

FOREIGN ECONOMIC TRENDS REPORT:

BURMA, 1997

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This report is intended chiefly for economists and financiers; except for its first section, "Major trends and outlook," it is highly technical and sometimes redundant, intended to serve largely as a reference work. **This Embassy's *Country Commercial Guide*, which is substantively identical but shorter and less technical, may be more useful to other businesspeople.**

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EXECUTIVE SUMMARY

Burma, renamed Myanmar by the military State Law and Order Restoration Council (SLORC) that has ruled it since 1988, is a resource-rich but poor country with a population estimated by its government at 47 million. Most of recorded GDP derives from agriculture. Although economic data are incomplete and distorted, annual per capita GDP may be between US \$200 and \$300 on a money basis, perhaps \$600 to \$900 on a purchasing power parity basis. Burma's principal legal merchandise exports are wood, beans and pulses, fish, garments, precious stones, and rice. Burma is also the world's leading producer and supplier of opiates. Most heroin consumed in the United States is believed to originate from Burma. Other U.S.-Burma trade is growing but remains relatively small, worth less than \$200 million in merchandise trade in 1996, including \$87 million worth of Burmese garment exports to the U.S. and perhaps \$10 million worth of Burmese travel services consumed by U.S. visitors.

Burma's economy stagnated under policies of state socialism and national self-sufficiency during the 1962-88 military dictatorship of General Ne Win. From 1988 to 1993, the SLORC partially liberalized economic activity and reduced obstacles to foreign trade and investment, inducing substantial albeit unevenly distributed real growth. Since 1993, the pace of economic reform has slowed, with the state continuing to monopolize some major exports and to own 58 firms that dominate many sectors of the non-farm economy. From 1993 to 1996, liberalization was reversed in the rural economy, as the Government of Burma (GOB) applied increasing coercion in an unsuccessful effort to boost state-monopolized rice exports by multiple-cropping and expanding irrigation, but resumed again in 1997.

The GOB's chronically large fiscal deficits were the main obstacle to continued economic liberalization, as well as the main cause of Burma's chronically high money supply growth and price inflation. These deficits were caused in part by low and declining tax revenues and overreliance on non-tax receipts. They were also caused in part by high defense spending, apparently equivalent to at least half of central government spending and to 8% to 10% of recorded GDP, that has funded a doubling of armed forces personnel despite the absence of any evident external military threat and the signing of cease-fires with most internal insurgent groups. Since 1995, increased spending on public works has also contributed to the deficit.

As liberalization slowed, so did growth. GOB data suggest that recorded money GDP grew in real terms by 7.5% in fiscal year (FY) 94/95, 6.9% in FY 95/96, and 5.8% in FY 96/97. Although these figures may overstate real GDP growth, the recent slowing of growth that they indicate is largely genuine and likely to continue absent substantial further economic or political liberalization. During the mid-1990s, an illusion of sustained rapid economic growth was created by consumption growth much in excess of GDP growth. This reflected a widening of the recorded trade deficit - to 20% of recorded GDP in FY 95/96 -- financed largely by increased workers' remittances and by increased unrecorded net foreign exchange inflows possibly caused largely by increased domestic retention of receipts from exports of narcotics. These rental (easy money) foreign exchange inflows caused the real exchange rate to appreciate during the mid-1990s, discouraging production of manufactured exports and import-substitutes.

Since 1995, merchandise exports have stagnated and public sector exports have declined, resulting, since early 1996, in a foreign exchange shortage concentrated in the public sector. In response, the GOB has printed kyat to buy dollars, restricted private imports while spending private sector foreign reserves for public sector imports, accelerated sales of real estate and mineral exploration rights for

foreign currency, and borrowed foreign exchange on commercial terms from foreign investors and import suppliers while not paying much of its large prior external debt service obligations. During FY 96/97, the GOB's fiscal deficit grew relative to recorded GDP; money supply growth and price inflation appear to have accelerated; and foreign reserves fell to less than one month's import coverage. Severe flooding in July and August that damaged the rice crop is likely to further exacerbate inflation. In the long run, prospective natural gas export receipts may improve Burma's balance of payments situation insofar as they are invested in producing exports and import substitutes. In the short and medium term they will not, partly because they are already largely effectively obligated until well into the next decade. The GOB appears to have no immediate prospect of regaining access to significant amount of concessional external financing from sources other than the Government of China, its foremost aid donor.

On the other hand, since 1989, the real incomes of most farmers have increased, although those of some urban workers, notably including government officials, have decreased. Since 1993, the GOB has launched conservation measures to curtail unsustainable logging in areas it controls, and has launched numerous public works projects to improve Burma's woefully inadequate physical infrastructure. From 1993 to 1995, this increase in infrastructure building was accomplished in part by a large increase in uncompensated rural labor. However, since mid-1996, the GOB appears to have curtailed this practice somewhat, at least in central Burma, relying increasingly on imported heavy construction machinery to build regional irrigation works, and on army labor and paid contract labor to build railroads. During FY 96/97, the GOB adopted less coercive rice production and procurement practices, reduced rice exports, and reduced the growth of its defense expenditures. And during FY 96/97, for the first time since FY 92/93, the real exchange rate did not appreciate.

The persistence of an official exchange rate at which Burma's currency, the kyat, is now worth about 30 times more than the market exchange rate, facilitates official rent-seeking, but does not greatly misallocate resources or retard growth, since few transactions occur at prices reflecting the official exchange rate. However, the GOB's practice of equating kyat-denominated and foreign-currency-denominated transactions at the official rate in its national accounts distorts those accounts and reduces economic transparency. New attempts to deal with the foreign exchange problems involving imposition of tight controls over the market rate of exchange and of import licenses have created problems both for Burmese and foreign traders.

Burma remains the world's largest producer and exporter of opiates with a potential annual production of about 2,500 tons. In recent years it appears that an immensely large percentage of profits from the narcotics trade have stayed ashore. The government has reached cease-fire agreements with ethnic minority groups involved in narcotic trafficking and leading narcotraffickers and has encouraged them systematically to invest in infrastructure and other domestic projects. Burmese import division growth in excess of production and export growth in the mid-1990's appears to have been fueled largely by increases in workers' remittances and domestically returned narcotic receipts. Though we lack adequate information to quantify these amounts, narcotic proceeds are still known to be invested also in Thailand and other countries in the region.

The deterioration of public education since the onset of military rule in the 1960s will affect growth and development prospects for years to come. This appears to have accelerated since 1988, as the SLORC has reduced real spending on education and health. Between two-thirds and three-quarters of Burmese school children drop out before fifth grade, and primary school enrollment has declined in recent years, apparently largely in response to rising formal and informal school fees. Schools at all

levels were closed for much of 1997 out of apparent GOB concern that students might publicly protest to challenge GOB policies, as they did in October and December 1996.

Public concern in the U.S. and other countries about the GOB's human rights abuses, its suppression of Burma's pro-democracy movement since 1988, and its failure to suppress narcotics trafficking, poses diverse political risks for firms doing business in or with Burma, and has induced many foreign firms to discontinue or restrict their activities. The consequent decline in foreign investment has exacerbated the balance of payments crisis. Since 1988, the GOB has lost access to most foreign aid, including financial assistance from the international financial institutions, which the U.S. Government is required by law to oppose. The governments of the U.S. and of E.U. member states grant no GSP tariff preference to imports of Burmese origin, provide no preferential financing in support of exports to Burma or investments in Burma, grant no licenses to export military equipment to Burma, and refuse to issue visas to senior members of the military government or to military personnel. Since 1994, ten U.S. cities, one county and one state have enacted laws barring their governments from buying goods or services from firms that invest in or buy from Burma. Since May 1997, the U.S. Government has prohibited new investment in Burma by U.S. firms and nationals, and is the only government to have applied such legal constraints on its business relations with Burma. Consumer opposition in the U.S. and some other countries to the military government's refusal to honor its pledge since 1988 to transition to a multiparty democracy has also discouraged U.S. and other countries' private sector to do business with Burma.

I. ECONOMIC TRENDS AND OUTLOOK

Major trends and outlook.¹

Major trends.

During the four years following the advent, in 1988, of the pro-democracy movement's challenge to military rule, the Government of Burma (GOB), under reconstituted military leadership called the State Law and Order Restoration Council (SLORC), undertook diverse structural reforms that partially liberalized Burma's previously state-socialist and externally closed economy. In conjunction with a partial liberalization of external trade, the GOB implemented a gradual *de facto* currency devaluation that was largely completed in early 1993, when the GOB stopped requiring the exportation of domestic goods and services purchased with kyat (Burma's national currency) at the market exchange rate. In response to these liberalization measures, Burma's recorded GDP,² and recorded exports in particular, grew rapidly during the early 1990s. The real market value of the kyat (the real exchange rate) remained roughly stable, with the rate of domestic price inflation in excess of U.S. price inflation approximating the rate of nominal kyat depreciation relative to the U.S. dollar.³

However, after early 1993 the pace of structural economic liberalization slowed, virtually to a halt. In some respects, GOB economic policy became less liberal. In an effort to increase state-monopolized rice exports, the GOB increasingly intervened in farmers' production choices; it also made increasing use of uncompensated corvee labor on physical infrastructure construction projects, including greatly expanded construction of irrigation works to facilitate increased rice production and exports. In 1994 and 1995, much of Burma's gem and jade production was put under the control of UMEH, a military holding company, and new taxes were briefly imposed on most private exports.

Economic reform foundered on the GOB's fiscal problems, especially its foreign currency deficits, which were exacerbated by the SLORC's political problems. In the wake of the 1988 challenge, the SLORC undertook a sustained expansion of the armed forces. Meanwhile, defense expenditures increased in real terms and as a share of all central government expenditures, and consisted increasingly of expenditures for defense imports, which grew relative to public sector export receipts. During the mid-1990s, total defense spending appears to have been equivalent to between 8% and 10% of recorded

¹ In this report all statistics, unless specified as "unadjusted," are always in exchange-rate-adjusted terms that equate domestic- and foreign-currency-denominated transactions at the market rate of exchange, rather than the official rate of exchange used in official GOB statistics. Unless otherwise specified, they are also always based on merchandise trade data reported to UNCTAD by the governments of Burma's trading partners, rather than on GOB merchandise trade statistics. The rationale and the procedure for both the exchange rate adjustment and the use of UNCTAD merchandise trade data are described in the section on sources, data and method, below. The statistical tables appended to this report present Burma's national accounts in both exchange-rate-adjusted and unadjusted terms, and based both on GOB and on UNCTAD trade data. References to those tables, omitted in this section, are provided in subsequent sections, which cover in greater detail the material described in this section.

² In this report, GDP is always on a money basis unless otherwise specified.

³ A trade-weighted basket of currencies would provide a better indicator of the real effective exchange rate. However, the U.S. dollar is virtually the principal foreign currency for which the kyat is traded, and is the only currency in which the market exchange rate is commonly quoted by market-makers. Moreover, since much of Burma's trade is with ASEAN member states that effectively link their currencies to the U.S. dollar, the real exchange rate *vis-a-vis* the U.S. dollar may be a better indicator of the real effective exchange rate than the small U.S. share of Burma's recorded foreign trade might suggest.

GDP. During the early 1990s, the GOB managed to decrease the economic role of the state while increasing its military expenditures only by cutting real health, education and personnel expenditures, by ceasing to service most of its external debt, and by drawing down state foreign exchange reserves. However, by the end of FY 92/93,⁴ the GOB's own foreign reserves (*i.e.*, total foreign reserves in excess of domestic private sector claims on them) had been drawn down to US \$43 million from \$370 million at the end of FY 89/90.

During the mid-1990s, as structural liberalization faltered, recorded export growth and GDP growth slowed. However, imports and consumption continued to grow rapidly. The share of recorded GDP to which the recorded merchandise and non-factor service trade deficit was equivalent increased steadily from 5.3% in FY 92/93 to 20.0% in FY 95/96. The resulting import-fueled growth in consumption, greatly in excess of growth in recorded domestic production, created an illusion of sustained rapid economic growth that tended to mislead casual observers.

Some of the increase in consumption relative to production and in imports relative to exports was paid for by a large increase in net unrequited private transfers -- apparently workers' remittances -- from abroad, which were equivalent to between 6% and 7% of recorded GDP during the mid-1990s. However, much of it was paid for by a large increase in the unrecorded net foreign exchange inflows indicated by the net errors and omissions in the recorded balance of payments; allowing for unrecorded foreign exchange outflows in the form of unrecorded payments for defense imports and defense-related external debt service, gross unrecorded foreign exchange inflows, which appear to have been small during the early 1990s, appear to have been equivalent to more than 10% of recorded GDP by FY 95/96. The preponderance of this increase in unrecorded foreign exchange inflows may have been caused by increased domestic retention of narcotics export receipts, of which there is abundant anecdotal evidence, but no reliable basis for quantifying. There appears to have been no increase in the volume of narcotics exports during the mid-1990s, although opiates appear to have remained Burma's most valuable single category of exports. (Compare Tables D.5 and D.2.b[5]). However, domestic retention of narcotics export receipts, like workers' remittances, was stimulated by the GOB's partial exchange rate regime liberalization of early 1993, which allowed foreign currency to be converted into kyat at the market exchange rate rather than at the official exchange rate for domestic consumption of domestically produced goods and services. Already, during the late 1980s and early 1990s, the SLORC had discontinued the GOB's previous practice of confiscating bank deposits that could not be shown to have been legally earned, and had negotiated cease-fires in place with some minority ethnic group armies engaged in narcotics cultivation and exportation; during the mid-1990s, diverse businesses affiliated with these organizations began to flourish openly in Rangoon, presumably financed by proceeds from illicit trafficking in narcotics, gems and timber

The increased inflows of foreign exchange rents -primarily from workers' remittances, narcotics export receipts and large-scale smuggling of consumer goods and equipment from India, Thailand and China- appear to have been largely responsible for rapid appreciation of the real market value of the kyat during the mid-1990s. During FY 93/94 through FY 95/96, domestic prices rose at an average rate of at least 25% a year, but the nominal market exchange rate remained in the vicinity of 120 kyat per U.S. dollar. This appreciation of the real exchange rate appears to have discouraged production of non-narcotics exports and import-substitutes, although American consumer antipathy to products made in Burma also eliminated potential manufactured exports. During the mid-1990s, private firms producing

⁴The Burmese fiscal year runs from April 1 to March 31.

import substitutes found it increasingly difficult to compete with imports, and many failed, contributing to a slowing of economic growth in upper Burma, where such firms were concentrated. In Rangoon, some Burmese businesspeople in export-oriented and import-substituting industries complained of the increasing difficulty of competing with firms affiliated and allegedly funded by narcotics-cultivating and exporting organizations. Thus, increased inflows of worker's remittances, smuggled consumer goods and narcotics export receipts may have had adverse indirect effects on the balance of payments by undermining the profitability of fledgling domestic exports and processors of import substitutes. Foreign investment inflows appear not to have contributed significantly to these effects; recorded disbursements of direct foreign investment decreased relative to recorded GDP from the early 1990s to the mid-1990s.

The GOB was only briefly successful in its efforts to increase the public sector's receipts, and its foreign currency receipts in particular. The GOB accepted stagnation of its receipts from the exportation of forest products, a state monopoly, stagnated after FY 93/94. Public sector merchandise export receipts appear to have fallen from US \$584 million in FY 94/95 to \$359 million in FY 95/96 and around \$330 million in FY 96/97 -- not much more than the average of \$250 million a year achieved during the early 1990s. Meanwhile, from FY 92/93 to FY 96/97, the C.I.F. value of GOB-recorded public sector merchandise imports (apparently including growing imports of inputs into domestic defense production) grew from \$400 million to an estimated \$670 million, and GOB expenditures for unrecorded imports of finished defense goods are estimated to have grown from \$77 million to \$178 million. Consequently, the public sector experienced an acute and worsening shortage of foreign exchange during the mid-1990s.

Burma's national accounts, including its GDP expenditure accounts, may be less indicative than those of most other countries, because Burma's unrecorded economy appears extraordinarily large relative to its recorded economy. (See the discussion of data flaws in the section on sources, data, and methods, below.) Both the recorded economy and the size and composition of transactions in the unrecorded economy are impossible to quantify with available data. However, the direction of the biases in the recorded GDP expenditure accounts is readily apparent. The unrecorded economy is almost certainly characterized by proportionally higher savings, lower consumption, and lower investment than the recorded economy; most of Burma's savings and private credit go through an informal banking system because real interest rates are negative and credit is rationed in the formal banking system; investment, by contrast, tends to be hard to hide, and incentives to hide it tend to be limited. The unrecorded economy, unlike the recorded economy, almost certainly has a positive external trade balance, due to large (although hard to quantify) unrecorded narcotics exports for which receipts are typically in the form of foreign currency or offshore deposits rather than foreign merchandise. Consequently, Burma's economy is almost certainly characterized by proportionally higher savings, lower consumption and investment, and more balanced external trade, than is implied by the best available data (Table B.3.c). Given the tiny net domestic savings (4.3% of GDP in FY 95/96) and the huge trade deficit (20.0% of GDP in FY 95/96) indicated by the best available data, this is hardly surprising.

During the 1990s, the growth of the recorded broad money supply was somewhat slower than the growth of recorded GDP in current kyat terms. Since there is no reason to believe that the velocity of transactions really increased, this suggests that the unrecorded money supply, including foreign currencies, gold, gems and deposits in the large informal banking system, may have grown more rapidly than the recorded money supply. Interest rates in the formal banking system have usually been negative in real terms, and the kyat has been relatively ineffective as a store of value.

During the early 1990s, when liberalization was most robust, some of the rapid growth of Burma's recorded economy may have taken place at the expense of its unrecorded economy. In particular, liberalization diverted considerable external trade from smuggling across the Thai border to recorded trade through Rangoon, Burma's only significant international seaport. In addition, some of the growth in recorded GDP appears to have been achieved by extension of central government control over some border areas formerly long controlled by ethnic minority insurgencies, although ceasefire agreements often exempt ethnic groups from inclusion in the national tax system. Since 1989, successful military offensives against some ethnic insurgencies and cease-fire agreements with others have increased the set of economic actors, activities and resources that the GOB can monitor and potentially tax.⁵ Consequently, total GDP may have grown less rapidly than recorded GDP during the early 1990s; conversely, the deceleration of GDP growth from the early 1990s to the mid-1990s may be less than the best available data indicate.

Burma's economic growth during the 1990s has been unevenly distributed across both regions and social classes. Growth appears to have been greatest in Rangoon and northern Shan State, and negligible in such peripheral regions as Mon State, due largely to the diversion of trade from the Thai border to the port of Rangoon and to the Chinese border by trade liberalization during the early 1990s. Real disposable farm incomes have clearly risen since 1989 in most of Burma in response to the partial liberalization of agricultural production and marketing of the late 1980s and early 1990s. However, the real incomes of many urban Burmese, including government employees, have declined. Throughout Burma, the perception is widespread that the benefits of recent growth have accrued disproportionately to military officers and a new, relatively small commercial class. Individuals with family or organizational ties to narcotics traffickers are increasingly prominent actors in domestic investment and commerce, in part a result of GOB attempts to induce traffickers to shift to legal activities; money laundering can thus become a systemic phenomenon. However, the validity of these subjective impressions is difficult to ascertain.

Since 1994, growing public concern in North America and Europe about political conditions and narcotics trafficking in Burma has posed increasing other-market political risks to firms that import from or invest in Burma. This concern, as manifested in private and government consumer boycotts, and in the E.U.'s withdrawal of GSP import preferences and the U.S. Government's prohibition of investment in Burma by U.S. firms in early 1997, and in earlier multilateral blocks on new IMF, World Bank and Asian Development Bank lending to the GOB, appears to have deterred or slowed investment in export-oriented labor-intensive manufacturing, and has several limited aid to relieve Burma's serious infrastructural bottlenecks in transportation, power and communications.

1996/97 economic performance

Exchange-rate-unadjusted provisional GOB data suggests that Burma's recorded economy may have grown by 5.9% in FY 96/97, but finalized data may imply a lower growth rate.

⁵In some cases, the GOB's economic liberalization policies appear to have facilitated its conquest of ethnic minority areas by undermining the economic base of ethnic insurgencies, as well as by increasing the GOB's revenues. For example, the GOB's liberalization of external trade and low effective tariffs substantially reduced extralegal border trade with Thailand, taxation of which was the economic base for the Karen National Union, whose border strongholds the GOB captured in late 1994 and early 1995, following the disaffection of some Karens from the insurgency.

Provisional GOB data indicate that recorded merchandise export receipts declined, in current dollar terms. The results of "Visit Myanmar Year," a GOB tourism-promotion campaign, were mixed: the growth in foreign arrivals by sea and air, although substantial, decelerated, and travel service export receipts per foreign visitor may have been reduced by price-cutting caused by a glut of newly-built hotel facilities in Rangoon.

During FY 96/97 macroeconomic instability increased conspicuously. The salient economic development was a worsening foreign exchange shortage, concentrated in the public sector, due largely to a second consecutive year of low public sector exports. Unsuccessful in a late 1995 bid to regain access to concessional external financing through a resumption of IMF programming, the GOB had exhausted the public sector's own foreign reserves by early 1996. By the end of March 1996, Burma's foreign exchange reserves had already fallen to \$302 million, about \$40 million less than the face value of private sector claims on those reserves in the forms of foreign-currency-denominated private deposits in domestic Burmese banks and foreign-currency-denominated banknotes (Foreign Exchange Certificates or "FECs") in circulation. The GOB financed the public sector's foreign exchange deficit in four ways:

- First, from April to July 1996, the GOB purchased the private sector's foreign reserves at the market exchange rate. These GOB purchases of the private sector's foreign exchange, which continued until July 1996, were paid for by an increase in kyat in circulation, which the GOB largely borrowed from the central bank. This resulted in a 30% nominal depreciation of the market value of the kyat against the U.S. dollar from April to July 1996.
- Second, since July 1996, the GOB has limited private sector imports by restricting both issuances of import licenses and openings of letters of credit. This enabled the GOB to use substantial foreign reserves owned by the private sector to fund public sector imports and debt service, without paying for the use of that foreign exchange. By September 1996, the most recent month for which complete monetary data are available, Burma's foreign reserves had been drawn down to \$206 million, about \$176 million less than the face value of domestic private claims on them, *i.e.*, foreign-currency-denominated deposits in domestic banks and FECs in circulation.
- Third, since FY 95/96, the GOB has accelerated its sales of assets in exchange for foreign currency. It has sold off blocks of downtown Rangoon, increased the volume and reportedly reduced the price of its sales of mineral exploration rights to foreign firms, and created two new categories of approved foreign investment (real estate development and industrial parks) that generated large up-front "signature bonus" receipts of foreign exchange for the GOB.
- Fourth, since late 1996, the GOB has increasingly borrowed on commercial terms from foreign private and parastatal non-bank firms including major foreign direct investors. These appear to be the first private external loans that the GOB has ever received, repayment of which was not guaranteed by any foreign government or its export financing parastatal. Rather, these loans are said to be explicitly or implicitly secured by the GOB's expected future receipts of about \$150 million a year, from exports of natural gas from the offshore Yadana field starting in mid-1998. These prospective gas export receipts already appear to be effectively obligated by this borrowing and by investment project commitments through the first few years of the next decade.

The GOB appears to have no immediate prospect of regaining access to significant amounts of concessional external financing from sources other than the Government of China, its foremost aid donor.

The GOB's imposition of import controls appears at least to have slowed and may have arrested the growth of Burma's recorded trade deficit. Exchange-rate-adjusted GOB data suggest that the merchandise and non-factor service trade deficit may have increased from 15.0% of recorded GDP in FY 95/96 to 18.7% in FY 96/97. UNCTAD merchandise trade data suggest that this trade deficit had already reached 20.0% of recorded GDP in FY 95/96.

The GOB's tax receipts appear to have continued to decline relative to recorded GDP, despite an increase in effective import tariff rates in June 1996. Exchange-rate-adjusted provisional data suggest that the GOB's recorded overall obligations-basis fiscal deficit grew from about 11% of recorded GDP in FY 95/96 to about 14% in FY 96/97, and that its recorded overall cash-basis fiscal deficit grew to about 10% of recorded GDP. However, these figures exclude unrecorded domestic financing such as depletion of foreign reserves, which appears to have been equivalent to about 2% of recorded GDP in FY 96/97.

Inflation accelerated during FY 96/97, due both to the GOB's increased domestic deficit financing and to accelerated import price inflation caused by the foreign exchange shortage. The GOB's main published indicator of inflation, the Rangoon consumer price index, was 31.5% higher at the end of December 1996 than it had been a year earlier. However, the previously rapid appreciation of the real exchange rate was halted, although not reversed; the nominal depreciation of the kyat relative to the U.S. dollar approximated price inflation in Burma in excess of price inflation in the U.S.

The GOB's external arrears continued to accumulate; the proportion of its known external debt service obligations that the GOB paid, net of debt relief, appears to have diminished from 41% in FY 95/96 to less than one-third in FY 96/97. During FY 96/97, the GOB began to borrow massively on commercial terms from foreign private and parastatal firms, most which had investments in Burma, in order to pay for public sector imports.

Nevertheless, the GOB was unable to import enough fertilizer and diesel fuel to prevent rice production and hence rice exports from declining to near zero. Rice exports were only 8% of the planned target level of 1,500 mmt in FY 96/97. During FY 96/97, the SLORC publicly retreated from its policy of trying to boost state-monopolized rice exports, and modestly liberalized its rice production and procurement policies.

Disbursements of direct foreign investment appear to have remained in excess of US \$300 million for the second consecutive year, due chiefly to development of the offshore Yadana natural gas field. Foreign investment disbursements appear to have continued to be concentrated in the oil and gas sector. Several foreign investors withdrew from Burma, at least partly in response to this pressure. Peregrine Capital also withdrew, citing the absence of investment banking opportunities due to virtual cessation of parastatal privatization. However, the Government of Japan resumed guaranteeing repayment of loans to finance investments in Burma by Japanese firms.

