones...		17		0.0%
10.1055 Appareils récepteurs de télévision		584	354	60.6%
10.1217 Sièges et leurs parties		162	121	74.7%
10.1227 Autres meubles et leurs parties		79	32	40.5%
10.1263 Meubles en rotin		99	95	96.0%
10.13 Autres jouets, modèles réduits		1	1	100.0%
Produits industriels non sensibles non pétroliers		2253	1059	47.0%
30.1755 Bois y compris les lames		1898	910	47.9%
30.1765 Bois simplement scié (autres)		51		0.0%
30.184 Ustensiles de ménage en bois		0	0	
30.1926 Ouvrages de vannerie		15	14	93.3%
30.194 Autres papiers et cartons		135	135	100.0%
30.339 Outils interchangeable...		142		0.0%
30.4135 Pièces pour ordinateurs		1		0.0%
30.423 moteurs électriques, générateurs		3		0.0%
30.443 Fils, tresses, câbles...Autres		8		0.0%
30.4531 parties et accessoires des véhicules		1		0.0%
30.5153 Poupées		1		0.0%
Produits industriels non sensibles		10389	81	0.8%
3003 Médicaments		4		0.0%
3209 Peintures et vernis à base de polymères synthétiques		46		0.0%
ex Bois sciés ou déossés longitudinalement, tranchés		44		0.0%
4407				
ex Bois y compris les lames et frises à parquet		48	8	16.7%
4409				
ex Bois marquetés et bois incrustés; coffrets, écrins		60	66	110.0%
4420				

6906 Tuyaux, gouttières et accessoires de tuyauterie	6		0.0%
6909 appareils et articles de ménage ou d'économie	4	4	100.0%
ex 6912 Vaisselles, autres articles de ménages ou d'économie	4	4	100.0%
7114 Articles d'orfèvrerie et leurs parties, en métaux	4		0.0%
ex Beches, pelles, pioches, pics, houes, binettes	2		0.0%
8201			
8405 generateurs de gaz à l'air ou de gaz à l'eau	8		0.0%
ex Parties de moteurs (8407 et 8408)	1		0.0%
8409			
ex Turboréacteurs, turbopropulseurs et autres turbine	9861		0.0%
8411			
ex Pompes pour liquides	1		0.0%
8413			
ex Pompes à air ou à vide, compresseurs d'air	42		0.0%
8414			
ex Centrifugeuses, y compris les essoreuses	25		0.0%
8421			
8443 Machines et appareils à imprimer et leurs machines	5		0.0%
8481 Articles de robinetterie et organes similaires	50		0.0%
8503 Parties...	32		0.0%
ex Appareils électriques pour la téléphonie par fil	2		0.0%
8517			
ex Voitures de tourisme et autres véhicules	2		0.0%
8703 automobiles			
8711 Motocycles y compris les cyclomoteurs et cycles	4		0.0%
ex Parties et accessoires des véhicules des n 87.11	1		0.0%
8414			
9015 Instruments et appareils de géodésie, topographie	77		0.0%
ex Oscilloscopes, analyseurs de spectre et autres...	17		0.0%
9030			
ex Instruments, appareils et machines de mesure	3		0.0%
9031			
ex Instruments et appareils pour la régulation	36		0.0%
9032			
Produits textiles AMF	10658	890	8.4%
40.004 T-shirts	37		0.0%
40.005 Chandails	7		0.0%
40.006 Pantalons tissés	1102	258	23.4%
40.007 Chemisiers	205		0.0%
40.008 Chemises tissées	8835	240	2.7%
40.013 Slips et caleçons pour hommes	3		0.0%
40.015 Manteaux pour femmes	6		0.0%
40.017 Vestes et vestons tissés pour hommes	23		0.0%
40.018 Lingerie	59		0.0%
40.024 Pyjamas en bonneterie	16		0.0%
40.026 Robes	1		0.0%

10.027 Jupes	3		0.0%
40.028 Pantalons, salopettes en bonneterie pour hommes	161	191	118.6%
40.058 Tapis aux points noués	112	173	154.5%
40.066 Couvertures autres qu'en bonneterie	3	3	100.0%
40.073 Trainings	28		0.0%
40.078 Autres vêtements	35	27	77.1%
Produits textiles non AMF	1	2	200.0%
42.161 Vêtements autres qu'en bonneterie	1	2	200.0%
Produits agricoles soumis à droit réduit	15076	11642	77.2%
52.034 Crevettes de la famille Pandalidae congelées	255	175	68.6%
52.035 Autres crevettes congelées	14390	11029	76.6%
52.041 Crevettes de la famille Pandalidae non congelées	3		0.0%
52.057 Miel naturel		27	
52.09 haricots secs, écosés...	382	373	97.6%
52.358 Autres	36	36	100.0%
52.379 Cigares et cigarillos	10	1	10.0%
Produits agricoles réservés aux PMA	125	28	22.4%
57.016 Extraits de poissons et crustacés et autres	39		0.0%
57.03 Extraits de légumes à cosses secs...	28	28	100.0%
57.054 Extraits de café, thé, mate et épice	44		0.0%
57.091 Extraits préparés d'aliment, divers à l'excl. sirop de sucre	14		0.0%

* Les numéros d'ordre se réfèrent au règlement SPG 3688/93 prorogeant les différents règlements SPG depuis 1990