The GOB appears to have curtailed its internationally-condemned use of uncompensated labor in public works projects, at least in central Burma, during FY 96/97, although its use of such labor appears still to have remained much greater than it was before 1993. To supplement the declining real wages of public sector employees, the GOB permitted the quasi-private publication of weekly tabloids under

license to the "employees' welfare associations" of its various ministries -- the first tentative move toward press liberalization since the SLORC was constituted. Apparently due largely to its financial problems, the GOB seems to have reduced its real defense expenditures and its defense imports for the first time since FY 91/92, although it apparently remains committed to the goal of expanding its armed forces to 475,000 men. It has also kept most universities closed since widespread student demonstrations in December 1996. Some high schools were also closed, and as of the end of June 1997, primary, middle and high schools have not yet re-opened for the 1997 school year, which normally starts in the first week of June.

Economic outlook

In the short and medium term, the growth of Burma's recorded economy may continue to decelerate, and serious fiscal and balance of payments problems may persist, in the absence of substantial further liberalization of Burma's economic and political structures.

In early FY 97/98, public sector exports were reduced even below early FY 96/97 levels by shortages of imported inputs into rice production, caused by Burma's continuing foreign exchange shortage. Capital flight in response to the GOB's imposition of import controls appears to have exacerbated that shortage, leading to renewed nominal depreciation of the kyat and obliging the GOB to accelerate its borrowing on commercial terms from foreign non-bank firms. However, continued expansion of external borrowing on commercial terms may prove unsustainable; the GOB's external debt service performance is already poor, much of the GOB's prospective natural gas export receipts appear already to have been effectively obligated into the coming decade, and no other major sources of increased public sector foreign exchange receipts appear to be in prospect.

At present, GOB economic policy appears to consist of little more than waiting for these natural gas export receipts, and borrowing against them to pay for current public sector imports and external debt service. GOB economic policy makers have indicated to the foreign press, foreign businesspeople, and international financial authorities that their medium-term economic hopes hinge largely on prospective gas export receipts rather than on renewed economic liberalization. However, because these receipts will be foreign exchange rents, achieved at little cost in domestic resources, they are likely to improve Burma's balance of payments situation only insofar as they are invested in the production of exports or import substitutes. The GOB has obligated much of its first several years of receipts from Yadana field exports to fund construction of import-substituting urea plants and in electricity plants through the "three in one" project, to fund its equity stake in the production consortium, and to repay borrowings to fund current essential imports. (See the discussion of U.S. investment in Burma in the section on the nature of the bilateral relationship, below.) However, if the GOB also continues to use much of these receipts to pay for public sector imports of non-capital goods and debt service, they could cause an appreciation of the real market value of the kyat (the real exchange rate), which in turn could induce a shifting of domestic resources away from production of exports and import substitutes to production of internationally non-tradable goods for domestic consumption.

In the absence of substantial political liberalization, private and governmental consumer boycotts in sympathy with Burma's repressed pro-democracy movement may continue to restrict the access of Burmese-origin goods to the North American and European markets, and to discourage investment in labor-intensive export-oriented manufacturing industries. Access to concessional external financing from both foreign governments and international financial institutions may remain extremely limited,

perpetuating the GOB's large fiscal deficits and obliging the GOB to continue to rely on inflationary domestic financing and on costly non-concessional external financing of those deficits.

Long term growth prospects are dimmed by the GOB's continuing failure to allocate sufficient resources to education at all levels. Even if political and economic liberalization were vigorously and promptly pursued, and even if regained access to concessional external financing were to accelerate physical infrastructure development, shortages of both skilled and semi-skilled labor would constrain growth in the medium and long run.

Burma became a member of the Association of Southeast Asian Nations (ASEAN), in July 1997. The immediate economic consequences of its accession are likely to be limited, although investment and trade between Burma and fellow ASEAN members may continue to grow, especially in extractive industries, some basic infrastructure, and consumer goods. The GOB already complied with the only economic requirements for ASEAN membership in June 1996, when it lowered its nominal tariff rates to below ASEAN-mandated ceilings, while simultaneously raising its effective tariff rates by changing the exchange rate used to evaluate imports for customs assessment purposes.

Note: The section on "Sources, data and method," at the conclusion of this report, may be helpful in understanding the other remaining sections of this report, which are technically oriented.

Principal growth sectors

In addition to the three growth sectors - defense, tourism and agriculture - discussed in this section, two other important growth sectors, natural gas production and export-oriented garment assembly, are discussed below, in the discussion of merchandise exports in the section on balance of payments, and in the discussions of U.S. investments and imports in the section on the nature of the bilateral relationship. Export-oriented fishing and seafood production, including shrimp farming, is another leading growth industry, as is indicated by both GOB and UNCTAD data (Tables D.2.a[3] and D.2.b[5]).

Tourism

Foreign tourism appears to have been one of Burma's two fastest-growing major industries during the 1990s - the other being export-oriented garment assembly.

The statistics on foreign tourism receipts in GOB publications (*GOB/RFESC* and, until recently, *GOB/SMEI*) appear discordant and show such receipts declining for several recent years, despite an ever-growing stream of foreign visitors. However, GOB services trade data published in recent IMF and World Bank country reports (Table D.3) show that Burma's recorded receipts from travel service exports increased steadily from US \$18 million in GOB FY 89/90 to an estimated \$164 million in FY 95/96, at an average annual rate of 44.5% in current dollar terms. This growth apparently slowed to about 14% in FY 95/96, and appears likely to have remained relatively slow in FY 96/97. This recent slowdown is due largely to overcapacity and price-cutting created by the GOB's intervention to boost investment in the industry as part of its "Visit Myanmar Year 1996" campaign. However, it is also due in part to an apparent slowing of the growth both of foreign business visits and of tourist visits from some Western democracies.

According to *GOB/SMEI*, the number of GOB-recorded foreign visits to Burma (including business visits) rose steadily from 26,012 in FY 91/92 to 170,143 in FY 95/96, an average annual increase of 60%. The number of legal foreign tourist visits rose from 7,947 in FY 91/92 to 120,205 in FY 95/96, an average annual increase of 97%.

Having created a Ministry of Hotels and Tourism in 1992, the SLORC, in 1994, designated 1996 as "Visit Myanmar Year" and announced the goal of attracting 500,000 foreign visits. In 1995, the GOB, recognizing that this goal might prove unattainable, postponed the start of "Visit Myanmar Year" to the start of the peak tourist season in November 1996, and lowered its foreign visits target to 250,000. Since the GOB recorded 219,321 during the first nine months of FY 96/97, this revised target is quite likely to be reached.

However, the GOB figures for both total foreign visits and foreign tourist visits include, after FY 91/92, many arrivals by land on tourist visas. These overland arrivals generate few service export receipts, were not counted before FY 92/93, and were sharply decreased during 1995 by the GOB's closure of the Thai border. Consequently, the number of recorded foreign visits, excluding arrivals by land on tourist visas, is a better and more consistent indicator of demand for Burma's travel service exports. (Overland arrivals on non-tourists visas also generate relatively small travel service export

receipts per foreign visits, but the GOB does not publish data on them.) The number of such visits grew from 26,012 in FY 91/92 to 133,344 in FY 95/96 -- an average annual increase of 50%. The number of recorded foreign tourist visits, excluding arrivals by land, grew from 7,949 in FY 91/92 to 83,406 in FY 95/96, an average annual increase of 80%. From FY 94/95 to FY 95/96, the number of recorded foreign visits, excluding overland arrivals on tourist visas, increased by 54%, and the number of recorded foreign tourist visits, excluding arrivals by land, increased by 66%.

The growth of demand appears to have slowed during the past year. During the first nine months of FY 96/97, the number of recorded foreign visits, excluding overland arrivals on tourist visas, was 119,010, up only 39% from 85,558 during the first nine months of FY 95/96. There were 77,296 recorded tourist arrivals by sea and air during the first nine months of FY 96/97, up only 53% from 50,437 during the first nine months of FY 95/96.

The deceleration of the growth of recorded tourist arrivals by sea and air from the first nine months of FY 95/96 to the first nine months of FY 96/97 was due largely to a sharp slowing in the growth of tourist visits by citizens of some Western democracies: recorded tourist visits by Americans rose only 15%, from 3,029 to 3,476; recorded tourist arrivals by British citizens rose only 12%, from 2,673 to 3,006; recorded tourist visits by Canadians rose only 26%, from 498 to 627; recorded tourist visits by Italians rose only 14%, from 2,361 to 2,697; recorded tourist visits by Swiss rose only 5%, from 1,034 to 1,086; and, according to travel industry sources, tourist visits by Dutch and Scandinavians also grew slowly if at all. This slowing of the growth of tourist visits by citizens of some Western democracies was caused chiefly by a politically-motivated international consumer boycott of travel to Burma, which induced many international travel businesses to stop advertising and/or selling tourism to Burma. Concerns about the safety of travel to Burma, due to recently unprecedented student demonstrations, anti-Muslim riots and violence against political leaders, may also have contributed. However, recorded tourists visits by French, Germans, Japanese, Koreans and Thais continued to grow rapidly.

The deceleration during FY 96/97 of the growth of all recorded foreign visits, excluding overland arrivals on tourist visas, is due not only to the slowing of the growth of tourist visits, but also to a slowing of the growth of non-tourist visits, which consist largely of business visits. Recorded foreign non-tourist visits, which had grown by 31% from FY 92/93 (21,716) to FY 93/94 (28,483), by 29% from FY 93/94 to FY 94/95 (36,641), and by 36% from FY 94/95 to FY 95/96 (49,938), grew by only 19% from the first nine months of FY 95/96 (35,121) to the first nine months of FY 96/97 (41,714). This slowdown in the growth of foreign non-tourist visits is said by industry sources to be due chiefly to a marked slowing in the growth of foreign business visits. It appears to reflect a decline in optimism during late FY 95/96 and FY 96/97, among the international business press and business community, about medium-term prospects for Burma's economy, and about business opportunities in Burma.

Assuming that tourist arrivals by land generated negligible travel service export earnings, the above-cited data on travel export receipts and foreign arrivals jointly imply that average recorded travel service export receipts per recorded foreign visit, excluding overland arrivals on tourist visas, were about US \$1,360 in FY 91/92, \$3,430 in FY 92/93, \$2,130 in FY 93/94, \$1,660 in FY 94/95, and \$1,230 in FY 95/96. The increase in average recorded receipts per sea and air arrival from FY 91/92 to FY 93/94 appears to be due largely to the GOB's decision, in February 1993, to allow domestic goods and services to be bought with kyat (or FEC) exchanged for dollars at the parallel market rate rather than the official rate.

The above-cited spike in average recorded receipts per foreign visit excluding overland arrivals on tourist visas in FY 92/93 appears illusory. It is caused by an entry of US \$117 million for FY 92/93 travel service export receipts in GOB services trade data as published by recent IMF and World Bank country reports (Table D.3). This figure implies 230% growth in travel export receipts from FY 91/92 to FY 92/93, followed by virtually no growth in travel export receipts from FY 92/93 to FY 93/94 -- as well as implying the anomalous spike in receipts per foreign air or sea visit cited above. American Embassy Rangoon estimates travel export receipts for FY 92/93 at about US \$60 million, a figure that implies both a fairly smooth growth of export receipts from FY 91/92 to FY 93/94, and average travel export receipts per foreign visit (excluding overland arrivals with tourist visas) of about US \$1,760, which is near the mid-point of the range for other recent years. This Embassy estimate is incorporated throughout this report's statistical appendices.⁶

The causes of the decline in recorded receipts per foreign visit excluding overland tourist arrivals from FY 93/94 to FY 95/96 are not entirely clear. There was little if any price-cutting by suppliers or down-market shift in demand. This decline may merely reflect increasing numbers of overland arrivals on visas other than tourist visas by individuals who spend relatively little on travel services; for example, visits by Chinese businesspeople are said to have increased greatly. There may have been an increase in underreporting of travel service export receipts. However, some industry sources suggest that there may in fact have been a decline in recorded receipts per air or sea arrival, caused by a shortening of the average duration of foreign visits, reflecting the growing proportion of foreign visitors arriving in fast-paced multi-country group tours.

Since 1989, Burma's tourism infrastructure has rapidly expanded and improved in quality. From 1989 to December 1996, the number of hotels, motels and inns increased from 22 (all state-owned), with a total of 978 rooms (*GOB/SY*), to 402 (mostly private), with perhaps 10,000 rooms. The fleet of civil aircraft operating in Burma expanded rapidly in 1994, when Burma imported US \$ 157 million worth of aircraft and aircraft engines, making aircraft and parts the country's most valuable category of known imports (Table D.2.b[5]). The recorded disbursed foreign direct investment in the hotels-and-tourism sector increased steadily from US \$2.7 million in FY 91/92 to an estimated \$70.7 million in FY 95/96 (Table D.6).

Despite this rapid expansion of facilities, the supply of international-quality hotels outside Rangoon and of both international and domestic civil air transportation remains inadequate to meet demand during the peak tourism season (November through March). The shortage of international air transportation facilities, in particular the absence of any airports with runways long and strong enough to accommodate jumbo jets like Boeing 747s, may be a bottleneck that constrains peak-season demand for other tourism export services, such as hotel and restaurant services. This shortage is largely attributable to the GOB's loss of access, since 1990, to bilateral and multilateral concessional external financing for physical infrastructure projects, due to international concerns about its record with respect to democratization and human rights. For example, although the GOB has been able to lengthen the runway at Rangoon's international airport to accommodate mid-sized jets, the Government of Japan, since 1990, has suspended disbursements for a project to lengthen that runway to accommodate jumbo jets. The GOB has tried to relax this constraint by allowing direct international flights into Mandalay, where the runway is being lengthened with Chinese technical assistance and a new airport is being built with

⁶ This correction has little effect on unadjusted recorded GDP accounts (Tables B. I .a-c). However, in exchange-rate-adjusted accounts (Tables B.2.a through B.3.c), this correction decreases both recorded GDP and the anomalously high growth of recorded GDP for FY 92/93 by about two percent in exchange-rate-adjusted terms; it also increases the growth rate of recorded GDP for FY 93/94 by about two percent.

private Thai financing guaranteed by the Government of Thailand's export-import bank. The GOB is also building a new international "Hanthawaddy" Airport near Pegu, about 40 miles northeast of Rangoon.

However, a large surplus of international-class hotel facilities in Rangoon developed during FY 95/96 and 96/97. This gross overcapacity has caused widespread and substantial price cutting, even during the FY 96/97 peak season. Because of this price-cutting in the largest travel services subsector in Burma's principal foreign travel destination, tourism export receipts are likely to have grown more slowly, during FY 96/97, than the number of foreign visits. Many international-quality hotels in Rangoon appear to be operating at a loss; they are virtually empty most of the time. Since new international-quality hotels continue to be built, this situation may persist for several years, even assuming no further slowing in the growth of foreign visits.

This overcapacity, created almost entirely by private investment, was widely predicted as early as 1994. Nevertheless, both domestic and foreign investors continued to build hotels in Rangoon; very few cancelled or postponed construction. Many appear to have done this in deference to the perceived wishes of the SLORC, as expressed in its "Visit Myanmar Year 1996" campaign. Many investors seem to have been prepared to accept short-term losses as an investment in the SLORC's goodwill, which is generally and realistically regarded as indispensable to large-scale business success in Burma.

In general, travel service suppliers in Burma are now privately owned, with the following exceptions and qualifications. Several of the larger hotels both in Rangoon and in provincial cities (the Strand, New World Inya Lake, Ngapali Beach and Sandoway Hotels, for example) continue to be owned in whole or part by state economic enterprises. Several other hotels are believed to be owned in whole or part by senior military or ex-military figures or their relatives. Train transport remains largely although not exclusively a state monopoly. Domestic air transport is provided both by state-owned Myanma Airways and by airlines, such as Myanmar Airways International, Mandalay Air and Yangon Air, owned in part by foreign firms and in part by the GOB. Myawaddy Tours and Travel is wholly owned by Union of Myanmar Economic Holdings (UMEH), an entity described in the section on defense, below.

Defense

Since 1988, when military rule was first seriously challenged by the pro-democracy movement, defense has been one of the fastest-growing sectors of Burma's economy. The number of active-duty personnel in the GOB's armed forces is estimated to have grown from about 175,000 in FY 89/90, when the SLORC came to power, to about 350,000 in FY 95/96. (Meanwhile, the number of all central government employees rose only from 552,000 to 587,000, and the number of SEE employees fell from 355,000 to 305,000.) The stated intent of the SLORC is to expand the number of armed forces personnel to at least 475,000; the authorized personnel level of the armed forces is now about 550,000.

There is no evident external military threat, and both the order of battle and the deployment of the armed forces indicate that its primary mission is domestic.⁷ Since 1989, the SLORC has signed cease-fires in place with sixteen armed ethnic insurgent groups. However, since the 1995/96 dry season,

⁷ Perhaps the best publicly available source of information on Burma's military under SLORC, including defense imports, is Andrew Selth's *Transforming the Tatmadaw • the Burmese Armed Forces since 1988* (Strategic and Defense Studies Centre, Research School of Pacific and Asian Studies, Australian National University, Canberra, 1996).

the SLORC has been engaged in active hostilities with Karen, Karenni, and Shan insurgent groups. Military units were deployed in Burma's main cities during and after widespread student demonstrations in December 1996.

Within the Ministry of Defense, supervised by the Directorate of Defense Industries (DDI) and funded as part of the central government budget, are twelve distinct "defense industries" that make products ranging from weapons to sports balls; some products from each of these twelve "industries" are displayed at the Defense Services Museum in Rangoon. By far largest of these "industries" is the one that makes weapons, transport and tools for the armed forces. DDI operates complexes of factories in and around Rangoon and at Malun, west of the Irrawaddy River near Magwe. During the early 1990s, the governments of Australia, the E.U. member states, Japan, Korea and the U.S. stopped approving applications for licenses to export military equipment to Burma. The GOB, cut off from most of its traditional arms suppliers, launched an import substitution effort in the defense sector. DDI is in charge of this effort. It has expanded and modernized its defense industries, and is reported to have imported substantial amounts of capital goods for this purpose. DDI has a close relationship with "Ministry of Industry-2," which oversees the operation of the state-owned heavy industrial plants. During the 1990s, the ministry has modernized two iron and steel mills at Ywama, outside Rangoon, and Maymyo, a town east of Mandalay that is near a large state-owned iron ore mine and is home to the GOB's new Defense Services Institute of Technology, as well as its military academy.

Another economic agency of the Defense Ministry is the Directorate of Defense Procurement (DDP), which procures imports of finished goods for the military, including most weapons other than small arms. DDP also has a large quasi-private income-generating affiliate: the Union of Myanmar Economic Holdings, Ltd. (UMEH), a specially privileged holding company formed in February 1990. As stipulated by its charter, 40% of its equity is owned by the DDP; the remaining 60% is owned by "defense services personnel," notably senior military officers including SLORC members, and by "military regiments and war veterans (organizations or individually)." UMEH, as stipulated by its charter, operates "under the guidance of the Directorate of Procurement," with which it is co-located across the street from the Defense Services Museum in Rangoon.⁸ UMEH was exempted from commercial and profit taxes in 1995. It wholly owns the Myawaddy Enterprises Group, including Myawaddy Trading Company, Myawaddy Tours and Travel, and Myawaddy Bank (located since 1996 in the former central bank building). In 1994 and 1995, UMEH non-competitively acquired from the GOB Ministry of Mines not only four jade mines, mostly in Kachin State, but also mines near Mogoke and Taunggyi in Shan State that account for most of Burma's production of rubies and sapphires. In exchange for 40% of output, UMEH leases these mines to private operators, some of whom are reputed to be affiliated with ethnic minority narcotics trafficking organizations. UMEH also owns and operates, on land formerly part of a military logistics base, the Pyin-ma-bin industrial park just north of Rangoon, where several of UMEH's textile and other manufacturing joint-ventures with foreign investors are located. During the mid-1990s, UMEH was increasingly the local joint-venture partner with which the GOB encouraged foreign investors to affiliate.

In early 1997, the Defense Ministry established a second privileged holding company, called Myanmar Economic Corporation (MEC), with private shares that can be owned only by active-duty military personnel. It, too, is co-located with DDP.

⁸ GOB Ministry of Trade Notification No. 7/90, Rangoon, 19 February 1990, entitled "Formation of the 'Union of Myanmar Economic Holdings, Limited,'" signed by Col. (now Brig.-Gen.) David Abel, who was then Director of Defense Procurement, as well as Minister of Trade, Minister of Economic Planning and Finance, and Secretary of the Foreign Investment Commission.

In addition, the Defense Ministry's Directorate of Security Printing (DSP) administers the "Wazi Project," which is responsible for the printing of paper currency, some of which has been done in recent years by private contractors overseas. DDI, DDP and DSP are all under the Defense Ministry's Quartermaster General's Department. In 1996, according to the GOB press, the Quartermaster General's Department was the GOB agency that received payment for a block of downtown Rangoon sold to a foreign investor for development as an office and shopping complex.

In FY 88/89, the year the SLORC was formed, recorded defense operating disbursements were only 1.8 billion kyat; they constituted 22.9% of recorded central government operating disbursements, equivalent to 2.3% of recorded GDP, in exchange-rate-unadjusted terms. By FY 95/96, defense operating disbursements had increased to about 23.8 billion kyat, although some of them were not recorded as defense expenditures in central government budget accounts for FY 94/95 and FY 95/96. From FY 93/94 through FY 95/96, defense operating disbursements constituted about 40% of central government operating disbursements, and from 3% to 4% of recorded GDP, in unadjusted terms. From FY 88/89 to FY 95/96, unadjusted defense operating disbursements grew at an average annual rate of 45% in current kyat terms, or 13% in real terms derived by applying the GOB's overall GDP deflator.

These figures for defense operating disbursements exclude hidden subsidies to the Ministry of Defense from other parts of the public sector, in the form of costless or below-cost provision of goods and services. For example, the Ministry of Defense receives but does not pay for about one-fifth of Burma's centrally generated electricity, with a value in FY 95/96 of about 2.3 billion kyat at domestic industrial prices, more at international prices. (See the section on "infrastructure," below). The Defense Ministry also purchases large amounts of fuels from the state petrochemical monopoly, Myanmar Petroleum Products Enterprise (MPPE), at official prices far below market prices. In FY 95/96, the Defense ministry purchased at least 12 million gallons of fuel, chiefly diesel and gasoline, from MPPE at about 20 kyat per gallon for diesel and 25 kyat per gallon for gasoline, for which the market prices were about ten times higher. This implicit subsidy appears equivalent to about three billion kyat in FY 95/96. Together, the Defense Ministry's fuel and electricity subsidies from state-owned monopolies, worth 5.3 billion kyat or more than 0.7% of URGDP, bring defense operating disbursements and subsidies to at least 29.1 billion kyat, or about 4.1% of GDP, in exchange-rate-unadjusted terms. In addition, a substantial share of the GOB's declining real expenditures on health is said by health industry experts to be used to provide medical services to military personnel, and is not included in the defense budget. The Defense Ministry also receives large amounts of rice from the state-owned Myanmar Agricultural Produce Trading (MAPT) at a steep discount from the market price; this is milled from the paddy that MAPT procures from growers at below-market prices. (See the section on agriculture, below.)

The GOB publishes no data on its defense imports or foreign-currency-denominated defense spending; as the IMF points out in every issue of *IMF/IFS*, the GOB's "current [account] data exclude military goods." Defense imports of finished goods also appear to be substantially excluded from the LTNCTAD data on Burma's imports. Their omission from the UNCTAD data is presumably responsible in large part for the large negative error and omission terms in this report's UNCTAD-data-based BOP accounts (Tables D. 1.b and F.2) from FY 89/90 through FY 93/94. These error terms indicate recorded foreign exchange inflows in excess of recorded imports by amounts ranging from US \$125 million to \$250 million.⁹

⁹ The U.S. Arms Control and Disarmament Agency (ACDA), in the 1993-94 edition of its *World Military Expenditures and Arms Transfers*, valued the GOB's military imports at U.S. \$ 20 million in 1988, \$20 million in 1989, \$ 110 million in 1990, \$ 390 million in 1991, \$ 140 million in 1992, and \$ 120 million in 1993. These figures are estimates of the market value of current-period deliveries of

However, as Table G.5 shows, the Embassy estimates that the Defense Ministry's disbursements for imports rose steadily from about US \$75 million in FY 91/92 to about \$270 million in FY 95/96. Disbursements for imports of inputs into domestic defense production (capital goods and intermediate goods imports for DDI) appear to have increased more rapidly than those for imports of finished goods and services, growing from about one-fourth to about one-third of disbursements for defense imports. In exchange-rate-adjusted terms -- equating kyat- and foreign-currency-denominated spending at the market rate of exchange rather than the official rate -- defense operating disbursements appear to have grown from about 6% of recorded GDP in FY 91/92 to more than 8% of recorded GDP in FY 95/96. The sharp increase in defense imports in FY 95/96 appears to have been made possible by the increase in the GOB's foreign exchange receipts caused by the quadrupling of state-monopolized rice exports in FY 94/95. (See Tables D.2.a[3] and G.2.) Defense operating disbursements are also believed to have exceeded 8% of recorded GDP, in exchange-rate-adjusted terms, in FY 90/91, when the GOB imported at least US \$200 million worth of finished defense goods, paid for in part with proceeds from the 1989 sale of part of the GOB's diplomatic mission in downtown Tokyo. That sale increased the GOB's net foreign assets by more than US \$300 million in FY 89/90 (Table D.1.a); the GOB drew down its own portion of net foreign assets by roughly US \$250 million in FY 90/91 (Table E.2), only partly to cushion the inflationary impact of import liberalization. In sum, whenever, since 1988, the GOB received large infusions of foreign exchange, its defense imports increased sharply the following year.

The latest information, however, points to a flattening out of military expenditures in response to fiscal and foreign exchange problems. Although it is still too soon to venture estimates, both the value of the GOB's defense imports and its real exchange-rate-adjusted defense operating disbursements appear to have decreased in FY 96/97, apparently under pressure of the financial difficulties caused by the decline of public sector export receipts (shown by Tables D.2.a[3] and G.2).

In addition to its defense operating expenditures, the GOB appears to have substantial defense-related financial expenditures. Much of its military imports, especially those from China, are credibly reported to have been financed by medium- and long-term foreign-currency-denominated loans, which (despite concessional terms from China) have generated substantial external debts and external debt service obligations apparently excluded from the publicly available data on its external debt - as is suggested by the low levels of outstanding debt to China, the GOB's major arms supplier since FY 90/91, in Table D.4. Payment of a single installment of debt service to the Government of China in mid-1996 is reported to have been largely responsible for an otherwise unexplained decline in Burma's recorded foreign reserves from about US \$300 million to about US \$200 million in June 1996. Much of that payment is believed to be related to previous defense imports.

The Embassy estimates that in exchange-rate-adjusted terms, the GOB's total defense-related disbursements, including both operating expenses and service of undeclared debt related to prior-period military imports, may have been consistently equivalent to between 8% and 10% of recorded GDP from FY 91/92 through FY 94/95, and to more than 10% of recorded GDP in FY 90/91, FY 95/96 and FY 96/97. Again, these estimates exclude implicit subsidies to the Defense Ministry from other parts of the

military imports, including services, building of defense production facilities, and dual-use equipment identified as being primarily for military use, but excluding foodstuffs, medical equipment, and petroleum products, they are based on observations and credible reports of specific deliveries of goods and services. However, these figures may fail to capture some dual-use capital goods, raw materials and intermediate goods used in the domestic manufacture of military weapons and equipment, rather than finished military goods, since their military nature is not readily apparent to observers.

public sector, notably the health system, the state petrochemicals monopoly (MPPE), the state electricity monopoly (MEPE), and the state paddy quota procurement agency (MAPT).

Although the value of imports consumed by the central government is not known, the ministries of defense, construction and agriculture are authoritatively reported to have accounted for the preponderance of its consumption of imports in recent years. It seems likely that defense disbursements have made up over half of central government operating disbursements, in exchange-rate-adjusted terms, every year since FY 90/91. It seems very likely, if implicit subsidies are counted as disbursements.

In exchange-rate-adjusted terms, as Table G.5 shows, the share of public sector non-financial expenditures constituted by defense operating expenditures appears to have grown from about 13% in FY 91/92 to about 21% in FY 95/96. Between FY 91/92 and FY 95/96, annual defense operating expenditures were equivalent to between 59% and 139% of the annual public sector cash-basis operating deficit based on all recorded and apparent financing.

The above-cited figures on the Defense Ministry's spending and subsidies from other parts of the public sector do not capture the substantial social welfare costs of military rent-seeking, which appears to be institutionalized and openly tolerated due to low official salaries. Regional and local military commanders, especially in rice-surplus regions, often procure unmilled rice from villages at below-market prices, in addition to the rice that the Defense Ministry gets from MAPT at below-market prices. Much of the gasoline openly sold at the market price throughout Burma is widely and credibly alleged to be supplied by military officers, who obtain it from MPPE at the far lower official price. Some command-grade officers are reputed routinely to sell promotions to the highest bidders among their subordinates, fueling demand for extra income at lower levels of the officer corps. The above-cited figures also do not capture the substantial social costs related to domestic military operations, including deaths, mutilations, population displacement, and uncompensated labor contributions in the form of forced portage, which remains widespread.

Agriculture

In exchange-rate-unadjusted terms, agriculture generated about 63 percent of employment and about 51 percent of recorded GDP in FY 96/97. GOB statistics suggest that the agricultural sector's share of recorded GDP grew rapidly during the early 1990s but declined during the mid-1990s (Table B.3.a). In part, this is an illusion created by increasing overstatement of rice production in GOB data for FY 92/93 through FY 94/95, and partial correction for that overstatement in FY 95/96 and FY 96/97. However, much of the initial acceleration and subsequent deceleration of agricultural production implied by GOB statistics was real.

During the early 1990s, agricultural production did grow even faster than GDP, in response to a substantial albeit incomplete liberalization of agricultural production and marketing from 1987 to 1991, when the GOB for the first time allowed private domestic trading of agricultural surpluses and private exportation of all crops except rice, and promised to allow farmers to manage their own production, subject to the constraint that paddy (unmilled rice) must be grown on "designated paddy land," which appears to constitute 12 million of the 22 million acres sown in FY 96/97. However, the GOB has

continued to own all farmland,¹⁰ and to monopolize export marketing of rice. During the mid-1990s, the growth of agricultural production was slowed by GOB efforts to increase public sector foreign exchange receipts by forcing farmers to grow more rice and to sell increasing quantities of paddy to the state at prices increasingly below market. Since 1996, the SLORC has retreated from this highly coercive policy, which failed to achieve a sustainable increase in rice exports due to widespread non-cooperation and passive resistance by Burma's farmers.

Burma's two most valuable crops are diverse strains of rice and diverse beans and pulses. Exports of both have been major sources of foreign exchange. However, whereas bean and pulse cultivation and exportation are largely privatized, nearly the whole burden of the state on the agricultural sector is borne by the rice subsector. The resulting tension, between private efforts to increase bean and pulse cultivation and exports, and state efforts to increase rice cultivation and exports, has been a central theme in the development of Burmese agriculture under SLORC rule.

-- *Paddy (unmilled rice) production*

The production of rice, Burma's staple food, is by far the largest industry in Burma's recorded economy; although prices are distorted and production data is flawed, rice production appears to account for between one-fourth and one-third of recorded GDP, in either exchange-rate-adjusted or -unadjusted terms. Cultivation of paddy (unmilled rice) is concentrated in lower Burma, and particularly in Irrawaddy Division, which normally has a rice surplus several times greater than the national rice surplus.

According to published GOB statistics (*GOB/RFESC/97* and previous), national production of paddy rose from 13.2 million metric tons (mmt) in FY 91/92, to 14.8 mmt in FY 92/93, 16.8 mmt in FY 93/94, 18.2 mmt in FY 94/95, declining to 18.0 mmt in FY 95/96 and 17.1 mmt in FY 96/97. The U.S. Department of Agriculture (USDA) estimates that production rose from around 12.0 mmt. in FY 91/92, to 13.4 mmt in FY 92/93, 15.1 mmt in FY 93/94, and 16.0 mmt in FY 94/95 and FY 95/96, but declined to about 15.5 mmt in FY 96/97.

Neither area cultivated nor average yield (per crop per acre) has increased much. The area sown with paddy in the wet season, the only season in which paddy was traditionally cultivated in all but a few places in Burma, remained constant at 11.9 million acres until FY 93/94 and had increased only to an estimated 12.4 million acres by FY 96/97. This constitutes almost half of Burma's cultivated land (including fallow land), which has remained at about 25 million acres since FY 88/89. However, it constitutes only 22 percent of Burma's unforested arable land, less than half of which is cultivated. The Embassy's production estimates and official GOB sown crop-acreage figures jointly imply that from the early 1990s to FY 96/97 average nationwide yield per crop/acre of harvested paddy land rose only from about 1.05 to 1.08 mt (from 51 to 52 baskets). Nevertheless, yields have been relatively low and static, due both to seed quality problems and to low usage of chemical fertilizers, pesticides and herbicides.

The increase in paddy output from FY 91/92 to FY 94/95 was achieved almost entirely through the expansion of multiple cropping. Half of Burma's farmland was used as a government laboratory for

¹⁰ There are multiple legal forms of land tenure, some of which, like "ancestral holdings" (*bo-bwa-bain*), are transferable without state approval. However, the state can, in fact and reportedly in law, reallocate without compensation the use of any farmland that has been abandoned or is, in the state's judgment, not productively used.

experiments in centrally planned agriculture conducted with a view to maximizing the GOB's foreign-currency receipts from its rice export monopoly; the freedom of farm households to make their own production choices was increasingly constrained. Before each cropping season, the GOB extensively publicized, through all the state media organs, nationwide instructions to farmers of when and what to cultivate on designated paddy land. The Ministry of Agriculture deployed (and still deploys) a force of about 7,000 "agricultural supervisors" throughout the countryside, chiefly to communicate these instructions and monitor compliance.

From FY 92/93 through FY 95/96, the GOB instructed farmers assigned to paddy land with year-round access to water to grow paddy during the dry season, as well as the wet season. In many cases, this involved replacing traditional dry season crops, such as beans and pulses, export of which had been privatized, with unfamiliar and for some farmers less profitable dry season paddy, export marketing of which the state continued to monopolize. Dry-season paddy planting increased from negligible proportions in FY 91/92 to 3.0 million acres in FY 95/96, according to GOB statistics. Dry season paddy production as a share of total paddy production (by weight) rose steadily to 23% in FY 95/96, according to GOB statistics. Although GOB statistics for these years appear to overstate dry season paddy production, dry season production clearly grew rapidly as a share of total production.

In FY 94/95, the GOB instructed farmers to triple-crop paddy in areas with year-round access to water. This involved replacing one wet-season crop of slow-maturing long-stalked paddy with two wet season crops of fast-maturing short-stalked paddy that is more vulnerable to flooding. Moreover, the first wet-season crop had to be harvested midway through the rainy season, usually in the absence of either mechanical dryers or humidity-controlled storage areas.

In some regions, multiple-cropping increased farm incomes with little risk and farmers complied willingly and successfully with the government's new production directives. In some other areas, including regions near the sea in Irrawaddy, Rangoon and Pegu divisions -- Burma's rice-surplus regions -- salinity problems, high flood risks, and seasonal pest problems made multiple cropping inappropriate; it was nevertheless imposed on villages, with sometimes disastrous results, by regional and local military authorities who had production targets to meet.¹¹ On much land in many regions, dry-season paddy cultivation was technically feasible, but often less profitable than bean and pulse cultivation, due in part to the costs of fertilizer and diesel fuel for water pumps required to grow dry-season paddy. In areas near roads, where cropping patterns could readily be monitored, village headmen imposed the multiple paddy cropping directives under the sometimes explicit threat of dismissal from their positions, and individual farmers complied under the sometimes explicit threat of loss of access to the land or other state-allocated inputs. However, in areas distant from roads, grossly underpaid agricultural supervisors could often be bribed to overlook dry-season cultivation of beans and pulses on designated paddy land, which continued to be widespread even after a sharp rise in world and domestic rice prices in late 1994 and most of 1995.

The introduction of dry-season paddy cultivation required a rapid expansion of irrigation systems. From FY 91/92 to FY 96/97, total irrigated area increased from 2.5 to an estimated 4.8 million acres (Table G.6), and from 2.9 to 4.7 million crop acres (*GOB/RFESC/97*). From FY 91/92 to FY 95/96, irrigated paddy cultivation increased from 2.1 to 4.4 million crop-acres per year, that is, from 75%

¹¹ "The 10 November 1995 issue of the GOB-owned daily newspaper, *The New Light of Myanmar*, reported that SLORC Secretary-2, Lt Gen Tin Oo, in a speech to a September 23rd interministerial meeting of GOB employees held at the Ministry of Agriculture, had chastised some regional authorities both for imposing on farmers cropping patterns inappropriate to local conditions, and for providing incorrect data on acreage sown and on yield per acre. He has subsequently made similar officially published remarks.

to 90% of total irrigated crop-acres. The area rendered irrigable by projects of the Ministry of Agriculture's Department of Irrigation, which had grown at an average annual rate of only 1.9% (from 1.5 to 1.65 million acres) from FY 86/87 to FY 91/92, grew at an average annual rate of 6.0% (to 1.96 million acres) from FY 91/92 to FY 95/96. The yearly addition to irrigable area achieved by village irrigation projects rose steadily from 14,600 acres in FY 92/93 to 138,000 acres in FY 95/96. From FY 92/93 to FY 95/96, the number of diesel-powered water pumps in use rose by 20%, from 46,000 to 72,000.

Until FY 96/97, this rapid expansion of irrigation systems was achieved through a large increase in the GOB's use of uncompensated "people's contributions," largely of labor, and of labor compensated at wages far below market, in irrigation construction projects, chiefly during the dry season. The official assessed value of new irrigation works constructed by local projects was about 55.4 million kyat in FY 93/94, 54.7 million kyat in FY 94/95 and 154.5 million kyat in FY 95/96, compared to only 126.7 million kyat for the entire 31-year period from FY 62/63 to FY 92/93. Of this value, "people's contributions," evaluated at GOB shadow prices, accounted for 46.4% in FY 93/94 and 51.6% in FY 94/95, but only 25.6% in FY 95/96, due to increased use of earthmoving equipment (Table G.6.a). The value of these "people's contributions" of labor appears to be evaluated in GOB statistics at a government day labor contract wage that fell from parity with the market wage for dry-season rural day labor before 1988 to about one-third the market wage for dry-season rural day labor in FY 93/94 and FY 94/95. Consequently, the real increase in "people's contributions" to these local irrigation projects may be as much as three times greater than the already large increase indicated by official GOB statistics. (See the section on infrastructure, below.)

In addition, the GOB, through regional and national projects, built 64 reservoirs and dams, as well as numerous canals and embankments, from 1990 to early 1996. State expenditures on construction of new irrigation and embankment works through regional and national projects rose at an average annual rate of 123% in current kyat terms (from 232 million kyat to an estimated 5,800 million kyat) from FY 91/92 to FY 95/96. Moreover, the increase in irrigated area per million constant kyat spent by the state on new irrigation and embankment construction works by regional and national projects increased from negative 0.13 acres in FY 89/90 through FY 91/92, to 2.09 thousand acres in FY 92/93, 1.80 thousand acres in FY 93/94, and 1.86 thousand acres in FY 94/95 (Table G.6.b). This sharp increase in the ratio of output to expenditure is consistent with widespread allegations of a substantial increase in the exaction of uncompensated "people's contributions" of labor on regional and national as well as local irrigation construction projects from 1993 through 1995. During those years, gangs of people working on irrigation ditches, canals and dams, were commonly observed during the dry seasons throughout lower Burma's rural areas. This work was generally said to be involuntary and, in most cases, uncompensated.

The results of the FY 94/95 experiment in wet-season double-cropping of paddy proved disappointing: due to heavy rains late in the season, and to GOB orders to plant early so as to facilitate dry-season planting while water remained plentiful, not only the first wet-season crop, but also the second, was harvested in the rain and was seriously damaged by excessive moisture. The 1995 wet season harvest was adversely affected by unseasonably late rains at harvest time, and by an infestation of grain borer beetles in storage facilities in Mon state, much of Pegu and some of Irrawaddy Division. In some villages, farmers claim that the pests reduced milling outturn by about 85%. The 1995/96 dry season harvest was good. However, the 1996 wet season harvest was adversely affected by diverse problems, seed quality problems, leaf blight, floods in Irrawaddy Division, and a reduction in fertilizer inputs due to a shortage of foreign exchange. The amount of chemical fertilizers distributed by the state-

owned Myanmar Agricultural Service (MAS) for application to wet season paddy decreased from 206,700 mt in 1995 to 197,200 mt in 1996; meanwhile, the acreage planted with wet season paddy rose from 12.1 million acres in 1995 to 12.4 million acres in 1996.

Since FY 95/96, the GOB increasingly has recognized that its effort to increase its foreign exchange by monopolizing rice exports and forcing farmers to increase rice production was unsuccessful. Partly in response to this recognition, and partly in response to a foreign exchange shortage created partly by declining rice exports, the GOB has tentatively and incompletely liberalized rice production. The GOB's nationally published instructions to farmers for the 1995, 1996 and 1997 wet season crops abandoned the 1994-95 experiment in obligatory wet-season double-cropping; most although not all paddy farmers chose to return to cultivating a single long-stalked wet-season paddy crop. In FY 96/97, Ministry of Agriculture and Irrigation stopped requiring farmers to grow paddy during the dry season, due to lack of foreign exchange to import the necessary fertilizer and irrigation pump fuel. From FY 95/96 to FY 96/97, according to GOB statistics, the area sown with dry season paddy fell from 3.0 million acres to an estimated 2.0 million acres; dry season paddy production fell from 4.1 mmt (23% of total paddy production) to an estimated 2.9 mmt. (17% of total paddy production); and irrigated paddy crop-acres fell from 4.4 million acres to an estimated 3.9 million acres. USDA estimates that dry season paddy production fell from 3.0 mmt in FY 95/96 to 2.5 mmt in FY 96/97. Continued GOB paddy quota delivery requirements made the reduction in dry season paddy cultivation and production less than it might otherwise have been.

From late 1995 through early 1997, high GOB officials, SLORC Secretary-2 and economic policy coordinator Lt-Gen. Tin Oo, the Minister of Agriculture and Irrigation, and SLORC Chairman and head of government Senior General Than Shwe, in speeches published in GOB-owned newspapers, have called for an end to submission of inflated paddy production reports by local officials of the Ministry of Agriculture and Irrigation; in early 1997, the GOB revised its estimates of recent years' paddy production downward. On 24 April 1997, Senior General Than Shwe, in a major agricultural policy speech, called for diversification of agricultural export crops away from rice, authoritatively signaling a reversal of the main direction of GOB agricultural policy since 1993.

The GOB's five-year-plan for FY 1996/97 - 2000/01, formulated in 1995, envisioned further expansion of multiple cropping of paddy, through construction of an additional 75 reservoirs and dams that will increase irrigated area to 6.67 million acres, or 28% of total net sown acreage, and for the construction of which the GOB planned to spend 44 billion kyat. However, the GOB's mid-1990s program of rapidly increasing irrigated area, intended chiefly to facilitate the policy of increasing dry season paddy cultivation, lost momentum as that policy faltered. According to GOB statistics (GOB/RFESC/97), the annual increase in irrigated area fell steadily from 560,000 in FY 93/94 to an estimated 443,000 acres in FY 96/97; state expenditure on construction of irrigation and embankment works through regional and national projects is estimated to have decreased slightly, to 5.7 billion kyat, in FY 96/97; the augmentation of irrigable area by village irrigation works fell from 138,000 acres in FY 95/96 to an estimated 104,000 acres in FY 96/97; the annual increase in the number of water pumps in use slowed to about 3%, to an estimated 74,000, in FY 96/97; and the irrigated area sown with all crops fell by 11%, to an estimated 4.7 million acres in FY 96/97. Casual observation, anecdotal evidence, and a decline in irrigated area per constant kyat spent by the state on construction of regional and national irrigation works (Table G.6.b), all suggest that use of uncompensated labor on such projects decreased substantially after FY 94/95, due both to a slowing in the pace of irrigation works, and due to increased use of imported heavy construction and earth-moving equipment. However, use of uncompensated labor

in local irrigation works construction projects appears to have increased in FY 95/96 (Table G.6.b), and no data for FY 96/97 is yet available.

As of mid-1997, GOB policy for increasing paddy production appears to have been re-oriented to focus not on increasing cultivated area, but rather on increasing yields per acre through mechanization and increased use of chemical fertilizers, pesticides and herbicides, and through improving seed quality.

-- *State procurement of paddy*

Since the partial agricultural liberalization of the late 1980s, households assigned to work designated paddy land -- virtually all the land on which paddy is grown -- have remained obliged to deliver a per-acre quota of paddy to MAPT at a price set by the SLORC. This quota increased steadily from year to year until 1995. In FY 94/95 and 95/96, it was set at 12 baskets per acre in rice surplus regions, and 5 baskets per acre in rice deficit regions, although, in practice, the amount of "quota" paddy procured per acre reportedly deviated from these levels in some regions. Given that one basket of paddy weighs 20.87 kg, and that 60% of Burma's estimated 11.9 million acres of designated paddy land is in rice surplus regions, the official quota due, gross of exemptions for crop failure, appears to have amounted to about 109.5 million baskets, or 2.3 mmt, equivalent to about 14% of the 16.0 mmt of paddy production estimated by USDA for FY 94/95 and FY 95/96. GOB data indicate that MAPT collected 1.93 mmt in FY 95/96, up from 1.65 mmt in FY 92/93 and 1.31 mmt in FY 89/90 (*cf. IMF/RED/97*, p. 69). These paddy quota collection figures consistently represent about one-eighth, or slightly more than 12%, of USDA's estimate of national paddy production.

In addition, reports from rural rice surplus regions indicate that villages have routinely been required to sell paddy, over and above the MAPT quota, to the regional military command or to the local government at the same price at which MAPT procures its paddy quota. No data on this non-MAPT below-market paddy procurement are publicly available. However, it appears likely to have amounted to several percent of paddy production on average.

From FY 90/91 to FY 95/96, the price paid by MAPT for the quota paddy it procured decreased steadily relative to the market price prevailing in lower Burma (for data through FY 94/95, see *WB/PSER*, p. 36). By FY 95/96, the ratio of the state quota procurement price to the market price had fallen to about one-third in lower Burma. In rice-deficit regions, where prevailing market prices are higher than in lower Burma, the state procurement price was an even smaller share of the market price -- as little as one-fifth of the local market price in some remote regions in FY 95/96, according to some reports.

Because the paddy quota has been based on land acreage rather than total or surplus production, without respect to the number of crops produced per year, its burden has fallen disproportionately on farmers assigned to relatively low-yielding land, especially low-yielding land not well suited to multiple cropping. However, this policy facilitated the introduction of multiple-cropping of paddy.

Households assigned to designated paddy land may satisfy their quota obligation by purchasing paddy on the market. Some households prefer to do this in order to put their land to more profitable uses than growing paddy; official toleration of this technically forbidden practice has varied from place to place and from year to year. Other households sometimes have found themselves obliged to buy on the

market to meet their quota because of poor crops. Paddy prices tend to rise every March, when the paddy quota falls due, because of this additional demand.

Until 1996, the consequences of failure to supply one's quota varied from place to place. In areas near Rangoon, where land is relatively valuable, households might lose their access to the land. In other areas, such as Irrawaddy Division, heads of households that had failed to meet their paddy quota were sometimes required, during 1993 through 1995, to work off their quota debt in labor camps, from which some did not return. In Irrawaddy Division, regional military authorities reportedly ordered that no household in a village be allowed to mill its paddy until every household in that village had satisfied its paddy quota obligation.

Since 1995, as the GOB has retreated from its policy of relying on rice exports as its main source of foreign exchange, it has modestly and tentatively liberalized its paddy procurement practices. In mid-1995, the SLORC ordered that households whose paddy crops have failed be exempted from the paddy quota. Since 1996, loss of land has been the most severe penalty for failure to supply one's quota, even in Irrawaddy Division. During 1996, the Ministry of Agriculture erected billboards declaring "Lazy Farmers Lose Their Land" throughout Irrawaddy Division. In early 1997, these billboards had been taken down, and MAPT was accepting late delivery of paddy to satisfy quota obligations, even in Irrawaddy Division. In FY 96/97, MAPT began to vary the price it paid for quota paddy according to quality; the price MAPT paid for top-quality paddy rose to almost one-half the market price, while the price paid for low-quality paddy fell to about one-fourth the market price. In addition, the procurement quota per acre was set on a township-by-township basis, with lower quotas for townships with fewer farm households per acre. In FY 96/97, MAPT paddy procurement fell by 21% by weight, to about 1.52 mmt, less than 10% of total production as estimated by the Embassy.

The five-year plan drawn up in 1995 envisioned the imposition, starting in FY 96/97, of a water tax payable only in kind, on irrigated designated paddy land in both rice-deficit and rice-surplus regions, of 5 baskets of paddy per acre for dry season paddy, and 2 baskets per acre for wet season paddy, in addition to the MAPT paddy quota. However, these plans have not been implemented.

-- Rice exports

Throughout the period of SLORC rule, all GOB domestic rice distribution has come from MAPT procurement; so, until FY 94/95, did all GOB rice exports. Due to the dilapidated condition of Burma's antiquated rice mills, 1.00 mt of paddy is milled, on average, into about 0.63 mt of rice, of which roughly 25% is broken, causing Burma's rice to sell at a discount overseas. On this basis, the Embassy estimates that the amount of rice that the GOB obtained from the paddy that MAPT procured at below-market prices rose steadily year by year from about 0.83 mmt of rice in FY 89/90 to 1.21 mmt in FY 95/96, but fell to less than 1.0 mmt in FY 96/97. The amount of rice that the GOB distributed domestically -- chiefly to military and civilian GOB employees and to selected ethnic minorities, largely at prices far below market - varied from 0.64 mmt in FY 91/92 to an estimated 0.84 mmt in FY 95/96 (*IMF/RED/97* and 95). The amount of GOB-recorded rice exports (shipments basis, in gross weight terms, and including exports of 100% broken rice) rose steadily from 0.14 mmt in FY 90/91 to 0.26 mmt in FY 93/94, quadrupled to 1.03 mmt in FY 94/95, then dropped to 0.35 mmt in FY 95/96 and 0.10 mmt during

the first nine months of FY 96/97 (*GOB/SMEI/96.11-12* and previous).¹² The Embassy estimates rice exports (tare weight, excluding 100% broken rice) for FY 96/97 at about 0.11 mmt.

The GOB decided, with great publicity, to increase rice exports four-fold in FY 94/95, to 1.0 mmt. This decision appears to have been in part a response to a sharp rise in world rice prices that began in mid-1994, and in part due to the GOB's decision to reduce its teak exports by more than 40% and its seaborne hardwood exports by almost 90%, in cubic tonnage terms, from FY 93/94 to FY 94/95. (See the discussion of merchandise exports in the section on the balance of payments, below.) It appears also to have been based on inflated estimates of both paddy production and GOB rice stocks.

Exporting 1.0 mmt of rice in FY 94/95 entailed increasing the sum of rice exports and GOB domestic rice distribution to about 1.80 mmt, some 0.48 mmt in excess of the estimated amount of rice derived from FY 94/95 MAPT procurement. Since the GOB could not cover this shortfall out of government stocks, which proved to be smaller than anticipated, the Ministry of Agriculture purchased about 0.2 mmt of rice at domestic market prices during FY 94/95 in order to meet the 1.0 mmt export target.¹³

The proportion of Embassy-estimated paddy production accounted for by recorded rice exports appears to have risen from about 2% (0.3 mmt) in FY 92/93 and about 3% (0.4 mmt) in FY 93/94 to 11% (1.7 mmt) in FY 94/95, but dropped to about 3.5% (0.56 mmt) in FY 95/96 and to about 1% (0.2 mmt) in FY 96/97. From FY 93/94 to FY 94/95, the 1.3 mmt increase (from 0.4 to 1.7 mmt) in paddy transformed into exports exceeded the increase of 0.9 mmt (from 15.1 to 16.0 mmt) in national paddy production. Consequently, the amount of new paddy production available for domestic consumption fell by about 0.4 mmt or 3%, from 14.7 mmt in FY 93/94 to 14.3 mmt in FY 94/95. This, together with a 1.9% estimated annual population growth, the inelasticity of Burmese demand for rice, and the paucity of domestic rice stocks, caused domestic rice prices to rise sharply from late 1994 through late 1995. According to *GOB/SMEI*, the retail price of emata rice in Rangoon rose by 86%, from 33.3 kyat per pyi to 61.5 kyat per pyi, between October 1994 and October 1995. (One pyi equals 4.6 pounds avoirdupois.) Meanwhile, the GOB's Rangoon CPI increased by only 22%; rice prices clearly led inflation. Since late 1995, domestic rice prices have risen less rapidly than consumer prices generally, as the reduction in exports has permitted a rebuilding of domestic stocks, which were severely depleted by FY 94/95 exports. However, despite a near-cessation of rice exports since mid-1996, the decrease in paddy output during FY 96/97 could cause domestic stocks to be drawn down again during the second half of 1997. Consequently, short-term rice export prospects remain poor; Myanmar Export-Import Services (MEIS), the GOB parastatal that monopolizes rice exports, contracted less than 0.03 mmt of new export sales commitments during the first half of 1997.

The GOB's overestimation of Burma's paddy production and stocks led it to generate a large backlog of export commitments in late 1994 and early 1995. From February 1995 until well into 1996, MEIS contracted no new rice export sales. Nevertheless, this backlog prevented the GOB from benefitting from a 25% rise in the international prices for the low-quality rice that Burma exports

¹²Rice exports in tare weight terms for FY 89/90 through FY 95/96 are given by *IMF/RED/97* (p 71) and 95 (p 35). The Embassy believes that both GOB and IMF data on net export volumes are complete with respect to legal (public sector) rice exports.

¹³Until then, the Ministry of Agriculture had been allocated its own small quota of rice exports to earn foreign exchange for its own needs, but the Ministry of Trade, through Myanmar Export-Import Services (MEIS), had long handled the overwhelming majority of legal rice exports.

between January and October 1995. MEIS was obliged to continue delivering rice to foreign buyers at the prices specified in contracts signed in late 1994 or early 1995, plus a 5% premium that it imposed on buyers as a condition of honoring its contracts. Due to its low level of export shipments after April 1995, MEIS, in mid-1996, still had more than 0.5 mmt of unfulfilled rice export shipment obligations contracted at relatively low prices before February 1995 for delivery in less than six months. In August 1996, it unilaterally abrogated 0.45 mmt of these commitments, and then proceeded to fulfill export sales contracts negotiated at higher prices during 1996. The resulting damage to the GOB's credibility as a supplier may oblige it to sell at a performance discount on international markets for some time to come.

-- *Beans and pulses*

The export marketing of beans and pulses, unlike the legal export marketing of rice, was privatized in the late 1980s. Unlike the expansion of paddy cultivation under SLORC rule, the expansion of bean and pulse cultivation and production appears to have been a purely voluntary response to the liberalization of production and of output distribution in 1987-91. During the mid-1990s, it was hindered both by the SLORC's imposition of new constraints on the use of designated paddy land during the dry season, and by its imposition of new export taxes and new bans on the private export of some pulses.

In FY 96/97, according to GOB statistics (*GOB/RFESC/97* and previous), an estimated 4.2 million sown crop-acres, 13.6% of Burma's total estimated sown crop-acreage, were sown with leading varieties of beans or pulses: black gram, green gram, pigeon pea, chickpea (gram), "pelun," soy bean, "sultapya," butter pea or garden pea,¹⁴ up from 4.0 million acres, or 12.6% of total sown crop-acreage in FY 95/96. This was roughly a 200% increase from FY 89/90, when only 1.4 million sown crop-acres, or 5.6% of total sown crop-acreage, were sown with leading varieties of beans or pulses. From FY 89/90 to FY 95/96, Burma's production of leading varieties of beans and pulses increased by 250%, from 0.337 mmt to 1.190 mmt. These figures suggest that average bean and pulse yields may have increased by around 24%, from 0.241 mt/acre in FY 89/90 to 0.298 mt/acre FY 95/96. However, from FY 92/93 through FY 95/96, some land, possibly as much as 0.5 million acres, indicated by GOB statistics as having been sown with paddy during the dry season, may in fact have been sown with beans or pulses; in that case, the increase in average bean and pulse yields from FY 89/90 to FY 94/95 may be as little as 10%, to only 0.264 mt/acre.

The expansion of irrigation associated with the introduction of multiple cropping of paddy appears to have contributed little to the growth of bean and pulse cultivation and production. According to GOB statistics (*GOB/RFESC/97* and previous), irrigated crop-acres sown with black gram, soy bean, chickpea (gram), or garden pea (the only varieties for which such data are available) decreased steadily from 0.099 million or 3.4% of total irrigated crop acres in FY 91/92 to 0.092 million or 1.7% of total in FY 95/96, before growing to an estimated 0.100 million or 2.1% of total in FY 96/97. Irrigated crop acres sown with unspecified "other crops," possibly including other beans and pulses, increased in absolute terms but decreased in relative terms from only 0.184 million or 6.4% of total irrigated crop acres in FY 91/92, to 0.211 million or 4.0% of total in FY 95/96, before rising to 0.212 million or 4.5% of total in FY 96/97.

¹⁴ The area sown with all beans and pulses in FY 96/97 was about 4.7 million acres; however, comparable data for previous years is not available.

FY 88/89 to FY 91/92, in response to the GOB's liberalization of agricultural production and marketing, farmers in lower Burma increasingly cultivated beans and pulses during the dry season on land that had previously lain fallow during the dry season, while farmers in upper Burma, a drier region, increasingly cultivated beans and pulses during the wet season, partly by reducing the stock of fallow land. During that period, according to GOB statistics (*GOB/RFESC/95* and previous), total national sown crop acreage increased from 23.8 to 25.4 million acres, even though the total land area under cultivation, including fallow land, remained constant at 24.8 million acres. Of this 1.6 million acre increase in crop acres sown, 0.6 million were added by reducing the amount of fallow land, and 1.0 million were added by multiple cropping. Moreover, of this increase, paddy accounted for only 0.1 million, or 7.9%, whereas leading varieties of beans and pulses accounted for 1.2 million or 75%. Crop acres sown with paddy fell from 49.6% of total sown crop acreage in FY 88/89, to 49.5% in FY 89/90, to 48.8% in FY 90/91, to 46.9% in FY 91/92. Crop acres sown with leading varieties of beans or pulses rose from less than 7% of total sown crop acreage in FY 88/89 to 12.3% in FY 91/92.

The GOB's drive to expand multiple cropping of paddy on designated paddy land during the mid-1990s slowed the growth of bean and pulse cultivation. Nationwide agricultural statistics do not fully reflect this development, because it was concentrated in lower Burma, where most designated paddy land is located, and was largely offset by accelerated growth of bean and pulse cultivation in upper Burma.

From FY 91/92 to FY 95/96, according to GOB statistics (*GOB/RFESC/97* and previous), total national sown crop acreage increased from 25.4 to 31.8 million acres. Of this 6.4 million acre increase in crop acres sown, 1.5 million were added by increasing the net area sown (largely by reducing fallow land, not by clearing new land) from 20.1 to an estimated 22.6 million acres, and 4.4 million were added increasing multiply-cropped area from 4.8 to 9.2 million acres. Of this 6.4 million acre increase in crop acres sown, paddy accounted for 3.2 million, or about 50%, whereas beans and pulses accounted for only about 2.6 million acres or about 40%, according to GOB statistics. Crop acres sown with paddy rose from 46.9% in FY 91/92 and 46.6% of total sown crop acreage in FY 92/93 to 49.8% in FY 93/94, 48.9% in FY 94/95, before falling back to 47.6% in FY 95/96 and an estimated 46.1% in FY 96/97. Crop acres sown with leading varieties of beans or pulses fell from 13.6% of total sown crop acreage in FY 92/93 to 13.3% in FY 93/94 and 10.8% in FY 94/95, before rising back to 12.6% in FY 95/96, and 13.5% in FY 96/97. However, GOB data appear to overstate the area sown with paddy, and to understate the area sown with beans and pulses, by an amount that increased during FY 92/93 through FY 95/96. Consequently, nationwide, the proportion of sown crop-acreage sown with beans and pulses may have decreased little if at all during the mid-1990s.

However, regionally disaggregated GOB data (*GOB/SY/95* and previous), although publicly available only for two kinds of beans and pulses (black gram and green gram), are consistent with abundant anecdotal evidence that the growth of bean and pulse cultivation in lower Burma slowed markedly during the mid-1990s, due to the GOB's insistence that farmers plant paddy rather than other crops on designated paddy land not only during the wet season, but also during the dry season. Consider the data for Burma's two largest rice-producing regions:

-- In Irrawaddy Division, from FY 89/90 to FY 91/92, crop-acreage sown with black gram increased three-fold, from 0.146,000 to 0.425 million acres, and crop-acreage sown with green gram increased eight-fold, from 0.015 to 0.121 million acres, while crop-acreage sown with paddy increased by only 3%, from 3.154 to 3.245 million acres. The area sown with all three crops increased slightly in FY 92/93. In FY 93/94 (the most recent year for which final regionally disaggregated data is available), crop-acreage sown with black gram fell to 0.375 million acres, and crop-acreage sown with green gram fell 0.081 million acres, while crop-acreage sown with paddy increased by 34%, to 4.352 million acres.

-- In Pegu Division, from FY 89/90 to FY 92/93, crop-acreage sown with black gram increased almost four-fold, from 0.058 to 0.295 million acres, and crop-acreage sown with green gram increased eight-fold, from 0.026 to 0.216 million acres, while crop-acreage sown with paddy increased by only 6%, from 2.088 to 2.220 million acres. In FY 93/94, crop-acreage sown with black gram fell to 0.261 million acres, and crop-acreage sown with green gram increased by only 4%, to 0.226 million acres, while crop-acreage sown with paddy increased by more than 10%, to 2.450 million acres.

Even allowing for considerable overstatement of paddy cultivation and understatement of bean and pulse cultivation, these figures point to a dramatic slowing in the growth of bean and pulse cultivation in lower Burma in the mid-1990s.

GOB-recorded exports of beans and pulses (*GOB/SMEI/96.11-12*) surged from 0.056 mmt in FY 89/90 to 0.449 mmt in FY 92/93 and to 0.514 mmt in FY 93/94, but fell to 0.410 mmt in FY 94/95. This was due in part to an initially unsuccessful effort by private exporters to win exemption from a new 5% *ad valorem* tax on exports, payable in hard currency, that the SLORC imposed on all legal merchandise exports in FY 94/95: the exporters withheld beans and pulses from the export market. During FY 95/96, recorded exports of beans and pulses surged to an estimated 0.595 mmt, due partly to the release of the stocks withheld in FY 94/95. In 1996, the GOB exempted all agricultural exports, including beans and pulses, from the 5% tax imposed two years earlier. GOB-recorded receipts from bean and pulse exports rose from US \$19 million in FY 89/90 to an estimated \$241 million in FY 95/96, but fell an estimated \$207 million in FY 96/97 (Table D.2.a[3]).

Since December 1, 1995, the GOB has prohibited private exportation of chickpeas, a staple food of Burma's military personnel. The share of national bean and pulse production procured by the state (by weight) which had decreased from 10.6% in FY 89/90 to 5.9% in FY 90/91 and to 4.3% in FY 91/92, increased to 6.0% in FY 92/93, 9.1% in FY 93/94, and an estimated 17.2% in FY 94/95 (*IMF/RED/97* p. 69, and 95, p. 37). However, unlike state procurement of paddy, state procurement of beans and pulses, as well as of all other crops, occurs at prices determined by relatively competitive markets.

-- *Remaining structural issues in the agricultural sector*

The World Bank (*WB/PSER*, pp. 37-38) estimates that in FY 94/95, Burma's paddy growers lost about 46.5 billion kyat in income, or about 25% of their potential gross income from growing paddy, due to MAPT's below-market paddy procurements (15.3 billion) and the GOB's monopolization of rice exports (31.2 billion). In return, they received from the GOB diverse input subsidies, including 3.3 billion kyat in fertilizer subsidies (*WB/PSER*, p. 40), 2.0 billion kyat worth of loans bearing negative real interest rates, and modest diesel fuel and pesticide subsidies worth, in total, in the range of 5 to 10 billion kyat. The estimated net loss to growers of at least 35 billion kyat, equivalent to about 7% of exchange-rate-adjusted GDP, represented roughly 20% of their potential gross income from paddy.

The GOB's modest liberalization of its paddy production and procurement policies since 1996, although welcome, does not address the fundamental structural problem of Burma's agricultural sector: the burden of the state on the agricultural sector continues to fall largely on a single crop, paddy. Consequently, the state must resort to highly coercive practices in order to keep agricultural resources from leaving the rice subsector.

Moreover, this recent liberalization remains both partial and tentative. Although the SLORC has declared its intent to diversify its agricultural exports, it has relinquished neither its monopoly on rice

exports nor its right to procure paddy at below-market prices. It also has not explained how the state will derive receipts from the agricultural sector, which appears to constitute more than half of recorded GDP, if it allows rice exports to remain at low levels. In particular, it remains to be seen whether the SLORC can devise a way to do this that does not discourage agricultural exports. Consequently, the future prospects for Burma's agricultural sector remain unclear.¹⁵

-- Living conditions in the agricultural sector

There has been some substantial improvement in some aspects of rural life during the past eight years. Consumer goods, notably radios and bicycles, have become much more common, and many villages enjoy privately-owned generator-powered VCR/television facilities that serve as community theaters. Diesel-fueled irrigation pumps have widely replaced traditional animal- and human-powered alternatives. However, relatively little of Burma's farm population has access to centrally-generated electricity, and electrification slowed during the mid-1990s. Most plowing, threshing and transportation in rural areas is done by water buffalo, oxen and horses; the number of "draught cattle" in Burma was still growing, and approaching 7.0 million head, in FY 96/97 (*GOB/RFESC/97*). Worst of all, access to basic health and education may be widely diminishing. (See the section on infrastructure, below.)

Landlessness also appears to be widespread. In early 1993, the Ministry of Agriculture, with technical assistance from U.N agencies, conducted a census of agricultural holdings, covering a sample of 272 townships in all 14 of Burma's states and divisions. The results suggest a nationwide total of 2.95 million households with agricultural holdings, each comprising an average of 5.4 persons, and, thus, a farm population of about 15.9 million with direct access to at least some land or other means of agricultural or animal production. However, the GOB estimates, based on a 1990 labor force survey, that 65% of the workforce was engaged primarily in agriculture, and, based on a 1983 population census, that the 1993 national population was about 43 million; this suggests that about 28 million of Burma's people were supported chiefly by agriculture. That, together with the results of the 1993 agricultural census, implies that about 12 million people, or more than 40% of the population supported chiefly by agriculture in 1993, had no land or livestock holdings at all -- over and above the 4.4 million people living in households with land holdings of less than 3 acres, generally too small for subsistence even for a small household. Casual observation and anecdotal evidence tend to confirm this result, according to a wide range of foreigners with unrestricted access to rural Burma.

These data indicate a large landless rural proletariat. Moreover, low education levels among these landless farm workers may hinder their transformation into the labor supply of an expanded industrial sector. The 1993 agricultural census indicated that fewer than 13% of heads of households with land or livestock holdings had completed four years of non-religious education; 9% had no formal

¹⁵ The GOB is said to be considering ending paddy procurement for rice exports at below-market prices and purchasing the paddy for its rice exports at domestic market prices. This liberalization is necessary but may not be sufficient to increase rice production and exports. If the GOB continues to monopolize rice exports, ending below-market procurement would make the prices at which the GOB gets the rice it exports depend in part upon the quantity that it exports. The GOB would be able to export at a profit only by keeping domestic rice prices below world prices, and would maximize its rice export profits by restricting rice exports to a point at which domestic prices are well below world prices. Consequently, the returns to growing paddy might decrease relative to the returns to growing alternative crops, so farmers might seek to reduce their production of paddy, leaving the GOB with little exportable rice and meager rice export receipts in the absence of coercive measures to boost paddy production.

education at all, and nearly 46% had only religious education. The education levels of Burma's landless farm workers are generally believed to be even lower.¹⁶

¹⁶On prospects for alleviating rural poverty, see *Accelerating Progress Among the Rural Poor in Myanmar/Burma*, a report to the U.N. Development Programme by Dr David Dapice, Associate Faculty Fellow, Harvard Institute for International Development, Harvard University, 15 September 1995

The government's role in the economy

-- Historical background

During the centuries immediately preceding its conquest by Britain, Burma was sparsely populated. Scarcity of labor, rather than of land or food, was the binding constraint on economic development. Social and economic institutions aimed chiefly at controlling labor, rather than at efficiency either in allocating output or in using non-labor inputs: much of the population belonged to hereditary crown service households from which the large standing army was drawn, and which was subject to involuntary relocation; all other households were subject to extensive labor conscription, both for war and for the building of roads and religious shrines; all cleared farmland was owned by the king, and use of it was contingent upon both continuous cultivation of it and provision of required labor services; most internal and external commerce was monopolized directly or indirectly by the crown, which neither struck coins nor otherwise issued money. There were no formal or recognized institutional constraints on the power of the Burmese kings, who successfully asserted their prerogative both to purge the clergy and confiscate its possessions, and to confirm or deny hereditary succession to all offices and privileges. The limits of the king's power were largely technological: inability to monitor distant agents, and to project power far from his capital. Popular resistance chiefly took the forms of pervasive corruption of officials and flight into the vast sparsely populated forests beyond royal control, in which slash-and-burn agriculture could be practised but malaria was endemic.¹⁷

Burma's first experience of a relatively open and market-oriented economy, under British colonial rule in the nineteenth and early twentieth centuries, led to increases in food production, population, longevity and education. However control of commerce and finance, ownership of the best land, and hence the benefits of economic growth, accrued disproportionately to Indian and European immigrants who had greater prior experience of competitive private production, trade and finance.¹⁸ Following independence from Britain in 1948, Burma's government expelled many immigrants, declared state socialism to be the goal of national economic policy, and increasingly returned to traditional forms of state ownership of land -- processes that continued and intensified after the military *coup d'etat* of 1962.

From 1962 to 1988, the military dictatorship of General Ne Win imposed on Burma a centrally planned economy that aimed at national self-sufficiency, styled "the Burmese way to socialism." Manufacturing and internal trade were largely monopolized by the state, as was what little foreign trade was allowed. Farmers' surpluses in Burma's largely agricultural economy were procured and distributed by the state at prices set by the state. As in other command economies, national income stagnated and, in the mid-1980s, began to decline, although a large proportion of economic activity was extralegal and unrecorded in official statistics.

¹⁷See Victor B. Lieberman, *Burmese Administrative Cycles: Anarchy and Conquest, c. 1580-1760* (Princeton University Press; Princeton, N.J., 1984) and William J. Koenig, *The Burmese Polity, 1752-1819: Politics, Administration and Social Organization in the Early Kon-baung period* (University of Michigan Center for South and Southeast Asian Studies; Ann Arbor, 1990).

¹⁸See John S. Furnivall, *An Introduction to the Political Economy of Burma* (Burma Book Club, Rangoon, 1931) and *Colonial Policy and Practice* (Cambridge University Press, London, 1948), and Michael Adas, *The Burma Delta: Economic Development and Social Change on an Asian Rice Frontier, 1852-1941* (University of Wisconsin Press; Madison, 1974).

In 1988, following a poor harvest and the third of Ne Win's demonetizations of much of the local currency, anti-government demonstrations erupted throughout Burma, and swiftly developed into a broadly based pro-democracy movement, of which Aung San Suu Kyi, daughter of the leader of Burma's struggle for independence in the 1940s, emerged as one of the leaders. In the face of this movement, Ne Win resigned from office. In September 1988, the military bloodily suppressed the pro-democracy movement. Immediately thereafter, it organized the SLORC, through which Ne Win, now about 87 years old, is believed by many Burmese to continue to exert considerable although selective and diminishing influence.

-- *The extent and limits of economic liberalization since 1988*

Immediately upon being constituted in September 1988, the SLORC proclaimed that it would move toward a market-oriented economy and began to liberalize economic policy. During the late 1980s and early 1990s, the SLORC allowed the private sector to engage in internal trade and many kinds of manufacturing, external trade, and some financial activities. Some small state-owned enterprises, such as theaters, flour mills, blanket factories and saw mills were privatized. State procurement of agricultural surpluses at below-market prices was limited to a single crop, rice, which the state has continued to buy at a discount both for export and for subsidized distribution to military and civilian government employees and to members of ethnic minorities that the government has sought to pacify. Private exportation of crops other than rice was permitted. Border trade was legalized and allowed to be conducted at market exchange rates. Exporters were permitted to retain their earnings in foreign-currency-denominated bank deposits, although required either to use the bulk of them for imports, or to exchange them for kyat with prospective importers. Foreign investment was encouraged through the promulgation of a new foreign investment law, although joint-ventures with local firms, usually state economic enterprises (SEEs), were required or encouraged in some sectors, and broadcasting, telecommunications and electricity generation remain state monopolies by law. The establishment of private banks was permitted, although interest rates continued to be set by the government at rates well below the rate of inflation, and only four parastatal banks were permitted to handle foreign exchange transactions. The GOB promulgated a new domestic investment law, a new mining law, and a new foreign investment law that permits foreign direct investment in most sectors of the economy and 100% foreign ownership in some sectors.

Nominally, Burma still has a dual exchange rate regime, including an official exchange rate which now values the local currency, the kyat, at about thirty times its value on a legal and competitive parallel foreign exchange market. However, since 1990, the GOB has implemented a gradual and now largely complete liberalization of the exchange rate regime, in many respects tantamount to a *de facto* devaluation of the kyat. From 1990 through 1994, the GOB reduced the scope of public sector imports for private sector consumption and the scope of subsidies reflecting the official exchange rate. In 1990, when it began to liberalize external trade, the GOB allowed exporters to hold dollar-denominated accounts in domestic banks, and allowed such dollar deposits to be traded legally for kyat at a parallel exchange rate. These dollar deposits could be used to purchase imports, but could be converted into kyat at the market rate to purchase domestic goods only for export, not for domestic consumption. In early 1993, the GOB relaxed this restriction, allowing foreign exchange to be converted into kyat at the market rate to purchase domestic goods and services for domestic consumption. To facilitate this, the GOB introduced a local currency pegged to the U.S. dollar, the "foreign exchange certificate" (FEC), that could be used legally to buy local goods and services, or deposited into dollar-denominated domestic bank accounts to buy imports. Thereafter, the only transactions still occurring at prices reflecting the

official exchange rate were intra-public-sector transactions, customs and sales taxes on imports, limited sales of imports by the state to state employees, limited sales of SEE products with imported inputs to private firms "cost plus" prices, and rationed sales of fertilizers and refined petroleum products directly to the general public. Starting in late 1995, the GOB formally licensed private dealers to make a fully legal and apparently competitive parallel market in FEC/kyat transactions. In June 1996, the GOB began evaluating imports at an exchange rate of 100 kyat per U.S. dollar for import taxation purposes, thereby further limiting the transactions that occur at the official rate of exchange.

However, several recent highly-publicized reforms in the financial sector have proved largely illusory. In 1995, the GOB raised nominal bank lending rates to levels that were briefly positive in real terms for a few months in late 1995 and early 1996; however, they quickly again became steeply negative in real terms as price inflation accelerated. In late 1995, the GOB also announced its intention to permit joint ventures between local and foreign banks; however, the GOB has reneged on its initial assurances that these joint-venture banks would be allowed to handle international foreign currency transactions, and no such joint ventures are yet operating, due to a lack of interest on the part of foreign banks. In early 1996, the GOB announced its intention to permit the creation of a securities exchange under the tutelage of a major Japanese financial house, Daiwa; however, due to a paucity both of firms with publicly tradable securities and of accurate and timely economic information, the conditions for a securities market do not exist, and little progress toward creating one has been made. In June 1996, the GOB authorized Burmese banks to pay interest on foreign-currency-denominated deposits, and also eliminated a 10% tax on withdrawals from foreign-currency-denominated accounts in domestic banks, apparently in an effort to attract increased foreign currency deposits; however, less than a month later, with much less publicity, the GOB began to restrict withdrawals of both principal and interest from foreign-currency-denominated accounts, as it started to ration private sector imports.

Most sectors of the non-farm economy continue to be dominated directly or indirectly by the 58 SEEs,¹⁹ some of which enjoy monopoly privileges, or by UMEH, a military holding company that also enjoys special privileges. (On UMEH, see the section on defense, above.) In FY 95/96, the after-tax receipts of the SEEs -- gross of their non-tax contributions to the central government -- were equivalent to about 15.2% of recorded GDP, and their expenditures were equivalent to about 16.4% of recorded GDP, in exchange-rate-unadjusted terms (Table G.1.b).²⁰ From FY 90/91 to FY 96/97, the number of state-owned factories and establishments fell by 9%, from 1,765 to an estimated 1,609 (*GOB/RFESC/97* and previous), due more to textile mill consolidations and rice bran oil mill closures than to 43 privatizations including 13 leases to domestic entrepreneurs. The number of SEE employees fell by only 5%, from 323,000 in FY 90/91 to an estimated 305,000 in FY 95/96. No large SEE has been privatized, and no major privatization initiative appears imminent. In 1996, Peregrine Capital of Hong Kong, a firm specializing in investment banking, withdrew from Burma, publicly citing the absence of privatization prospects.

The state remains especially deeply entrenched, both directly and indirectly, in export industries. SEEs and UMEH directly monopolize Burma's main traditional exports: rice, wood, uncut gems, jade,

¹⁹ The SEEs described in this paragraph do not include twelve "enterprises" owned by the Defense Ministry and administered as part of the central government; see the section on defense, above.

²⁰ The IMF (*IMF/RED/97*, p. 20), estimates that the SEEs contributed 24% of GDP, and over half the industrial value added, in FY 95/96; however, the basis for this estimate is not clear.

rubber and pearls.²¹ In FY 95/96, even after two years of relative decline, public sector exports -- which no longer include the growing share of gem and jade exports handled by UMEH since 1995 - still accounted for nearly 40% of all GOB-recorded merchandise exports, and nearly 30% of UNCTAD-reported merchandise exports. In addition, the SEEs and UMEH own joint-venture shares in many of the export-oriented businesses operated by foreign investors, such as garment assembly plants, tourist hotels, and domestic air carriers that accept payment only in foreign currency.

The GOB has also continued to regulate imports through licenses and composition controls. Importers continue to be required to import GOB-designated "priority" goods in amounts equivalent to one-fourth of their total imports. In FY 94/95, the GOB began to give import licensing preferences to firms that import at least 50% "priority" goods. In July 1996, the GOB, facing a worsening public sector shortage of foreign exchange, began to ration private sector imports by restricting import licenses and openings of letters of credit. This policy, which constitutes a fundamental departure from the SLORC's much-publicized ostensible commitment to an open market economy, remains in effect, although it has never been publicly announced or acknowledged by any GOB official.

However, the GOB has increasingly failed to provide the public health and education essential for sustained economic development. This trend, which dates from 1964, when the state nationalized all hospitals and multi-subject schools, has accelerated during the 1990s, due to reductions in real per capita GOB spending on health and education. (See the section on human infrastructure, below.)

The magnitude of the public sector share of GDP is conventionally calculated as the wage expenditures of the central government (on the assumption that the central government produces services) plus the non-financial receipts in excess of expenditures of the SEEs (taken to represent net value added by the SEEs). On this basis, in exchange-rate-unadjusted terms, the public sector share of Burma's recorded GDP in FY 95/96 would appear to have been 0.7%: a central government wage bill (5.5 billion kyat) equivalent to 0.9% of GDP, minus an SEE operating deficit equivalent to 0.2% of GDP (1.3 billion kyat). An exchange-rate-adjusted estimate is not possible for want of a disaggregation of public sector imports into those consumed by the SEEs and those consumed by the central government. However, public sector operating expenditures may be in some respects a more useful indicator of the relative size of the public sector, and comprehensively exchange-rate-adjusted public sector operating expenditures, excluding those of local government authorities, appear to have been equivalent to about 40% of ARGDP during the mid-1990s. (See the section on fiscal developments, below.)

Fiscal developments

In exchange-rate-adjusted terms, the GOB's overall fiscal deficit under SLORC management appears to have ranged from at least 10% to at least 27% of recorded GDP on an obligations basis, and from at least 8% to at least 19% of recorded GDP on a cash basis. The apparent omission of defense-related debt service obligations and payments from the GOB's publicly available external financing accounts implies that its fiscal deficits may have been even larger than these figures indicate. These persistently large deficits reflect both a steady decline in kyat-denominated public sector receipts relative

²¹ Because Burma has a near monopoly on world teak and jade supplies, preserving the state monopoly on teak and jade exports, rather than allowing many competing firms to export these commodities freely, could benefit Burma economically as well as ecologically. The same argument applies with diminished force to rubies, of which Burma is one of few major producers, but not at all to rice, rubber, pearls, and other state-monopolized exports.

to recorded GDP, and a steady growth (at least through FY 95/96) in real defense expenditures. Largely cut off from concessional cash-basis external financing, and unwilling to privatize its major state-owned enterprises, the GOB has continued to monopolize traditional exports, has greatly reduced expenditures on health, education, and personnel, and has resorted to inflationary domestic deficit financing.

The GOB used a brief increase in public sector export receipts in FY 94/95 to increase its defense and capital imports, and briefly to improve its external debt service performance. Since FY 95/96, declining public sector exports have induced the GOB to borrow on commercial terms from foreign investors and import suppliers, effectively obligating prospective natural gas export receipts until well into the coming decade, to increase its borrowing from the central bank in order to buy foreign exchange, and to requisition substantial privately-owned foreign reserves by rationing private sector imports.

-- *Non-financial expenditures*

In exchange-rate-unadjusted terms and on a disbursements basis, the share of recorded GDP to which recorded public sector operating expenditures were equivalent ranged, between FY 89/90 and FY 96/97, from 37.0% in FY 90/91 to 25.8% in FY 93/94, with a strong downward trend (Table G.1.b). Central government operating expenditures declined from about 13% of URGDP between FY 89/90 and FY 91/92 to less than 10% of URGDP between FY 93/94 and FY 96/97. The decline in central government operating expenditure was concentrated in health and education, for which current expenditure disbursements fell steadily from 3.0% of URGDP in FY 89/90 to 1.4% of URGDP in FY 95/96 (Table G.4). The share of URGDP to which the expenditures of the state economic enterprises (SEEs) were equivalent declined from 23.7% in FY 90/91 to an estimated 15.9% in FY 96/97.

Between FY 89/90 and FY 96/97, the share of URGDP to which public sector capital expenditures (excluding defense ministry capital expenditures) were equivalent ranged from 2.6% in FY 93/94 to an estimated 6.4% in FY 96/97, with no clear trend. Virtually all the decline in public sector expenditure relative to recorded GDP was in current expenditure.²²

The share of URGDP to which the central government's current expenditures (including all defense operating expenditures) were equivalent declined steadily from 11.5% in FY 90/91 to an estimated 5.3% in FY 96/97. Almost half of this decline is due to a drop in the central government personnel expenditures from 3.7% of URGDP (5.6 billion kyat) in FY 90/91 to 1.2% of URGDP (7.2 billion kyat) in FY 95/96; meanwhile, the number of central government employees rose from about 550,000 to an estimated 587,000. In current kyat terms, the average annual wage of central government employees rose only from 8,930 kyat (4.9 billion kyat for 550,00 employees; equivalent at the market exchange rate to US \$143) in FY 90/91 to an estimated 9,407 kyat (an estimated 5.5 billion kyat for an estimated 587,000 employees; equivalent at the market exchange rate to US \$78) in FY 95/96 (*IMF/RED/97*, p. 85). In constant kyat terms (deflated by the GOB's Rangoon consumer price index),

²² In this report, including its statistical tables, current expenditures do **not** include interest payments on external debt, all payments on external debt are considered financial expenditures rather than operating expenditures. However, in *IMF/RED/95* and *97*, as well as *WB/PSEER*, current expenditures do include such payments, although capital expenditures do not include amortization payments on external debt. This distinction is inconsequential in exchange-rate-unadjusted public sector budget accounts, but is important in exchange-rate-adjusted public sector budget accounts.

the average wage of central government employees fell by 67%, at average annual rate of 20%, during this five-year period.

The share of URGDP to which the current expenditures of the SEEs were equivalent fell from 21.2% in FY 90/91 to an estimated 14.1% in FY 96/97. The share of URGDP to which the SEEs' personnel expenditures were equivalent fell from 2.1% (3.2 billion kyat) in FY 90/91 to an estimated 1.2% (7.3 billion kyat) in FY 95/96. In current kyat terms, the average wage of SEE employees rose from 8,987 kyat (2.9 billion kyat for 323,000 employees; equivalent at the market exchange rate to US \$144) in FY 90/91 to 22,128 kyat (an estimated 6.7 billion kyat for 305,000 employees; equivalent at the market rate to US \$184), in FY 95/96 (*IMF/RED/97*, p. 85). In constant kyat terms (deflated by the GOB's Rangoon consumer price index), the average wage of SEE employees fell by 22%, at an average annual rate of almost 5% a year.

The average wage of central government employees may have been lower than that of SEE employees by an increasing margin largely because an increasing proportion of central government employees were military personnel, whose wages are said to have fallen increasingly below those of central government civilian employees. The pay scales of SEE employees and of the civilian employees of the central government are said to be comparable. Consequently, the decline of real civil service wages may approximate that of real SEE wages.

Even the average wage of SEE employees is well below subsistence even for a small household in a Burmese city. However, the above-cited on-budget wages of public sector employees are supplemented by food and (for some employees) gasoline and housing subsidies. They are also supplemented by the earnings of quasi-private "employees' welfare associations" that operate with strong government preferences; for example, they often buy imports from the public sector at the official prices reflecting the official exchange rate and sell them to the private sector at market prices reflecting the market exchange rate. Nevertheless, the central government retains its labor force only by tolerating systematic rent-seeking, and by forbidding many employees to quit their jobs. (Even before the SLORC was constituted, civil servants were not free to quit their jobs without individual permission; however, they rarely asked for permission to quit, due to the paucity of private sector alternatives.) In Burma's public sector, as in its private sector, there are no labor unions.

In comprehensive exchange-rate-adjusted terms and on a disbursements basis, the share of recorded GDP to which public sector operating expenditures were equivalent appears to have declined from more than 60% in FY 90/91 to just under 40% of recorded GDP from FY 93/94 to FY 96/97 (Table G.5). Total public sector expenditures, including financial as well as operating expenditures (but still excluding local government expenditures), may have been larger by about two to five percent of recorded GDP. Recorded external debt service payments disbursed, net of give-backs from the Government of Japan, ranged from 0.9% in FY 92/93 to an estimated 2.7% in FY 95/96 (Table D.4); however, these recorded debt service figures appear to exclude payments related to defense imports, which may be roughly comparable in magnitude to the recorded debt service payments.

Foreign-currency-denominated public sector operating expenditures, including both GOB-recorded public sector imports of goods and non-factor services and defense imports as estimated by the Embassy, rose from about US \$479 million (42.2 billion kyat) in FY 91/92 to \$883 million (106.3 billion kyat) in FY 95/96 (Tables D.2.a[4], D.3 and G.5). The share of comprehensively exchange-rate-adjusted public sector operating expenditures for which they accounted rose from 40.5% in FY 91/92 to 46.4% in

FY 95/96. Public sector merchandise imports, both of defense and non-defense goods, increased substantially in FY 95/96, despite a decline in recorded public sector exports.

Since the available data do not disaggregate public sector imports into imports for the SEEs and imports for the central government, they are insufficient to permit disaggregation of exchange-rate-adjusted public sector expenditures into central government and SEE expenditures.

The foregoing figures for public sector expenditures are arguably incomplete in several respects:

- (a) These figures omit spending by several firms wholly owned by UMEH, a quasi-public military holding company, and by numerous joint venture firms partly owned by SEEs or by UMEH.
- (b) These figures omit uncompensated "people's contributions," chiefly of labor, to public works (described below, in the section on infrastructure), as well as uncompensated forced military portage by civilians. This omission appears quite significant. The unusually low levels of non-defense public sector capital expenditures in FY 92/93 through FY 94/95 (Table G.1.b) coincides both with a large increase in the volume of public works, and with an even larger increase in the GOB's use of uncompensated labor for public works. Conversely, the increase in such expenditures in FY 96/97 appears to coincide with a decline in its use of uncompensated labor for public works -- at least in central Burma, although reportedly not in some border areas -- apparently in response to pressure from the international community.
- (c) These figures omit much of the true value of the large quantities of paddy (unmilled rice) that farmers are required to sell to the state rice procurement agency (MAPT) at prices far below the market price. The difference between the procurement price and the market price for paddy collected by MAPT now appears greatly to exceed the value of fertilizer and fuel subsidies to farmers, which the GOB has greatly reduced in recent years. (See the section on agriculture, above.)
- (d) These figures value government labor at below-market prices, and omit systematic side-payments to officials that may exceed the central government wage expenditures that they supplement.

-- *Non-financial receipts*

In exchange-rate-unadjusted terms, the share of recorded GDP to which public sector non-financial receipts were equivalent declined from 29.4% in FY 89/90 and FY 90/91 to an estimated 19.7% in FY 96/97 (Table G.1.b). From FY 90/91 to FY 95/96, the share of URGDP to which the central government's total non-financial receipts were equivalent declined steadily from 8.8% to 6.3% of URGDP, while the share to which its tax revenues were equivalent declined steadily from 6.0% to 3.8% of URGDP. Tax revenue declined as a share of central government receipts, from about 68% in FY 90/91 to 60% in FY 95/96, increasing only in FY 94/95, partly in consequence of new taxes on exports and on foreign-currency-denominated income. (For a description of the GOB's tax system, see Appendix I of *IMF/RED/97*.) From FY 89/90 to FY 96/97, the non-financial receipts of the SEEs declined from 20.8% to an estimated 13.3% of URGDP.

In exchange-rate-adjusted terms (Table G.2), the share of recorded GDP to which recorded public sector non-financial receipts were equivalent declined from at least 40.3% in FY 90/91 to at least 26.7% in FY 95/96, increasing only in FY 94/95, to at least 35.3%, due to the quadrupling of state-

monopolized rice exports. Known foreign-currency-denominated non-financial receipts (GOB-recorded public sector merchandise exports, central government service exports other than "signature bonuses" paid by foreign investors, foreign grants, and taxes on foreign remittances) as a share of total public sector receipts stayed in the range of 35% to 40% from FY 89/90 through FY 94/95, but fell to less than 30% in FY 95/96, due largely to the collapse of state-monopolized rice exports.

However, the above-cited figures understate exchange-rate-adjusted public sector non-financial receipts, because they are based on incomplete figures for foreign-currency-denominated public sector receipts. For want of disaggregated data, they are based on evaluating at the official exchange rate both: (a) the SEEs' non-factor service export receipts (which must be substantial, since several domestic and international air carriers, as well as some hotels and restaurants, are owned by SEEs); and (b) the "signature bonuses" that foreign firms paid to the central government upon receiving GOB approval to investing under the preferences of the 1998 Foreign Investment Law, which make up most of the large "other non-factor services export receipts" in the GOB's BOP accounts (Table D.3). They are also based on evaluating at the official rate an unknown amount of foreign currency receipts from diverse taxes and fees, including:

- a 10% tax on foreign-currency-denominated income, imposed in FY 94/95 and collected not only from domestic residents earning salaries denominated in foreign currencies, but also from expatriate Burmese by GOB embassies as a condition of extending passport validity;
- and a 5% tax on merchandise exports, imposed on all exports in FY 94/95, but from which leading private exports, including agricultural products, wood products and garments, were exempted in May 1996;
- a 10% tax or fee on withdrawals from foreign-currency-denominated bank deposits, in place until June 1996; and
- a "money whitening" tax on foreign currency that cannot be proved to have been earned legally, levied since 1989, usually at the rate of 40%, but at only 25% during "amnesties" from February to December 1990 and from November 1994 to March 1995. (Receipts for this tax are known only for the amnesty periods.)

In light of these omissions, it seems likely that foreign-currency-denominated receipts may have accounted for up to half of public sector non-financial receipts from FY 89/90 through FY 94/95. Although that proportion has diminished since FY 95/96, this has been partly offset by increased foreign-currency-denominated domestic financing in the form of GOB restrictions on private sector imports, which is tantamount to a tax on the external sector. (See the discussion of domestic financing later in this section.)

The apparent decline of public sector receipts relative to recorded GDP, even in exchange-rate-adjusted terms, suggests that the GOB, under SLORC management, has proven increasingly unable to collect receipts effectively. This seems to reflect both a steady decline in the official compensation of central government employees in real terms, and the SLORC's lack of popular support; both these conditions have facilitated increasing tax evasion through corruption of officials in diverse sectors. As described in the section on agriculture, above, farmers evaded GOB directives to increase rice production during the mid-1990s by bribing Ministry of Agriculture field officials to overreport rice cultivation, with such success that the GOB in early 1997 publicly abandoned its policy of making rice exports the state's

main source of foreign exchange receipts. Customs duties receipts fell from 3.2% (US \$29.55) of merchandise imports (UNCTAD, C.I.F.) in FY 91/92 to an estimated 1.4% (\$37.4 million) in FY 95/96.²³

Under the SLORC's rule, a small but rapidly growing share of the public sector's foreign-currency-denominated receipts appears to have been derived from direct or indirect ownership of minority equity interests in private export-oriented firms, often through joint ventures with foreign investors by SEEs or by UMEH (described in the section on defense, above). However, there appears to be no data on public sector receipts from such sources.

The GOB's receipts are also supplemented by quasi-private "employee welfare associations" affiliated with virtually every GOB agency. These associations engage in a variety of businesses, often enjoying valuable government preferences, and use their profits to supplement the official wages of the agency's employees. Some effectively buy imports from the state at the official exchange rate and sell them to the private sector at the market exchange rate. One way of doing this is to buy SEE products with imported inputs that the SEEs sell at below-market "cost plus" prices based on evaluating imported inputs at the official rate. Firms owned by relatives and other close associates of command-grade military officers also reportedly make extensive use of this practice.

During FY 96/97, the GOB, reeling financially from a second consecutive year of low public sector exports, licensed its employee welfare associations to publish tabloids without waiting for prior extensive scrutiny and approval by its censorship boards. This quickly spawned a plethora of weekly tabloids; previously, no private periodical could successfully be published more often than monthly, due to the time required for censorship board approval. Since these tabloids appear to be immensely popular, this modest relaxation of the GOB's control of Burma's print media seems likely to have been a great financial success.

The GOB's foreign currency receipts may eventually be increased by exports of natural gas from two offshore fields, the Yadana field and the apparently much smaller Yetagun field. However, any such receipts will initially be limited, and are already largely obligated until at least FY 2001/02, and apparently well past then. The first natural gas exports to be realized will be those from the offshore Yadana field (described in the discussion of U.S. investments in the section on the nature of the bilateral relationship, below). These exports are scheduled to begin in mid-1998. However, they will not yield any discretionary receipts for the GOB until FY 2001/02. As a U.S. firm involved in the development of that field states in a publicly distributed booklet:²⁴ "The Myanmar government's and MOGE's [the GOB's hydrocarbons parastatal's] net share of the revenue stream after expense and capital recovery [is] estimated at roughly US \$150 million annually..."²⁵ Fully one-third of this revenue stream will be paid 'in

²³ In June 1996, the GOB lowered its nominal tariff rates to 40% or lower, and began to value imports using an exchange rate of 100 kyat per U S dollar, rather than the official exchange rate of about 6 kyat per dollar. Customs revenues are estimated to have risen to 6.5 billion kyat (US \$ 40.8 million), or about 2.2% of estimated GOB-recorded imports. However, other tax revenues continued to decline relative to GDP, so tax receipts rose only to an estimated 3.9% of GDP in exchange-rate-unadjusted terms. Although exemptions for investors erode the tax base, special exemptions (high-level rent-seeking) and administrative weakness (low-level rent seeking) appear to be greater problems.

²⁴ "UNOCAL in Myanmar (Burma) - the Yadana Project," UNOCAL Corporate Communications, El Segundo, California, March 1997, P. 5.

²⁵ An unsigned but apparently authoritative article on the offshore Yadana and Yetagun natural gas fields in the 13 September 1995 issue of the GOB's English-language daily newspaper, *The New Light of Myanmar*, stated, "Myanmar will earn about 450,000 U S dollars a day," equivalent to US \$163 million a year, from Yadana field natural gas exports to Thailand.

kind,' that is, with an amount of natural gas equal in value to the taxes and royalties due. This gas will be used by the Myanmar government for domestic energy development projects like the 'Three in One' project. The income from the Yadana project will finance the Myanmar government's share of the development and construction costs of the proposed power and fertilizer plants and related pipeline envisioned in 'Three in One.'" In addition, much of the GOB's share of the first few years' receipts from Yadana gas exports is said to be obligated to finance MOGE's 15% equity interest in the Yadana project. Still more has reportedly been obligated to pay for public sector imports since 1996.

Even when no longer obligated, the GOB's prospective US \$150 million in receipts from Yadana field gas exports will be equivalent to only about one-third of the GOB's known foreign-currency-denominated receipts for FY 95/96 (\$52 billion kyat, equivalent to \$431 million at the market exchange rate), or to less than one-fourth of the GOB's known foreign-currency-denominated receipts for FY 94/95 (74 billion kyat, equivalent to \$65 million). US \$150 million is much less than the GOB's apparent overall obligations-basis fiscal deficits for FY 94/95 (82.5 billion kyat, equivalent to \$730 million at the market exchange rate; Table G.3) or FY 95/96 (65.3 billion kyat, equivalent to \$540 million), and far less than its estimated recorded overall obligations-basis fiscal deficit for FY 96/97 (98.1 billion kyat, equivalent to \$620 million; Table G.2). Indeed, \$150 million appears to be less even than the GOB's recorded debt service obligations in excess of its recorded external debt service payments for FY 96/97 and all other recent years except FY 94/95 and FY 95/96 - even counting payments given back by the Government of Japan as payments, and apparently not counting defense-related debt service obligations to the Government of China (Table D.4). Other prospective gas exports flows, *e.g.*, from the offshore Yetagun field, appear likely to be substantially smaller than those from the Yadana field. In sum, prospective natural gas export receipts may ease the GOB's fiscal problems, but appear far from sufficient to solve them for the foreseeable future.

-- Fiscal balances

The GOB's persistently large fiscal deficits, generated in large part by growing public sector imports notably including defense imports, are the main obstacle to macroeconomic stability in Burma.

In exchange-rate-unadjusted terms, and based on recorded financing alone (Table G.1.b), the share of recorded GDP to which the public sector cash-basis operating deficit was equivalent remained in the neighborhood of 6%, with no evident trend, from FY 89/90 to FY 96/97. The share of URGDP to which the GOB's overall obligations-basis fiscal deficit was equivalent, was greater by an amount that decreased, due to the increasing undervaluation of the GOB's external debt service obligations at the official exchange rate, from 1.2% to 0.3% of URGDP.²⁶

On an exchange-rate-adjusted basis but still based on recorded financing alone (Table G.2), the share of recorded GDP (based on GOB trade data) to which the public sector cash-basis operating deficit

²⁶The overall deficit on a *commitments basis* given by *IMF/RED/97* and *95* and *WB/SPER* includes interest payments due, but not amortization (principal repayments) due, which is booked in the financing accounts below the line. It is larger than the cash-basis operating deficit given by Table G 1 a, which excludes both interest and amortization due, but is smaller than the overall deficit on an *obligations basis* given by Table G 1 a, which includes both interest and amortization due. - Also, for reasons stated in the section on sources, data and methods (above), this report, unlike those IMF and World Bank reports, does **not** include debt service payments given back by the Government of Japan either in the "external debt service due" account in Tables G 1 a and G 1 b or in the "external debt service payments" account in Tables G 2 and G 3, this increases the cash-basis operating deficit in Table G 1 a and G 1 b relative to the same deficit in the budget accounts of the IMF and World Bank reports

was equivalent, decreased from 10.4% in FY 90/91 to an estimated 6.8% in FY 95/96, but rose to perhaps 7.6% in FY 96/97. The share of ARGDP to which the recorded cash-basis overall fiscal deficit was equivalent, declined from 12.2% in FY 90/91 to 8.1% in FY 93/94, but rose back to 11.8% in FY 94/95, an estimated 9.6% in FY 95/96, and perhaps 10.1% in FY 96/97. The share of ARGDP to which the GOB's recorded obligations-basis overall deficit was equivalent, declined from 20.7% in FY 90/91 to an estimated 11.3% in FY 95/96, but rose to perhaps 14.2% in FY 96/97.

The decline in the GOB's overall obligations-basis deficit relative to its overall cash-basis deficit from FY 90/91 to FY 95/96 was due almost as much to increasing debt relief from the Government of Japan, the GOB's largest recorded external creditor, as to increasing debt service payments by the GOB. Conversely, the increase in the overall obligations-basis deficit relative to the overall cash-basis deficit in FY 96/97 reflects not only an apparent deterioration of the GOB's external debt service performance but also a large reduction in debt relief from the Government of Japan. (See the discussion of external financing later in this section.)

Table G.3 presents the public sector budget in exchange-rate-adjusted terms, based on apparent as well as recorded financing, from FY 90/91 to FY 95/96. This includes two sources of apparent internal financing, over and above net domestic credit to the central government, that are apparent from changes in exchange-rate-adjusted monetary aggregates (Table E.2): an increase in the domestic reserves of the public sector (kyat in circulation in excess of credit to the public sector), and a decrease in the public sector's foreign reserves. (See the discussion of domestic financing later in this section.)

On this apparently more complete basis, the share of ARGDP (based on UNCTAD trade data), to which the GOB's public-sector cash-basis operating deficit appears equivalent, declined from 17.9% in FY 90/91 to an estimated 5.4% in FY 93/94, but rose to 11.4% in FY 94/95 before falling back to 7.1% in FY 95/96. The share of ARGDP, to which the GOB's overall cash-basis deficit appears equivalent, declined from 19.6% in FY 90/91 to 6.8% in FY 93/94, but rose back to 13.5% in FY 94/95 and 9.8% in FY 95/96. The share of ARGDP, to which the GOB's overall obligations-basis deficit appears equivalent, declined from 27.9% in FY 90/91 to an estimated 11.5% in FY 95/96. Comparable data for FY 96/97 are not yet available, because monetary data for FY 96/97 are not yet available; however, they are virtually certain to show a large increase in fiscal deficits relative to recorded GDP.

Thus, for the period from FY 90/91 through FY 95/96, analyzing the GOB's deficit financing in exchange-rate-adjusted terms, including all unrecorded domestic financing apparent from exchange-rate-adjusting the monetary accounts, shows the GOB's overall obligations-basis fiscal deficit to have been between about twice to three times as great, relative to recorded GDP, as it appears to have been in exchange-rate-unadjusted terms including only declared financing. On the other hand, it also shows that deficit to have been declining rather than constant relative to recorded GDP - at least until FY 96/97, when this trend appears to have been reversed.

The above-cited exchange-rate-adjusted fiscal deficit statistics are derived entirely from "below the line" deficit financing, external debt service and monetary accounts. They are independent of, and unaffected by, errors and omissions in the "above-the-line" accounting for non-financial receipts and operating expenditures in Tables G.2 and G.3.

However, the GOB's overall fiscal deficits are likely to have been substantially larger even than the above-cited figures indicate, because the external financing data on which they are based appears incomplete: they appear to omit substantial external loan disbursements, largely from the Government of

China, to finance much of the GOB's defense-related imports (up-front payments for which are estimated in Table G.5). Similarly, the difference between the GOB's cash-basis operating deficit and its overall cash-basis deficit is likely to have been substantially larger even than the above-cited figures indicate, because the available external debt service payment data appear to omit substantial GOB external debt service payments, chiefly to China, related to prior defense imports.

The budget balance of the SEE sector cannot be assessed on a "below the line" basis because the financial operations of the SEEs are consolidated with those of the central government. It cannot readily be assessed on an "above the line" basis, even in exchange-rate-unadjusted terms, because of numerous cross-subsidies between the SEEs and the central government (although *WB/PSER* offers the best available recent attempt at this). It cannot be assessed in exchange-rate-adjusted terms on an "above the line" basis because recorded public sector imports are not disaggregated into those transformed or distributed by the SEEs and those consumed by the central government. The true economic profitability of the SEEs is obscured still further by diverse relative price distortions. On a firm-specific basis, the difficulty of assessing SEE profitability is a daunting obstacle to any prospective privatization efforts.

-- *External financing*

The GOB lost access to many actual and potential sources of external financing after crushing the pro-democracy movement in 1988 and abrogating the results of the national election of 1990. Nevertheless, GOB-recorded cash-basis external financing, *i.e.*, new external loan disbursements to the GOB (apparently excluding loans to finance military imports), after falling to US \$ 61 million (5.4 billion kyat at the market exchange rate) in FY 91/92, gradually increased to \$120 million (14.4 billion kyat) in FY 95/96 (Tables D.1.a and G.2). However, this increase may have been entirely in short-term loans, since *WB/WDT/96* shows long-term loan disbursements as having stayed in the range of US \$50 to \$75 million from 1991 through 1994, and the GOB is said in financial circles to have floated an increasing volume of short-term commercial debt.

Low public sector exports in FY 95/96 and FY 96/97 increased the GOB's demand for cash-basis external financing. From 1970 or earlier through 1994, according to the *World Debt Tables*, the GOB never received any private external loans that were not guaranteed by some foreign government or parastatal agency. However, during 1996 and early 1997, several major foreign investors and some foreign import suppliers complied with GOB requests to make substantial loans to the GOB to ease its foreign exchange shortage. These loans are said to have been of medium-term and at commercial interest rates, and to have been secured either explicitly or implicitly by the GOB's prospective receipts from Yadana field natural gas exports to Thailand. A U.S. firm supplied most of \$30 million worth of heavy construction and earthmoving equipment imports on credit in mid-1996. UNOCAL, a partner in the Yadana field consortium, announced publicly in late 1996 that it had recently extended the GOB a medium-term loan of about US 7 million to finance imports of urea. According to press reports and other sources, similar but larger loans were made by the other foreign partners in the Yadana field consortium, Total of France and PTT of Thailand, both parastatal firms. PTT announced publicly that it was enabling the GOB to import crude oil, of which Burma experienced shortages in late 1996, after a Singapore-based subsidiary of Japan's Mitsui declined to renew a crude oil supply contract on which the GOB had substantially defaulted. Malaysia's central bank was reported in the international press to have extended a loan of US \$50 million to Burma's central bank. In February 1997, the Government of Thailand's export-import bank agreed to extend the GOB a loan of \$11.6 million to finance the upgrading of a road from Tachilek, on the Thai/Burmese border, to Kengtung in eastern Shan state. In mid-1997, a major

Korean conglomerate with investments in Burma reportedly agreed to lend the GOB \$120 million to finance imports of crude oil and refined petroleum products. Other recent medium-term commercial-rate foreign-currency loans from foreign firms have also been rumored in Rangoon's business community.

As of mid-1997, the GOB's recent external borrowing appears already to have effectively obligated much of the GOB's prospective receipts from natural gas exports well into the next decade. This borrowing appears responsible for an increase in GOB-recorded external loan disbursements to a provisionally estimated US 156 million (24.8 million kyat) in FY 96/97. This figure may prove to warrant revision upward.

Even before FY 96/97, the GOB's recorded cash-basis external financing was becoming less concessional, *i.e.*, higher-rate and shorter-term. The data in *WB/WDT/96* suggest that a large and growing proportion of known external loan disbursements may, since 1993, have been private, but publicly guaranteed, loans of medium term maturity and relatively high interest rates, rather than the long-term very-low-interest multilateral and bilateral loans that made up nearly all of the GOB's external loan disbursements before 1993. From 1989 through 1991, the GOB's known new external loan commitments were entirely official credit; on an annual-average basis, terms of maturity ranged from 17 to 20 years, grace periods from 5 to 10 years, interest rates from zero to 1.5%, and implicit grant elements from 50% to 75%. In 1992 through 1994, by contrast, all of the GOB's new external loan commitments came from private but publicly guaranteed creditors; on an annual-average basis, terms of maturity ranged from 6 to 8 years, grace periods from 1.0 to 1.5 years, interest rates from 1.5% to 2.3%, and implicit grant elements from 23% to 30%. Most of this new medium-term credit appears to have been guaranteed by parastatal export financing institutions, notably from Asian nations. No non-Asian country's export financing parastatal is known to provide preferential export financing or guarantees in support of exports to Burma. Debt stock figures (Table D.4) suggest that commercial credit from other Asian countries amounted to nearly \$170 million during FY 95/96 (*IMF/RED/97*, p. 34). The trend toward less concessional external cash financing clearly accelerated in FY 96/97 and early FY 97/98.

Net of debt relief, the GOB's new external arrears as recorded in its balance of payments increased from US \$73 million (equivalent to 3.9 billion kyat or 2.8% of ARGDP) in FY 89/90, to US \$294 million (equivalent to 31.0 billion kyat or 10.3% of ARGDP) in FY 92/93, then declined to an estimated US \$68 million (equivalent to 8.2 billion kyat or 1.2% of estimated ARGDP) in FY 95/96. The decline in the accumulation of new arrears from FY 92/93 to FY 95/96 was due almost as much to an increase in debt relief from the Government of Japan (GOJ) from about US \$33 million to about \$145 million in FY 95/96, as to an increase in unrelieved external service debt payments from \$25 to \$148 million (Table D.4.)²⁷ The GOB's new external arrears appear to have increased in FY 96/97, partly due to a decrease in GOJ debt relief to about \$78 million, and partly due to a reported worsening of performance in servicing other official bilateral debt; it is also unlikely that the GOB serviced much of its low-interest official bilateral debt while starting to borrow on a large scale at commercial rates from private foreign investors. Consequently, the Embassy estimates that new external arrears (excluding arrears on debt related to defense imports) rose to at least US \$187 in FY 96/97.

Recorded obligations-basis external financing (recorded loan disbursements, BOP-basis arrears, and GOJ debt relief) increased from \$228 million (equivalent at the market rate to 12.3 billion kyat or

²⁷ IMF/RED/97's presentation of the GOB's budget accounts indicates some external arrears in excess of those shown in the GOB's BOP accounts for some recent years: about 12.1 billion kyat (\$107 million) for FY 94/95, and about 2.4 billion kyat (about \$20 million) for FY 95/96. These apparent off-BOP arrears are entered separately in Table G.2. Their interpretation is uncertain.

8.8% of ARGDP) in FY 89/90, to \$408 million (equivalent to 43.0 billion kyat or 14.3% of ARGDP) in FY 92/93, fell to an estimated \$333 million (equivalent to 40.1 billion kyat or 6.1% of ARGDP) in FY 95/96, and rose again to a provisionally estimated \$421 million (equivalent to 67.0 billion kyat and to perhaps 9% of ARGDP) in FY 96/97.²⁸

The GOB's recorded external financing appears to be incomplete, omitting both substantial foreign loan disbursements, chiefly from the Government of China, to finance GOB defense imports, as well as foreign-currency-denominated asset sales. Although no unrecorded (presumably defense-related) external debt service arrears are known to exist, this possibility cannot be excluded.

-- *Domestic financing*

The GOB's lack of access to concessional external cash financing since 1988 has obliged it to finance more than half of its recorded overall cash-basis fiscal deficit domestically (Tables G.2 and G.3). The GOB's recorded domestic financing increased steadily, in current kyat terms, from 6.7 billion kyat in FY 89/90 to a provisionally estimated 43.5 billion kyat in FY 96/97. During that period, the proportion of ARGDP (UNCTAD basis) to which recorded domestic financing was equivalent ranged from 6.5% in FY 90/91 to 3.9% in FY 93/94.

From FY 89/90 to FY 96/97, most recorded domestic financing took the inflationary form of non-discretionary central bank lending to the public sector, at interest rates (4% a year) that were steeply negative in real terms. (This lending is recorded as lending to the central government in some sources because the central government conducts all domestic borrowing for the SEEs.) However, non-bank domestic financing grew in importance. In 1993, the GOB also began to sell treasury bonds to private firms. It sold about 2.5 billion kyat of these bonds during a brief period of low inflation in late 1995 and early 1996, when they offered positive real interest rates. Relatively few bonds were sold either before or after those few months; although the GOB raised the nominal interest rate to 13.5% a year for three-year bonds and 14.0% a year for five-year bonds in April 1996, price inflation accelerated to more than 30% during calendar 1996. The GOB also derived some income from sales of assets, chiefly real estate and mineral exploration rights, every year from FY 90/91 to FY 95/96. Some GOB receipts from asset sales appear to have been foreign-currency-denominated, but recorded in kyat at the official exchange rate. For want of data, no exchange-rate-adjustment of asset sales is possible, so they may be greatly understated in this report's exchange-rate-adjusted accounting of recorded financing (Table G.2).

The GOB's recorded domestic financing also appears incomplete in other ways that are more readily quantified. The monetary aggregates (Table E.1.a) show net foreign reserves (foreign assets) consistently in excess -- until late FY 95/96 -- of foreign-currency-denominated deposits in the domestic banking system and dollar-denominated Foreign Exchange Certificates (FECs) in circulation. This excess is the public sector's own net foreign reserves: only the central government can legally hold such reserves, and all domestic bank deposits recorded in the monetary accounts are privately owned. From FY 90/91 through FY 95/96, these GOB-owned net foreign assets decreased by 26.3 billion kyat in exchange-rate-adjusted terms (Table E.1.b). During the same period, the public sector's domestic reserves - kyat in circulation in excess of net recorded domestic credit to the public sector - also

²⁸ These figures, unlike those cited in Table G.2., exclude off-BOP arrears included in the budget accounts in *IMF/RED/97*. The ARGDP share-equivalent figures cited here, unlike those cited at the bottom of Table G.2., are based on ARGDP calculated using UNCTAD merchandise trade data.

increased by 3.5 billion kyat (Tables E. 1 .b and E.2). Together, these two monetary developments indicate 29.7 billion kyat in unrecorded GOB domestic financing during FY 90/91 through FY 95/96, in excess of the 112.3 billion kyat in domestic financing (including 106.4 billion kyat in domestic bank lending) recorded for the six-year period.

Table G.3 shows domestic financing including not only recorded financing but also the financing apparent from the monetary aggregates for FY 90/91 through FY 95/96. On this evidently more complete basis, the share of ARGDP (UNCTAD basis) to which the GOB's domestic financing was equivalent ranged from 14.3% in FY 90/91 to 2.9% in FY 93/94. The unusually high level of apparent domestic financing (and much of the unusually high level of total apparent financing) for FY 90/91 reflects a large draw-down in GOB-owned net foreign assets, as it spent much of the receipts from its 1989 sale of diplomatic real estate in downtown Tokyo.

The monetary data needed to quantify recorded and unrecorded domestic financing is available only for the first half of FY 96/97. Recorded domestic bank financing accelerated substantially during the second half of FY 95/96 and the first half of FY 96/97. From September 1995 to September 1996, domestic credit to the central government increased by 36.6%, from 126.8 to 173.2 billion kyat; by contrast, the fastest increase in domestic credit to the GOB in any twelve-month period during the previous six years was 27.9% in FY 94/95. The GOB appears to have used much of this 46.4 billion kyat in domestic bank financing to buy foreign exchange from Burma's private sector at the market exchange rate during the first half of 1996, as the government's own foreign reserves were exhausted due to low public sector exports. At the end of FY 95/96 (March 1996), total recorded net foreign assets (\$301.6 million) were, for the first time, less than recorded foreign-currency-denominated (FCD) deposits in domestic banks (\$332 million) and FECs in circulation (\$9.1 million); that is, the GOB's own net foreign reserves were negative by \$40 million, equivalent to 5.1 billion kyat at the market exchange rate. Between April and July 1996, the kyat depreciated by about 30%, from 120 to 165 per dollar, as the GOB printed kyat to buy foreign exchange from the private sector. Apparently concluding that this policy was unsustainable, the GOB, in July 1996, began to ration private imports by restricting import licenses and letters of credit, thereby enabling itself to use private sector foreign exchange without paying for it.

The imposition of import restrictions in July 1996 caused unrecorded domestic financing, in the form of reduction of GOB-owned net foreign assets, to become greater relative to the annual ARGDP during the first half of FY 96/97 alone than during any whole fiscal year since FY 90/91. By the end of September 1996, total recorded net foreign assets (\$206 million) were less than recorded FCD deposits in domestic banks (\$378 million) and FECs in circulation (\$4.3 million) by \$176 million, or 30.0 billion kyat at the market rate of exchange of 170 kyat/dollar (*IMF/RED/97*, pp. 94 and 111). That is, between September 1995 and September 1996, the GOB used \$176 million belonging to Burma's private sector for public sector imports and debt service. During the first six months of FY 96/97, the amount of foreign reserves that the GOB owed to Burma's private sector increased by \$146 million, or 25.0 billion kyat, equivalent to about 3% or 4% of the whole year's ARGDP. Added to the 41.5 billion kyat in estimated recorded domestic financing, this unrecorded domestic financing for the first half of FY 96/97 alone brings total domestic financing for FY 96/97 to about 9% of estimated ARGDP.

-- *Errors and omissions*

The sign of the "net error and omissions" term in the exchange-rate-adjusted public sector budget including apparent as well as recorded financing (Table G.3) is negative, on average. This suggests that

total public sector operating expenditures may be systematically understated relative to total public sector receipts plus cash-basis financing. This is consistent with the likelihood that omissions with respect to exchange-rate-adjusted receipts and disbursements of loans to finance defense imports, although substantial, may be less than the value of defense imports - *i.e.*, that omitted receipts are less than up-front payments for defense imports (estimated in Table G.5). The only year for which the net errors and omissions term in Table G.3 is significantly positive is FY 95/96; this may be due to unusually large understatement of foreign-currency-denominated receipts for that year. FY 95/96 was the only full fiscal year for which a foreign-currency-denominated 5% tax was imposed on most private exports, the first year during which a 10% tax was imposed on all foreign-currency-denominated income, and the last year before a 10% tax on withdrawals from foreign-currency-denominated bank accounts was eliminated; all these foreign-current-denominated receipts remain converted into kyat at the official rate in Tables G.2 and G.3, and therefore are grossly understated, for want of disaggregated receipts data.

Monetary developments

During the 1990s, the role of Burma's official exchange rate has become so limited that it no longer significantly discourages exports or subsidizes private imports, although it may stimulate excessive public sector imports by facilitating public sector rent-seeking. In exchange-rate-adjusted terms, expansion of the recorded broad money supply, fueled chiefly by domestic bank financing of the GOB's fiscal deficits, has averaged 26.4% a year, contributing to a comparable or greater average rate of price inflation. The real market value of the kyat (the real market exchange rate) appreciated during 1993 through 1995 due to increasing inflows of foreign exchange rents, but has been stabilized since early 1996 by a foreign exchange shortage originating in the public sector, even though increased GOB domestic financing caused inflation to accelerate in 1996. By September 1996, the GOB's net foreign assets (foreign reserves) had declined to US \$176 million less than the face of domestic private claims on those assets, namely foreign-currency-denominated private deposits in domestic banks and Foreign Exchange Certificates (FECs) in circulation.

-- The exchange rate regime

Nominally, Burma continues to have a dual exchange rate regime. Officially, the kyat has been pegged since January 1975 to the IMF's Special Drawing Right (SDR) international currency basket at 8.5085 kyat per SDR. Since the late 1980s, the official exchange rate has remained in the range of 5.5 to 6.5 kyat per dollar. However, at the parallel market rate of exchange, the kyat has depreciated against the U.S. dollar, from 53.8 kyat per dollar or 12.3% of its official value in FY 89/90, to 200 kyat per dollar or about 3.1% of its official value at the end of June 1997 (Tables B.1-3.b-c).

Nevertheless, since FY 89/90 the GOB has largely completed a gradual *de facto* devaluation of the kyat to a market-determined exchange rate. (See the discussion of reforms since 1988 in the section on the government's role in the economy, above.) Most ultimate consumers now pay market prices closely reflecting the market exchange rate for all but limited amounts of a limited range of internationally tradable goods. All transactions between private parties, all sales from the private sector to the public sector, and all tax transactions occur at prices closely -- or, in the case of taxes on imports,

largely -- reflecting the market exchange rate. However, transactions within the public sector, between two SEEs or between an SEE and the central government, continue to occur at prices reflecting the official exchange rate. Furthermore, some SEEs continue to sell some imported goods and some locally made goods with substantial imported inputs at "cost-plus" prices determined by evaluating imports at the official exchange rate.

The persistence of the official exchange rate for transactions within the public sector does not appreciably penalize exports, subsidize imports, or otherwise distort resource allocation. Burma's public sector is not a market in which decentralized decisions are made with a view to maximizing the profits of a particular SEE in response to price signals. Rather, it is a highly centralized command structure, in which colonels who run SEEs report to generals who run central government ministries in pursuit of goals that are centrally determined. Far from being fooled by the official exchange rate, GOB leadership has aggressively and persistently sought to increase public sector exports and foreign exchange receipts.

However, the persistence of pricing based on the official rate in sales by SEEs to the private sector facilitates rent seeking, and may encourage excessive public sector imports. Refined petroleum products and fertilizer appear to be the only goods with significant imported content that are widely sold by the public sector to private ultimate consumers at prices that evaluate imported content at or near the official rate. Moreover, private ultimate consumers purchase most of even these commodities from private intermediaries at prices closely reflecting the market exchange rate. However, it is common for an SEE to sell imports and products with substantial imported content, at below-market prices set by evaluating imports at or near the official exchange rate, to its employees, to employees of the ministry that supervises the SEE, to the "employees' welfare association" of the SEE or the ministry, to one of the command-grade military officers managing the SEE or the ministry, or to relatives or business associates of such officers. Although lower-level employees may in some cases consume much of what they buy at such below-market prices, the goods sold by SEEs at below-market prices are commonly resold by their buyers at market prices that closely reflect the market exchange rate. Such buying of imports from the public sector at the official rate for resale to the private sector at the market rate, legitimized by officially condoned "cost-plus" pricing, is the linchpin of a system of rent-seeking that both compensates for grossly inadequate and (in real terms) declining public sector wages and enriches command-grade military officers and their business associates. The usefulness of the official exchange rate for legitimizing such rent-seeking may be largely responsible for its persistence.

Although this system tends to stimulate excessive public sector imports, contributing both to the GOB's fiscal deficit and to the national trade deficit, its adverse consequences in both respects are limited. Its adverse fiscal consequences are offset by the reduction in the public sector wage bill that it facilitates; its adverse trade balance consequences are offset by the reduction in the private sector imports that it displaces. In both respects, its inefficiency is largely a function of the extent to which it lowers the domestic market prices of imported goods. Perhaps because the SEEs are functionally specialized and compete very little with one another, this practice does not appear to reduce domestic prices substantially below world prices, except for those few commodities, such as fuels and fertilizers, that are sold directly by the public sector to ultimate consumers. Moreover, GOB-recorded public sector imports consistently constituted less than 40% even of GOB-recorded imports from FY 93/94 through FY 96/97, and were destined in part for the central government rather than the SEEs.

The persistence of the official exchange rate also no longer seems to impede foreign investment significantly; in contracting joint ventures between the public sector and foreign investors, it is increasingly common practice simply to evaluate capital inflows and outflows at the market rate.

The GOB's practice of equating foreign-currency-denominated transactions and kyat-denominated transactions at the official exchange rate in its national accounts greatly reduces economic transparency. However, as the methodology of this report illustrates, the GOB could compile and publish national accounts based on the market rate while continuing to retain the official rate for "cost-plus" pricing of SEE outputs and for any other purposes deemed expedient.

In sum, the persistence of the official exchange rate, albeit problematic, appears no longer to be a major impediment to economic growth. Conversely, because the role of the official rate is so limited, the parallel market rate seems likely to be close to the equilibrium rate that would be observed if the official rate were abolished.

-- *Exchange rate movements*

In nominal terms, at the parallel market rate, the kyat depreciated steadily against the U.S. dollar from FY 89/90 through FY 92/93, but stabilized at about 120 kyat per dollar until April 1996. It then depreciated by about 30% in three months, stabilizing in the range of 160 to 170 kyat per dollar from July 1996 until May and June 1997, when it depreciated to 200 per dollar. (See Tables B.1-3.b-c).

In real terms, discounted by price inflation in Burma (as indicated by the GOB's aggregate price indicators, Table C) in excess of price inflation in the U.S., the market value of the kyat was fairly stable during FY 89/90 through FY 92/93, and has been fairly stable again since early 1996, but appreciated by more than 80% during FY 93/94 through FY 95/96. That is, the real exchange rate was fairly stable before 1993 and has been fairly stable again since early 1996, but appreciated greatly during 1993 through 1995.²⁹

The stability of the nominal market exchange rate (hence also the appreciation of the real exchange rate) from FY 93/94 through FY 95/96 appears to have been due to growing inflows of foreign exchange rents after the partial exchange rate regime liberalization of early 1993, which abolished the requirement that domestic goods and services purchased with foreign currency converted into kyat at the market rate be exported. (See the discussions of net unrequited private transfers, unrecorded foreign exchange flows and real exchange rate effects in the section on the balance of payments, below.)

The rapid depreciation of the kyat during April through June 1996 appears to have been caused by large GOB purchases of foreign exchange from Burma's private sector at the market rate of exchange, using kyat borrowed from the central bank. The F.O.B. value of recorded public sector merchandise exports declined from US \$584 million in FY 94/95 to an estimated \$359 million in FY 95/96 (Table D.2.a[3]). However, the C.I.F. value of recorded public sector merchandise imports (apparently excluding imports of finished military goods) rose from \$509 million in FY 94/95 to \$596 million in FY 95/96. Meanwhile, recorded external debt service disbursements remained roughly equal to external grants and loan disbursements, and the GOB reportedly faced large unrecorded defense-related debt service payments to China in the second quarter of 1996. During FY 95/96, the private sector's

²⁹ The real exchange rate as measured by the U.S. dollar may be a better indicator of the real effective exchange rate than America's small share of Burma's recorded trade would suggest, for two reasons: first, Americans appear to have been the main ultimate consumers of Burma's largest export, opiates; second, the currencies of several of Burma's ASEAN trading partners have been effectively pegged to the U.S. dollar.

merchandise trade deficit (calculated by subtracting GOB-recorded public sector trade from UNCTAD-reported trade) also grew from about \$600 million to about \$1 billion, but this was covered by about \$800 million in net unrequited private transfers (workers' remittances from abroad), foreign direct investment, and an apparent private sector services trade surplus, as well as by large unrecorded net foreign exchange inflows (Tables D. 1 .b and F.2). Consequently, toward the end of the 1995/96 dry season (November through May), which is also the peak export season for both goods and services, the private sector had foreign exchange reserves, but the public sector had none - or rather less than none. By the end of March 1996, net foreign assets had fallen to about \$40 million less than the face value of private sector claims on them, that is, deposits in private foreign-currency-denominated domestic bank accounts and Foreign Exchange Certificates (FECs) in circulation (Table E. 1 .a). This implies that the GOB had already exhausted its own foreign reserves and used \$40 million of private sector's foreign reserves by March 1996, three months before the start of import rationing. It is credibly alleged that in April 1996, when the GOB's military intelligence detained the individual whose purchases of FECs with kyat had been largely responsible for the recent depreciation of the kyat, they discovered that he was a broker for the Directorate of Defense Procurement.

The nominal depreciation of the kyat from 1/170th to 1/200th of a dollar during May and June 1997 seems to have been somewhat different. The GOB no longer needed to buy foreign exchange from the private sector; the GOB's imposition of import rationing since July 1996 had enabled it to use the private sector's foreign reserves without paying from them. By September 1996, foreign reserves were 176 million less than the face value of private foreign-currency-denominated deposits in domestic banks and FECs in circulation; the GOB had spent 45% of the private sector's foreign reserves in order to pay for public sector imports and external debt service.

The nominal kyat depreciation of May-June 1997 appears to have been precipitated largely by growing avoidance of domestic foreign-currency-denominated deposits and FECs by private firms engaged in external trade, in reaction to the GOB's restrictions since July 1996 on the use of those deposits and FECs to import. Such firms appear increasingly to have represented their external trade to the GOB as countertrade (barter) in order to facilitate depositing their profits offshore. For the same reason, they appear increasingly to have preferred real dollars to FECs, which are not legally convertible into dollars, but only into dollar-denominated domestic bank accounts. FECs ultimately derive their value from their convertibility into foreign-currency-deposits in domestic banks, so import restrictions tend to reduce their value relative to real dollars.

Consequently, the GOB appears to have been obliged to spend kyat to buy back FECs in order to maintain FEC/dollar parity during May and June 1997, thereby causing the kyat to depreciate relative to the U.S. dollar. The FEC consistently traded at a small discount to the dollar during the May-June 1997 kyat depreciation. No such consistent discount had previously been observed. During 1996 and early 1997, the number of FECs in circulation decreased. No data on FECs in circulation are yet available for May and June 1997. Nevertheless, the GOB appears to have resumed its April to June 1996 practice of transferring domestic claims on Burma's foreign reserves from the private sector to the public sector. In effect, the GOB, in order to maintain FEC/USD parity in the face of private capital flight caused by import restrictions, appears to have been obliged to buy back private sector claims on foreign reserves that the GOB had already spent during 1996.

-- Recorded money supply growth

In exchange-rate-unadjusted terms (Tables E.I.a), Burma's recorded broad money supply (M2) grew at an average annual rate of 33.9% during FY 90/91 through FY 95/96. M2 growth accelerated to 39.4% during the year to September 1996, and to 40.1 % during the year to January 1997 {*IMF/RED/97; GOB/SMEI/97.1-2*}. The recorded narrow money supply (M1) grew at an average annual rate of 33.8% during FY 90/91 through FY 95/96.

The exchange-rate-adjusted recorded broad money supply (AM2, shown in Table E.1.b) differs from the unadjusted recorded broad money supply in three respects: (1) recorded foreign-currency-denominated (FCD) domestic bank deposits -- all of which are privately owned - are valued at the market rate; (2) dollar denominated Foreign Exchange Certificates (FECs) in circulation are included; and (3) domestic liabilities equivalent to the foreign reserves owned by the public sector are included. Including liabilities equivalent to the public sector's own net foreign assets is necessary to make the exchange-rate-adjusted monetary accounts balance. It is appropriate to include them as part of the broad money supply, rather than as a deficit in public sector domestic reserves, because the GOB's own foreign reserves are functionally identical to the privately-owned foreign reserves offset by the FCD domestic bank deposits recorded in the money supply by the GOB and IMF. Because the GOB has greatly reduced the public sector's net foreign assets, this slows the average rate of AM2 growth relative to the rate indicated by GOB and IMF monetary accounting.

In exchange-rate-adjusted terms (Table E.1.b), Burma's recorded broad money supply (AM2) grew at an average annual rate of 26.4% during FY 90/91 through FY 95/96. AM2 grew more slowly than ARGDP in current kyat terms. This implies an increasing velocity of recorded broad money, from 2.4 to 2.8. However, the velocity of money is not directly observed in Burma; it is derived by dividing recorded GDP by the recorded money supply. In fact, there is no reason to believe that the velocity of money increased. Rather, the fact that AM2 grew less rapidly than nominal ARGDP suggests that the unrecorded money supply may have been used for an increasing proportion of transactions in the recorded economy. Unless the unrecorded economy was shrinking rapidly relative to the recorded economy, this also suggests that the unrecorded broad money supply was growing faster than the recorded money supply. Casual observation and anecdotal evidence indicate that Burma has a large unrecorded money supply, including not only foreign currencies, gold and gems in domestic circulation, but also a large informal banking system that has transnational capabilities and has consistently offered higher interest rates than the formal banking system. Among the various media of exchange in Burma, the GOB's currency, the kyat, has been one of the least effective as a store of value since the military seized power in 1962.

During FY 94/95 AM2 growth accelerated to 42%. However, during the year ending 30 September 1996 -- the most recent date for which complete monetary data are available -- it slowed to about 19% (with AM2 reaching about 275 billion kyat), due largely to the GOB's depletion of Burma's foreign reserves. Between March and September 1996, the depletion of net foreign reserves by about one-third in current dollar terms offset the one-third nominal depreciation of the kyat, causing the value of foreign reserves to remain roughly constant in current kyat terms. Since the FCD liabilities offsetting net foreign assets made up nearly one-fifth of recorded M2 in FY 95/96, this slowed the expansion of recorded AM2 considerably. In the short run, the GOB's imposition of import restrictions in mid-1996 was deflationary, because it enabled the GOB to reduce foreign reserves and hence the offsetting FCD components of AM2 without increasing kyat in circulation.

By contrast, printing kyat to buy private sector claims on foreign reserves - as the GOB appears to have done during April-June 1996 and May-June 1997 - is inflationary and may become increasingly

inflationary as it continues. This not only increases the amount of kyat in circulation, but also, by causing the kyat to depreciate in nominal terms, tends to increase the current-kyat value of the FCD components of AM2. If the GOB does not spend the foreign reserves to which it buys domestic private claims -- as would be necessary to increase foreign reserves relative to domestic private claims on them, and as the GOB appears to have done in May-June 1997 in order to maintain FEC/dollar parity - there is no offsetting decrease in the FCD components of AM2, so the effect is strongly and immediately inflationary. If the GOB does spend the foreign reserves to which it buys domestic private claims -- as it appears to have done during April through June 1996 -- it draws down foreign reserves as well as private claims on them. Beyond some point, as foreign reserves decrease, any given percentage decrease in their quantity (as measured in dollars) is likely to result in larger and larger percentage increases in their price, i.e., ever-greater percentage decreases in the nominal market value of the kyat. Consequently, continuation of this practice may have increasingly expansionary effects on the money supply.

To maintain FEC/dollar parity clearly will require increasing foreign reserves and/or reducing domestic private sector claims on foreign reserves until foreign reserves are once again at least equal to the domestic private sector claims on them. There are only two ways to do this. The GOB must:

- (1) obtain foreign exchange in excess of public sector import and debt service requirements; and/or
- (2) print kyat to buy up outstanding private sector claims on foreign reserves.

Alternatively, the GOB could:

- (3) allow FECs to trade at a substantial discount to the dollar until such time as foreign reserves are once again equal to or greater than the domestic private sector claims on them.

Of these three options, the first appears likely to be feasible in the foreseeable future only by borrowing still more foreign currency on commercial terms; the second is highly inflationary; the third option might be the least costly.

-- Recorded money supply composition

Due to steeply negative real interest rates in the legal banking system, and widespread distrust of the formal banking system ingrained by abuses of the GOB's pre-1988 policy of confiscating deposits that could not be proven to have been legally earned, the share of M2 made up of private deposits in the formal banking system remained relatively small; from FY 89/90 through FY 94/95, it stayed in the range of 24% to 41% in exchange-rate-adjusted terms (Table E.1 a.), and was even lower in unadjusted terms (Table E.1 a.). The low ratio of formal deposits to currency in circulation is consistent with abundant anecdotal evidence that Burma's savings are largely deposited in an informal banking system that offers positive real interest rates.

However, by the end of FY 95/96, the face value of deposits in the formal banking system had risen to 46% of M2 in exchange-rate-adjusted terms, and to 34% in unadjusted terms; by September 1996, the face value of such deposits had increased to 55% of M2 in adjusted terms, and 38% in unadjusted terms. In exchange-rate-adjusted terms, this increase was about evenly divided between kyat-denominated and foreign-currency-denominated (FCD) deposits. The increase in kyat-denominated deposits reflects both a short-lived rise in real interest rates to positive or near-positive levels for a few months in late 1995 and early 1996, and a favorable public reaction to the legalization of private banks in FY 92/93. Most of the increase in deposits was in time or savings deposits, and was received by private rather than state-owned banks; private banks held almost 40% of deposits in the formal banking system by early 1997. The increase in FCD deposits as a share of AM2 between March and September 1996

was in face value only; excluding deposits in excess of foreign reserves, deposits in the formal banking system declined to 44% of AM2 in September 1996.

Deposits in the formal banking system declined to 37% of M2 in unadjusted terms in January 1997, possibly due in part to increasingly negative interest rates caused by accelerating inflation and rigid state-set bank interest rate ceilings. Although more recent data on foreign-currency-denominated deposits are not available, the growth of such deposits appears to have been greatly slowed and perhaps reversed by the GOB's imposition of import rationing on the private sector in July 1996.

-- *Recorded domestic credit and reserves*

From the end of FY 89/90 to the end of FY 95/96, the annual increase in recorded domestic credit ranged from 16.0 billion kyat in FY 93/94 to 43.9 billion kyat in FY 95/96. The annual percentage increase in outstanding domestic credit ranged from 15.6% in FY 93/94 to 35.6% in FY 95/96. The share of ARGDP to which the increase in domestic credit was equivalent fell from 9.3% in FY 90/91 to 3.8% in FY 93/94, but rose to 6.6% in FY 95/96.

Over the same period, the share of new net domestic credit consumed by the public sector ranged from 60% in FY 92/93 to 93% in FY 93/94. (In FY 93/94 the GOB sharply restricted credit to the private sector in order to mitigate the inflationary effects of the partial exchange rate liberalization of early 1993.) Of the expansion in the exchange-rate-adjusted broad money supply, the increase in domestic credit accounted for 82%, and the increase in domestic credit to the public sector accounted for 59%.

The formal banking system's lending to the private sector -- never more than 4% of ARGDP -- was grossly inadequate to satisfy demand. The private sector obtained most of its financing from the informal banking system at positive interest rates. The supply of formal sector credit was reduced, and the interest rates in the informal banking system were increased, by the GOB's policy of putting ceilings on bank borrowing and lending rates. Widespread use of urban real estate as collateral to get loans at low interest rates from the formal banking system, in order to lend them at much higher rates to the informal banking system, has contributed to remarkable urban real estate price inflation; positive real interest rates in the formal banking sector could cause a large decline in urban real estate prices that could reduce the quality of formal sector bank assets.

From the end of FY 89/90 to the end of FY 96/97, recorded private sector domestic reserves increased by 15.1 billion kyat; that is, outstanding bank credit to the private sector increased by 15.1 billion kyat less than kyat-denominated private bank deposits. Of the 94.5 billion kyat increase in recorded kyat-denominated and FCD-denominated private sector bank deposits during the period, only 40.2 billion or 43% was allocated to increase net credit to the private sector (Table E.2).

Over the same period, recorded public sector domestic reserves increased by 3.5 billion kyat; that is, kyat in circulation increased by 3.5 billion kyat more than outstanding domestic credit to the public sector. The causes of the fluctuations in government reserves are not clear. The Defense Ministry's Directorate of Security Printing, also known as the "Wazi Project," is in charge of printing kyat.

From the end of FY 89/90 to the end of FY 95/96, Burma's recorded gross foreign assets (foreign exchange deposited abroad) decreased from US \$466.7 million to \$301.6 million, and its net foreign assets decreased from \$414.9 million to \$301.6 million (*IMF/RED/97*, p. 111).³⁰ Over the same period, the months of UNCTAD-reported merchandise imports and non-factor service imports to which net foreign assets were equivalent fell from 8.1 to 1.4. However, net foreign assets increased, in exchange-rate-adjusted current kyat terms, from 23.6 billion kyat to 37.8 billion kyat. This 14.2 billion kyat increase in net foreign assets accounted for about 8% of recorded M2 expansion during the period.

Net foreign assets in excess of foreign-currency-denominated (FCD) domestic bank deposits -- the public sector's own foreign reserves -- decreased by US \$401.1 million, from \$370.8 million (21.1 billion kyat at the market rate) at the end of FY 89/90 to negative \$39.1 million (-5.1 billion kyat at the market rate) at the end of FY 95/96. This 26.3 billion kyat decrease in public sector foreign reserves reduced M2 expansion by about 15% during this period, in exchange-rate-adjusted terms.

During the first half of FY 96/97 - from March to September 1996 - net foreign assets decreased by US \$96 million or 3.0 billion kyat in exchange-rate-adjusted terms, from \$302 million (38.0 billion kyat) to \$206 million (35.0 billion kyat). Meanwhile, FCD bank deposits increased by \$46 million or 22.5 billion kyat, from \$331.9 million (41.8 billion kyat) to \$378 million (64.3 billion kyat); and FEC in circulation decreased by \$4.8 million or 0.3 billion kyat, from \$9.1 million (1.0 billion kyat) to \$4.3 million (0.7 billion kyat). Consequently, the GOB's domestic FCD liabilities in excess of its recorded net foreign assets increased by \$137 million or 25.5 billion kyat, from \$39 million (5.0 billion kyat) to \$176 million (30.0 billion kyat). By the end of September 1996, recorded net foreign assets were equivalent to only 55% of recorded domestic FCD liabilities (bank deposits and FECs), leaving 45% of those deposits unbacked by foreign reserves. This situation reflects the GOB's imposition of import rationing on the private sector in July 1996.

In September 1996, the GOB briefly allowed virtually no private sector use of the private sector's own foreign reserves. For two weeks, the military intelligence personnel were stationed inside the Myanmar Foreign Trade Bank (MFTB), the main depository for foreign exchange, and interrogated anyone seeking to transfer or use his or her deposits. As word of this spread, the bank's customers simply stopped coming, relieving MFTB of the inconvenience of admitting its illiquidity. Since April 1997, according to many members of Rangoon's business community, MFTB employees have been telling customers that MFTB cannot honor their requests to use their deposits because U.S. banks have frozen Burma's foreign reserves in the U.S. in the wake of the U.S. Government's prohibition of investment in Burma by U.S. firms. This is not true. The reason why MFTB has been unable to allow its customers to use much of their foreign currency deposits is that the GOB has spent much of the foreign reserves that once backed those deposits, as the monetary statistics in *IMF/RED/97* clearly show.

³⁰ This figures for net foreign assets cited in this report are those for net foreign reserves, apparently excluding commercial receivables, given by the *IMF/RED* reports. By contrast, the figures on foreign reserves in *IMF/IFS* appear to be for gross foreign assets, including commercial receivables, *i.e.*, unfulfilled export commitments against which letters of credit have been opened. The *IMF/IFS* shows foreign reserves rising from \$381m in 9/94 to \$548m in 3/95 and \$657m in 9/95, then falling to \$519m in 3/96 and \$205m in 9/96. By contrast, the *IMF/RED* shows net reserves of only \$202m in 9/94, \$315m in 3/95, \$355m in 9/95, \$302m in 3/96, and \$206m in 9/96. Through 9/95, \$25m of this difference may be the difference between gross and net foreign assets, the rest appears to be commercial receivables. Most of the larger rise and fall of foreign reserves from 9/94 to 9/96 as shown by the *IMF/IFS* appears to reflect the GOB's accumulation of about \$200 million worth of unfulfilled net export commitments (about a million metric tons at about \$200 per ton) during late 1994 and early 1995, its fulfillment of half those commitments during 1995 and early 1996, and its abrogation of the remaining half in mid-1996. See the discussion of rice exports in the section on agriculture, above.

-- *Aggregate price inflation*

The GOB generates three sets of published data describing aggregate price movements in Burma: a GDP deflator based on diverse sectoral producer price deflators; an index of consumer prices in Rangoon (Rangoon CPI); and household expenditure survey data for Rangoon and Mandalay (Table C). There is no nationwide consumer price index.

During FY 90/91 through FY 95/96, the GOB's Rangoon CPI increased at an average annual rate of 25.1%, and its GDP deflator increased at an average annual rate of 23.4%.³¹

Both the GOB's Rangoon CPI and its GDP deflator indicate that inflation accelerated briefly in FY 93/94. This one-time surge in inflation of perhaps 12% to 15% appears to have been a consequence of the exchange rate regime liberalization of early 1993. However, the central bank appears to have brought the rate of inflation back down to its normal range by allocating almost no new domestic credit to the private sector in FY 93/94 (Table E.2). With this exception, the GOB's aggregate price indicators show little change in the rate of inflation during FY 90/91 through FY 95/96.

From December 1995 to December 1996, consumer price inflation as measured by the Rangoon CPI accelerated to 31.5%, after having slowed to unusually low rates in late 1995 and early 1996. Both the deceleration of consumer price inflation in late 1995 and its acceleration during 1996 are confirmed by independent household expenditure survey data.

During calendar years 1989 through 1996, the average annual rate of consumer price inflation indicated by the Rangoon CPI was 2% lower than that indicated by the GOB's Rangoon household expenditure survey, and also somewhat lower than that indicated by comparable independent household expenditure survey data for Rangoon. The independent household expenditure survey is based entirely on market prices. The GOB's Rangoon household expenditure survey may also be based on market prices to a greater extent than the GOB's Rangoon CPI, which is said to include some observations of retail sales at below-market prices at which limited amounts of some commodities are sold by the public sector, chiefly to public sector employees. Since official prices have generally decreased relative to market prices during the 1990s, this could explain why the consumer prices measured by the Rangoon household expenditure surveys inflated faster than those measured by the Rangoon CPI.

The GOB's Rangoon CPI may have tended to understate nationwide aggregate consumer price inflation, for three reasons:

- Public sector employees make up a larger proportion of the population in the capital than elsewhere, and a disproportionately large share of below-market sales of goods is to public sector employees.
- For calendar years 1989 through 1995, the GOB's household expenditure surveys showed consumer prices increasing more rapidly in Mandalay than in Rangoon, by an average of 2.4% a year; independent household expenditure surveys showed a similar discrepancy.
- In 1996, the household expenditure surveys showed prices rising faster in Rangoon than in Mandalay for the first time, apparently reflecting a relative slowing of growth in upper Burma. However, during late 1996 and early 1997 prices of imported consumer goods increased much faster than the prices of

³¹ For FY 89/90, there is a large divergence between the 57.7% producer price inflation indicated by the GDP deflator and the 23.7% consumer price inflation indicated by the Rangoon CPI.

domestically produced consumer goods, due to the GOB's imposition of import restrictions in July 1996. Since the Rangoon CPI is based on an FY 85/86 lower-income basket of necessities that includes no imported goods, it may understate consumer price inflation since mid-1996.

There is no direct evidence that the GOB's GDP deflator is a systematically biased indicator of producer price inflation. However, it may contain large and growing errors, since it is based on ratios of production inputs dating from FY 85/86. Moreover, if the Rangoon CPI tends to understate aggregate consumer price inflation, then either the GDP deflator may also understate producer price inflation, or consumer price inflation substantially in excess of producer price inflation would imply that domestic production for domestic consumption has become increasingly profitable.

Because the velocity of money in Burma is not observed, but merely calculated by dividing recorded GDP by the recorded money supply, no inferences about the accuracy of the GOB's aggregate price indicators can be drawn from the monetary data. The link between recorded money supply expansion and aggregate price inflation may be unusually weak in Burma, due to the large unrecorded money supply.

Balance of Payments

During the mid-1990s, Burma's recorded merchandise and non-factor services trade deficit grew to 20% of recorded GDP. Since little of the increase in imports was in capital goods, this caused consumption to grow faster than production, creating an illusion of sustained rapid economic growth. This widening of the trade deficit appears to have been caused by increasing foreign exchange rents in the form of workers' remittances and domestically retained narcotics export receipts, which largely financed this trade gap. These rents also appear to have been responsible for an appreciation of Burma's real exchange rate that has discouraged production of exports and import-substitutes. Since 1996, this appreciation has been arrested by a foreign exchange shortage that originated in the public sector, but which the GOB transferred to the private sector by rationing private imports, apparently precipitating capital flight.

However, this real exchange rate appreciation could resume if prospective natural gas export receipts -- also foreign exchange rents - are not invested in producing exports and import substitutes. On the other hand, unless the gas export receipts are largely used to pay for current imports, the foreign exchange shortage may persist and require continued import restrictions. The GOB has tried to use its prospective gas export receipts for both investment and consumption by borrowing heavily against them on commercial terms, effectively obligating much of them until well into the coming decade, despite being unable to service most of its existing external debt, which is largely concessional.

-- Merchandise trade data and balance

Three kinds of data on Burma's merchandise trade are available: GOB payments-basis data (Table D.1.a); GOB shipments-basis export data (D.2.a[3]) and arrivals-basis import data (Table D.2.a[4]); and UNCTAD data (Tables D.1.b, D.2.b[1] and D.2.b[3]). These last are data reported to UNCTAD by the governments of Burma's trading partners, covering their countries' recorded merchandise shipments to and arrivals from with Burma. (See the section on sources, data and method, above.) The UNCTAD data appear consistently at least as complete as the GOB data - sometime much more complete - with the exception that the GOB payments-basis figures are larger than the UNCTAD figures Burma's imports for FY 90/91 and FY 92/93. However, the GOB's arrivals-basis import figures for FY 90/91 and FY 92/93 are comparable to the UNCTAD figures. Although the GOB does not disaggregate its payments-basis trade data, this suggests that GOB payments-basis import data for FY 90/91 and FY 92/93 include payments not comparable to those reported in other years. (These may be payments for defense imports, which, as IMF/IFS points out, are normally excluded from GOB trade data, and which also appear to be consistently excluded from UNCTAD data). Consequently, the analysis of this report is based, in so far as possible, on UNCTAD data, which are cited at F.O.B. valuation for both imports and exports.

Based on UNCTAD data, Burma's recorded merchandise trade deficit increased from US \$143.1 million, equivalent to 5.5% of ARGDP, in 1989, to an estimated US \$1,182 million, equivalent to 21.5% of ARGDP, in 1995 (Tables D.1.b and B.2.c). The recorded merchandise trade deficit shrank from 1990 through 1992, but grew rapidly and continuously thereafter.³² UNCTAD merchandise trade data is not

³² These figures may understate Burma's trade deficit, because UNCTAD data for Burma's exports, being country-of-origin basis, may include some double counting of goods re-exported by such regional entrepots as Singapore and the Netherlands, whereas UNCTAD data for Burma's imports, being shipments-basis, include no such double-counting.

yet available for 1996; however, the share of ARGDP to which the merchandise trade deficit shown by less complete but more current GOB data is equivalent, widened from 16.5% in FY 95/96 to 19.3% in FY 96/97.

GOB data suggest that Burma's terms of merchandise trade (the weighted ratio of export prices to import prices), after deteriorating moderately during the early 1990s, improved greatly in FY 94/95 and slightly in FY 95/96 (*IMF/RED/97*). This recent improvement appears to be due largely to increases in the world prices of rice, fish and teak, three of Burma's leading exports. The rise in teak prices reflects a drop in the volume of Burma's exports of teak, of which it is by far the largest supplier.

-- *Recorded merchandise exports*

The value of Burma's UNCTAD-reported merchandise exports increased steadily from US \$416 million in 1989 to \$1,190 million in 1995. As a share of ARGDP, merchandise export receipts rose from 16.1% in FY 89/90 to 25.9% in FY 93/94, then declined to 22.2% in FY 95/96. However, the year-to-year percentage growth of the value of merchandise exports slowed steadily from 23% in 1990 to 11% in 1994 (Table D.2.b[1]). It was raised to 29% in 1995 only by a quadrupling of GOB-monopolized rice exports that proved unsustainable. In 1996, the value of merchandise exports declined for the first time since 1990, due to a decline in public sector exports in general and rice exports in particular (Table D.2.a[3]).

From 1989 through 1995, between 77% and 82% of Burma's recorded merchandise exports by value were received by other countries in East or South Asia (Table D.2.b[2]). The share of Burma's merchandise exports received by ASEAN countries grew from at least 30.8% to at least 43.0%; the share received by China declined from 27.2% to 11.0%. In 1995, the countries receiving the largest proportions of Burma's exports were Thailand (16.6%), Singapore (15.5%), India (12.0%) and China (11.0%); Burma's two largest non-Asian export markets were the U.S. and the E.U., which together received at least 11.8% of Burma's merchandise exports. (On Burmese exports to the U.S., which are mostly garment exports, see the section on the nature of the bilateral relationship, below.)

From 1989 through 1995, Burma's merchandise exports remain relatively undiversified. Seven leading commodity groups accounted for between 82% and 89% of recorded export receipts. Of these seven commodity groups, only one -- garments -- was not a raw material. In 1995, agricultural products (chiefly beans and pulses) accounted for 30% of recorded export receipts; wood and wood products (mostly teak) accounted for 25%; fish and other seafood, notably shrimp, accounted for 12%; precious stones (rubies, sapphires, jade) and pearls accounted for 4%; and rubber accounted for 2%. (See Tables D.2.b[5] and D.2.a[3]).

Garment assembly has been Burma's fastest-growing export industry, earning 8% of recorded merchandise export receipts in 1995. About two-third of garment exports were to the U.S., about one-third to Europe. However, the GOB publishes no data on garment exports; American and European garment distributors known to source from Burma have repeatedly been subjected to consumer boycotts, and many have announced that they have stopped sourcing from Burma.

The state has continued to monopolize leading traditional exports, including rice, teak, hardwood (by sea), uncut precious and semi-precious stones, pearls and rubber. From FY 89/90 to FY 94/95, according to GOB statistics (Table D.2.a[3]), the public sector share of recorded merchandise export receipts ranged from 46.7% in FY 92/93 to 63.7% in FY 94/95. The public sector share of exports appears to have declined to 40% of imports or less in FY 95/96 and FY 96/97, due to the GOB's inability to sustain rice exports at FY 94/95 levels (see the section on agriculture, above), and to the stagnation or wood and wood product exports. Since 1995, most sapphire and ruby production and much jade production have been brought under the control of UMEH. (See the section on defense, above.) Rubber plantations have been expanded aggressively in southern Burma's Mon State and Tenasserim Division.

Although the volume of state forest product exports has declined, the value has remained constant due to increased local processing and Burma's near-monopoly on world teak supplies. In 1993 and 1994, the GOB terminated the contracts of some of its Thai and Malay operating partners in forestry joint ventures, upon discovering that they were violating the terms of their contracts, notably by clear-cutting whereas selective cutting was specified, and by exporting more timber than was specified. The Embassy's observations of Burmese forests, both on the ground and from the air, suggest that the GOB is seriously committed to sustainable forestry management and is engaged in active although still limited reforestation efforts, in the areas of Burma that it effectively controls. The GOB's limitation of its teak exports is not only ecologically sound but also maximizes the GOB's profits, since Burma has a virtual monopoly on world teak supplies. However, unsustainable forestry practices and large-scale timber exports apparently continue in some border areas controlled by ethnic groups rather than by the central government. The large difference between UNCTAD and GOB figures for wood and wood product exports appear to indicate the magnitude of these border exports (Tables D.2.b[5] and D.2.a[3]).

Of Burma's recorded private sector merchandise exports, the most valuable category is beans and pulses, which are shipped chiefly to the Indian subcontinent. (See the section on agriculture, above.) The second most valuable category is fish, including much shrimp grown onshore. Recorded fish and fish product export receipts have increased impressively.

The UNCTAD data suggests that the coverage of rice and bean and pulse exports in GOB data is relatively complete; the commodities for which the GOB data's coverage is incomplete cannot be specified, due to a large undifferentiated category of "other exports including border trade" in the GOB data. (Compare Tables D.2.a[3] and D.2.b[5].)

Starting in mid-1998, exports of natural gas to Thailand from the offshore Yadana field may increase public sector exports by about US \$150 million. (See the discussion of receipts in the section on fiscal developments, above). Some of these receipts for the first three years are committed to be invested in domestic production of electricity and import-substituting fertilizer. However, much of these receipts until well into the next decade has already been spent, through pre-financing on commercial terms, to pay for public sector imports and debt service in 1996 and early 1997.

-- *Recorded merchandise imports*

The value of Burma's UNCTAD-reported merchandise imports increased from US \$559 million in 1989 to \$2,405 million in 1995. The share of ARGDP to which these merchandise imports were

equivalent rose from 21.7% in FY 89/90 to 43.7% in FY 93/94. The year-to-year percentage growth of the value of recorded merchandise imports accelerated to 51% in 1995 (Table D.2.b[3]). Provisional GOB data suggest that the value of recorded merchandise imports stabilized in 1996, due to the GOB's imposition of import rationing (Table D.2.a[4]).

Recorded merchandise imports grew faster during the mid-1990s than during the early 1990s. The current-dollar value of UNCTAD-reported merchandise imports increased by 70% from FY 89/90 to FY 92/93, but by 153% from FY 92/93 to FY 95/96. The year-to-year percentage growth of the value of recorded merchandise imports accelerated to 51% in 1995.

From 1989 through 1995, the proportion of Burma's recorded merchandise imports shipped from elsewhere in East or South Asia increased from 80.0% to 92.1% (Table D.2.b[4]). The share shipped from ASEAN countries grew from at least 23.1% to at least 51.8%; the share shipped from China ranged from 33.6% to 20.7%. In 1995, the countries shipping the largest proportions of Burma's merchandise imports were Singapore (26.5%), China (25.7%) and Thailand (13.2%). Most imports shipped from outside East and South Asia were shipped from the European Union (5.9%).

However, GOB import data indicates that the share of Burma's recorded merchandise imports originating from countries outside East and South Asia fell steadily from at least 30.0% in FY 89/90 to at least 11.6% in FY 95/96 (Table D.2.a[2]). and the share originating from the E.U. fell from 21.2% to 6.5%, while the share originating from ASEAN countries rose from at least 28.5% to at least 39.5%. In FY 95/96, 24.3% of GOB-recorded merchandise imports, by value, originated in Japan, 17.7% in Singapore, 13.9% in China, and 12.8% in Thailand.

Although the GOB data's coverage of Burma's merchandise imports is less complete than the UNCTAD data's for 1994 and 1995, the value of merchandise imports indicated by UNCTAD data for 1993 approximates the value of GOB-recorded imports for FY 93/94. Comparing the two indicates that, although 25.6% of Burma's merchandise imports were shipped from Singapore, only 10.3% originated in Singapore; and although 24.8% were shipped from China, only 15.9% originated in China. Conversely, although only 7.6% of Burma's imports were shipped from Japan, 25.5% originated in Japan; and although only 0.9% were shipped from the U.S., 3.5% originated in the U.S. This suggests that Japanese and U.S. government statistics on export shipments to Burma have grossly understated the true magnitude of Japanese and U.S. merchandise exports to Burma, most of which have been re-exported from either Singapore or China. (On Burma's imports from the U.S., see the section on the nature of the bilateral relationship, below.)³³

In 1995, 76% of Burma's recorded merchandise imports were consumer or intermediate goods; only 24% were capital goods. The four leading import commodity groups were vegetable and animal oils (8.7% of total merchandise imports), fabrics and textiles (6.3%), tobacco (5.9%) and beverages (2.7%). This import profile suggests that Burma has not conserved foreign exchange for investment in export-oriented industries, as many successful developing countries have done.

For most years from 1989 to 1995, the value of capital goods imports indicated by UNCTAD data approximates that shown by GOB data. However, UNCTAD data indicates that the value of

³³Re-exportations distort only direction of trade statistics. They cause not only overstatement of some countries' exports to Burma, but also equal understatement of other countries' exports to Burma; in the aggregate, these offset and negate each other. Consequently, re-exportations do not distort UNCTAD's shipments-based statistics on the value and composition of Burma's total legal merchandise imports.

Burma's imports of capital goods in 1992 and 1993 was substantially smaller than that indicated by GOB data for FY 92/93 and FY 93/94 (Tables D.2.a[4] and D.2.b[5]). Why such discrepancies exist for these years and only these years is not clear.

The public sector's share of the value of GOB-recorded merchandise imports declined from 61.1% in FY 89/90 to 32.5% in FY 95/96. There are no publicly available data disaggregating public sector merchandise imports into goods consumed by the central government, and those distributed or transformed by the state economic enterprises.

Arms, munitions and other finished-product defense imports appear to be largely omitted from both GOB and UNCTAD data on merchandise imports. The Embassy estimates that up-front payments for imports of finished military goods increased steadily from US \$56 million in FY 91/92 to \$178 million in FY 95/96, but remained equivalent to about 7% of the value of UNCTAD-recorded merchandise imports (Table G.5). However, imports of intermediate goods as inputs into domestic defense production are normally included in the UNCTAD data. Consequently, they also appear to be included in the GOB's merchandise import data for at least those years for which GOB import figures are comparable to or greater than UNCTAD import figures, namely FY 90/91, 91/92 and 93/94. Omission of such inputs into domestic defense production is one possible source of incompleteness in GOB merchandise import data for other recent years.

Partly in order to limit the proportion of consumer goods in legal merchandise imports, the GOB has required that 25 percent of export earnings be used for "essential imports," including cement, construction materials, industrial raw materials and spare parts, as well as such consumer goods as vegetable oils. At the end of 1992, the GOB greatly expanded the list of "essential imports," thereby appreciably facilitating foreign trade. However, since early FY 94/95, the GOB has also given preference, in awarding licenses to import highly profitable luxury goods, to importers of whose imports "essential" goods constitute at least 50%.

In June 1996, the GOB reduced its nominal tariff rates to levels consistent with membership in ASEAN. At the same time, it raised its effective tariff rates, and increased its customs revenues, by changing the exchange rate used to evaluate imports for customs duty assessment purposes from the official rate to 100 kyat per U.S. dollar.

Since July 1996, the GOB, faced with a worsening foreign exchange shortage, has rationed private sector imports by restricting issuances of import licenses and openings of letters of credit. This has enabled the GOB to use private sector foreign reserves for public sector imports and debt service payments. Since mid-1996, the GOB has nevertheless been obliged, for want of foreign exchange, to curtail public sector imports, apparently including defense imports. During the second half of 1996, Burma experienced unusually severe shortages of petroleum products and fertilizers, the only two major commodities that the public sector still imports and sells widely to the private sector at below-market prices. The petroleum products shortage followed the non-renewal of a crude oil and diesel fuel import contract by a Singaporean subsidiary of Mitsui Corporation, which had not been paid by the GOB for deliveries made under the previous year's contract. In response, the GOB denominated part of the official price of gasoline and diesel fuel in hard currency, effectively raising the official price closer to the market price.

Since mid-1996, Burma's foreign trade has increasingly been represented to the GOB as countertrade (barter); this facilitates banking of profits offshore rather than in Burma. An informal

secondary market in rationed private sector import privileges has also reportedly developed. Getting permission to import is also said by many businesspeople to be facilitated by making donations to the Karuna Foundation, a health care charity favored by the Minister of Commerce.

From mid-1996 to mid-1997, the prices of imported consumer goods appear to have risen even faster than prices generally, and to have led to accelerating consumer price inflation. Nevertheless, the supply of imported consumer goods remained remarkably large.

-- Non-factor services trade

No UNCTAD data on services trade is available. For all recent years except FY 90/91, the GOB has recorded a modest surplus for Burma's external trade in non-factor services. To some extent, this reflects sustained rapid growth of travel service export receipts, from US \$18 million in FY 89/90 to an estimated \$164 million in FY 95/96 (described in the section on tourism, above). In FY 95/96, travel services export receipts constituted about 3.0% of ARGDP, and were greater than merchandise export receipts for any class of commodities except forest products and beans and pulses.

However, the GOB's non-factor services export receipts are also boosted by foreign investment contract "signature bonuses." These bonuses, paid to the GOB by foreign firms upon receiving permission to undertake a direct investment with the tax exemptions and other preferences conferred by the 1988 Foreign Investment Law, are entered in the unspecified "other service export receipts" account, and appear to make up the greater part of the receipts in this account. The share of ARGDP to which "other" service export receipts were equivalent peaked at 4.8% in FY 92/93, when the GOB signed a contract giving Total S.A. of France permission to develop the offshore Yadana natural gas field, where commercializable reserves had already been found by other firms during the 1980s.

On the other hand, the GOB's non-factor services trade surplus was reduced by highly variable and sometimes large unspecified "other non-factor service import" payments. Between FY 89/90 and FY 95/96, the share of ARGDP to which payments in this account were equivalent ranged from 1.0% in FY 89/90 to 6.4% in FY 90/91. The interpretation of this account, and the causes of its remarkable fluctuations, are unknown.

-- The overall trade balance

Burma's deficit in UNCTAD-recorded merchandise trade and GOB-recorded non-factor services trade grew steadily in current dollar terms, from US \$145 million in FY 91/92 to US \$1,100 million in FY 95/96 (Tables B.2.c and F.2.b). The share of ARGDP to which this overall recorded trade deficit was equivalent declined during the early 1990s, but rose steadily from 5.3% in FY 92/93 to 20.0% in FY 95/96 (Table B.3.c). Based on less complete but more current GOB merchandise trade data, the share of ARGDP to which the overall trade deficit was equivalent rose from 15.0% in FY 95/96 to a provisionally estimated 18.7% in FY 96/97.

Non-narcotic merchandise exports unrecorded by the customs services of Burma's neighbors are likely to have diminished rather than grown during the 1990s, due both to the GOB's liberalization of external trade and to its increased control over border regions, especially those adjacent to Thailand. The

visible economic decay of such towns as Moulmein and Thaton, which flourished as centers of smuggling in goods other than narcotics during the 1980s, is compelling evidence of this.

Moreover, except for narcotics exports, merchandise trade not recorded in the UNCTAD data - *i.e.*, trade that evades the customs of Burma's trading partners - is extraordinarily profitable only to the extent that it evades customs duties. At least in the case of Thailand, these are low -- below the ASEAN ceiling of 40%.

There are also some unrecorded service exports, chiefly in the tourism industry, that are not captured by any available data. Unrecorded travel service export receipts can rarely be taken in the form of foreign merchandise or offsetting foreign services; they must normally be taken in the form of foreign currency or offshore deposits, generating an unrecorded trade imbalance. Since FY 93/94 (when unrecorded tourism export receipts may have been reduced by a partial exchange rate liberalization) these are likely to have grown along with Burma's fast-growing recorded travel service export receipts. Declining recorded travel export receipts per foreign arrival excluding overland arrivals on tourist visas might (or might not) indicate growing unrecorded travel service export receipts. (See the section on tourism, above.) However, GOB-recorded travel export receipts for FY 95/96 were only US \$164 million (Table D.3), and the GOB is actively concerned to discover and punish non-reportage of travel service export receipts. Consequently, it seems unlikely that unreported travel service export receipts amount to more than US \$100 million.

As Table D.5 indicates, the volume of narcotics exports does not appear to have changed greatly during the mid-1990s, and the at-border prices of heroin appear to have been relatively stable until 1996. Consequently, there appears to have been relatively little growth in narcotics export receipts from 1992 to 1995. The increase in receipts from narcotics and unrecorded travel services exports during this period appear to have been largely offset by an increase of comparable magnitude in payments for finished defense imports. Therefore, Burma's total trade deficit, on a payments basis, appears likely to have increased roughly as much in absolute terms as its recorded trade deficit during FY 91/92 through FY 95/96.

Simply put, the growth of Burma's overall trade deficit indicated by the best available data appears likely to have been largely real. This is true even though: (a) the total trade deficit was almost certainly smaller in absolute terms than the recorded trade deficit, because unrecorded narcotics and tourism export receipts exceeded unrecorded defense import payments; and (b) the total trade deficit was much less than 20% of total GDP in FY 95/96, not only because the total trade deficit is smaller than the recorded trade deficit, but also because an extraordinarily large unrecorded economy causes total GDP to exceed recorded GDP by an apparently large proportion.

Because imports of capital goods have accounted for only about one-fifth to one-sixth of the increase in recorded imports during the mid-1990s (Table D.2.b[5]), the increase in the recorded trade deficit caused consumption in the recorded economy to increase steadily from 83.0% of ARGDP in FY 91/92 to 95.2% of ARGDP in FY 95/96 (Table B.3.c). During this period, consumption in the recorded economy grew much faster than recorded production. Whereas real ARGDP (discounted by the GOB's GDP deflator) grew at an average annual rate of 5.4%, real consumption in the recorded economy (discounted by the GOB's Rangoon CPI) grew at an average annual rate of 9.0%. Total consumption is also likely to have grown faster than total production, because, even though most saving continued to take place in the unrecorded economy, there is no evidence to suggest that unrecorded net saving increased relative to unrecorded production; from FY 91/92 to FY 95/96, deposits in the formal banking

system grew as rapidly as recorded ARGDP (Table E.1.b), which does not suggest any shift in savings from the formal to the informal banking system.

This import-driven growth of consumption in excess of growth in production created an illusion of sustained rapid economic growth in Burma. This illusion often deceived casual investors. The streets were increasingly full of imported cars; the shops were increasingly full of imported goods. Assuming that all this must be paid for by domestic production, casual foreign observers often concluded that Burma's economy was booming.

It was not. The increase in imports and consumption was not paid for by an increase in domestic production. Rather, as the rest of this section will show, it was paid for largely by increasing workers' remittances from abroad and by increasing unrecorded net foreign exchange inflows that reflect chiefly an increase in domestic retention of narcotics export receipts.

-- Unrequited private transfers (workers' remittances)

Burma's fastest-growing source of recorded foreign financial inflows during the 1990s has been unrequited legal private transfers of cash from abroad -- that is, recorded inflows of foreign currency, not in exchange for any recorded outflows of goods and services. As Table B.3.c shows, the share of ARGDP to which net recorded unrequited private transfers were equivalent grew from 2.1% in FY 89/90 to an estimated 7.8% in FY 93/94, and remained above 6% in FY 94/95 and FY 95/96. Recorded unrequited private transfers more than doubled in current dollar terms from FY 92/93 to FY 93/94, largely in response to the partial exchange rate liberalization of early 1993, which enabled foreign currency to be converted legally into kyat at the market exchange rate for the purpose of purchasing domestically produced goods or services for domestic consumption. However, some of this increase in legal private transfers may have been displacement of unrecorded private transfers.

Published GOB statistics offer no data about the sources of these private transfers; they are not disaggregated by country of origin or in any other way. Nor is it known what if any controls the GOB places on these transfers to prevent their becoming a vehicle for repatriation of extralegal export receipts. Consequently, the possibility that these unrequited net private transfers might include some repatriation of receipts from extralegal exports, such as opiate exports, cannot be excluded on the basis of information now available. However, authoritative analysts of the Burmese economy have indicated that they believe these private transfers to consist largely of remittances to relatives from Burmese nationals working in other countries. The size of these transfers does not appear to exceed the maximum plausible savings potential of the large Burmese diaspora, which has grown during the SLORC's rule.

From FY 93/94 through FY 96/97, these remittances from workers abroad to relatives at home have been Burma's largest single recorded source of foreign exchange, consistently exceeding receipts from either wood and wood product exports, bean and pulses exports, rice exports or travel service exports, recorded external loan disbursements, external grants, or foreign direct investment. During these years, these remittances made Burma's recorded GNP exceed its recorded GDP by between 6% and 7% in exchange-rate-adjusted terms (Table B.3.c).

-- Foreign direct investment

Recorded foreign direct investment disbursements declined from US \$249 million (equivalent to 9.9% of ARGDP) in FY 91/92 to US \$95 million (equivalent to 2.7% of ARGDP) in FY 93/94, then rose to more than \$300 million (equivalent to about 6% of ARGDP) in FY 95/96 and FY 96/97 (Table B.3.c). During the early 1990s, foreign direct investment accounted for most of Burma's recorded capital goods imports; during the mid-1990s, it accounted for much less than half. The increase in foreign direct investment since FY 95/96 was due largely to the start of the development of the offshore Yadana natural gas field, including the construction of the pipeline by which gas is to be exported from that field to Thailand.

As Table D.6 shows, published GOB statistics show that the cumulative total of foreign direct investment disbursed from FY 89/90 through FY 95/96 was about US \$1.2 billion - about 37% of the cumulative total of value of foreign direct investment approved by the GOB during the same period. Approvals do not obligate foreign firms to invest; they are best thought of as options to invest, paid for up-front with "signature bonuses." Almost all of both these approvals and these disbursements were made under the authority of the 1988 Foreign Investment Law: before 1988, there was little foreign direct investment in Burma, and that was in the oil and gas and mining sectors.

These cumulative disbursements are merely the undiscounted costs of the foreign investors. They are a poor indicator of present market value, especially because so much of the director foreign investment has been in the oil and gas sector, where the relationship between costs and returns is extremely uncertain. For example, most of the foreign direct investment by U.S. firms were unsuccessful oil exploration efforts during the early 1990s; the present value of these investments is near zero.

Disaggregated data on foreign direct investment are not yet available for FY 96/97. From FY 89/90 through FY 95/96, 74% of disbursed foreign direct investment was in the oil and gas industry; 14% was in the tourism industry, where overinvestment since 1994 has created a glut of hotel facilities; 6.4% was in manufacturing, largely in garment assembly plants that export chiefly to the U.S.; 5% was in real estate, which the GOB began to sell to foreigners in FY 95/96, when it started to run short of foreign exchange; 3% was in mining, chiefly of gold and copper; 1% was in fisheries; almost none was in agriculture, by far the largest sector of Burma's economy.

From FY 90/91 to FY 94/95, firms legally domiciled in countries in Southeast Asia accounted for an increasing share of foreign direct investment disbursements; firms legally domiciled in countries outside Southeast Asia - with the notable exception of France -- accounted for a sharply decreasing proportion. This trend was reversed in FY 95/96 by large disbursements by Total S.A. of France, by multinational oil and gas firms domiciled in U.K. dependencies, and by oil and gas firms domiciled in the U.S., in connection with the development of offshore natural gas fields. (On investment in Burma by firms domiciled in the U.S., see the section on the nature of the bilateral relationship, below.)

Of all recorded foreign direct investment disbursed from FY 89/90 through FY 95/96, under the 1988 Foreign Investment Law, firms domiciled in the U.S. disbursed 23% (US \$280.8 million). The only French investor, Total S.A., a hydrocarbons firm partly owned and effectively controlled by the Government of France, disbursed 13.8% (\$167.2 million). Firms domiciled in the U.K. or its dependencies, notably subsidiaries of multinational oil and gas firms domiciled in the British Virgin Islands and Bermuda, disbursed 13.0% (\$157.7 million). Firms domiciled in Singapore, including some firms owned entirely by Japanese nationals, disbursed 8.9% (\$108.3 million). Two firms domiciled in the Netherlands disbursed 7.7% (\$93.5 million), Royal Dutch Shell in unsuccessful oil exploration efforts during the early 1990s, and Heineken in a brewery that it abandoned under pressure of a

politically motivated consumer boycott in the U.S. and Europe in 1996. Firms domiciled in South Korea disbursed 7.5% (\$91.5 million), much of it in garment assembly joint-ventures with UMEH during the early 1990s. Firms domiciled in Thailand disbursed 6.6% (\$80.0 million) in diverse ventures, much of it recently. Firms domiciled in Japan disbursed 5.9% (\$70.9 million), most of it in unsuccessful oil exploration efforts during the early 1990s. Firms domiciled in Australia, Bangladesh, Canada, China, Hong Kong, Malaysia and the Philippines also disbursed some investments during this period.

Since 1996, foreign direct investment in Burma's manufacturing sector has been slowed by international consumer boycotts, chiefly in North America and Europe. These boycotts contributed to inducing Heineken, Carlsberg and PepsiCo to terminate investments in beverage manufacturing plants, and are reliably said to have deterred many foreign firms from proceeding with contemplated manufacturing investments. One U.S. state government (Massachusetts) and twelve U.S. municipal and county governments (including New York City, San Francisco and Oakland) have joined this boycott, under state and local "selective purchasing" laws that prohibit or discourage these governments from buying from firms that invest in Burma or buy goods of Burmese origin. In May 1997, the U.S. Government prohibited firms domiciled in the U.S. from contracting new investments in Burma or facilitating operations of other firms under new investment contracts. (See the section on major political issues affecting the business climate, below.) However, the Government of Japan is reported to have resumed, in early 1997, providing financial services in support of investments in Burma by firms domiciled in Japan; such services had not been provided since 1990.

-- Other recorded cash financial inflows: grants, loans and "net other capital movements"

The external grants that the GOB records having received in its balance of payments accounts - and shown in this report's balance of payments accounts (Tables D.I.a and D.I.b) -- have consisted mostly, in recent years, of debt relief grants from the Government of Japan. (See the discussion of debt, arrears and debt relief later in this section.) These grants have no effect on cash flows; they merely slow the GOB's accumulation of arrears to the Government of Japan, its largest recorded external creditor. Net of these non-cash debt relief grants, external grants to the GOB have increased from US \$5 million in FY 90/91 to about \$40 million a year during FY 92/93 through FY 96/97. Much of these grants is provided by U.N. agencies, notably UNDP, UNICEF and UNDCP, in the form of grass-roots level projects that provide assistance in such fields as basic education, basic health and agricultural technology directly to rural communities in diverse regions of Burma.

Recorded disbursements of external loans increased from a low of US \$61 million in FY 91/92 to a provisionally estimated \$156 million in FY 96/97, as private commercial lenders partly filled the financing void created by the GOB's loss of access to concessional financing from most official and multilateral donors. Some of these commercial loans appear to be guaranteed by other Asian governments or their export financing parastatals; for example, the Government of Japan in 1995 resumed providing repayment guarantees for loans of up to three years' term to finance Japanese exports to Burma.

Through 1994, according to *WB/WDT*, the GOB never received any private external loans that were not guaranteed by some foreign government or parastatal agency. However, much of the recently increased lending to the GOB by foreign firms appears not to be publicly guaranteed, and also not to be supplied by banks. It appears to be largely medium-term commercial-rate credit provided by firms with

foreign direct investments in Burma, against the implicit or explicit security of prospective receipts from Yadana field natural gas exports. External loans to the GOB are described in greater detail in the discussion of external financing in the section on fiscal developments, above.

The GOB's capital accounts appear to omit disbursements of new external loans to finance defense imports. Since 1990, the GOB is widely and credibly alleged to have received, chiefly from the Government of China, substantially more such loan disbursements than it had received in previous years, reflecting a large increase in defense imports since the SLORC was constituted. (See Table G.5.)

With one noteworthy exception, financial flows in the "net other capital inflows" account of the balance of payment (Tables D.I.a and D.I.b) were negligible from FY 89/90 to 94/95. The very large positive entry -- US \$ 304 million - in the "net other capital inflows" account for FY 89/90 represents some of the receipts from the GOB's sale, in 1989, of real estate belonging to the GOB's diplomatic mission in Tokyo. An unusually large negative entry - US \$ 348 million -- in the below-the-line "net monetary movements" account for the same year reflects the abnormal increase in the GOB's net foreign assets in consequence of the deposit of some of the proceeds from that sale in banks outside Burma. The abnormally large FY 89/90 entry for public sector net foreign assets in Table E.I.b also reflects this. During FY 90/91, the GOB spent much of the proceeds from the 1989 Tokyo embassy real estate sale, in part on increased import subsidies to cushion the effects of its partial exchange rate liberalization during that election year, and in part to pay for the unfihsanced portion of a great increase in defense imports.

Reductions in foreign reserves were an important source of foreign exchange both during the early 1990s and again in 1996. On these reductions, see the discussion of domestic financing in the section on fiscal developments, and the discussion of net foreign assets in the section on monetary developments, above.

-- *External debt, debt service, arrears and debt relief*

As Table D.4 shows, Burma's stock of recorded medium- and long-term external debt appears to have grown, in current U.S. dollar terms, from \$4.2 billion at the end of FY 89/90 to about \$6.2 billion at the end of FY 95/96.³⁴ Including short-term debt, Burma's stock of recorded external debt had already reached \$6.5 billion at the end of 1994, according to the World Bank's *World Debt Tables*.

This recorded external debt appears to omit debt incurred to finance military imports. For example, it included, as of the end of March 1994, only US \$ 73 million worth of official debt to China, down from \$ 91 million at the end of March 1993. However, between 1990 and March 1994, the GOB is authoritatively estimated to have imported many hundreds of millions of dollars worth of finished military goods from China, and the bulk of these imports are reported to have been concessionally financed.

From FY 89/90 to FY 96/97, recorded external debt service payments due each year appear to have increased, in current U.S. dollar terms, from \$253 million to \$387 million. However, the share of ARGDP to which recorded external debt service payments due were equivalent, at the market exchange

³⁴ The lower debt stock figure for FY 95/96 given in IMF/RED/97, which shows debt stocks as declining, appears to be based on two errors: the omission of any entry for multilateral concessional debt owed to institutions other than the IDA and the ADB; and a reduction in the stock of debt outstanding to the Government of Japan, which is authoritatively said not to be correct.

rate, decreased from 9.8% to 7.0%. Moreover, recorded external debt service payments due decreased from 46% to 25% of UNCTAD-reported receipts from exports of goods and non-factor services, ostensibly indicating substantially improved external debt service capability.

However, these ratios may overstate Burma's external debt service capability, since they evidently omit defense-related debt service obligations. It is unclear whether these unrecorded obligations have grown faster or slower than recorded external debt service obligations. However, these unrecorded debt service obligations, being defense-related, are likely to receive priority in the allocation of public sector foreign exchange so long as Burma continues to be ruled by the military.

The external debt service accounts published in *IMF/RED/97*, *IMF/RED/95*, *WB/PSER* and *WB/WDT* all suggest that the GOB's external debt service performance improved greatly during the mid-1990s. They show the ratio of the GOB's recorded external debt service payments to its recorded external debt service obligations increasing from 16% in FY 92/93 to 81% in FY 95/96. However, much of this improvement in the GOB's external debt service performance is an illusion created by treating increasing debt service payments given back by the Government of Japan (GOJ) as debt service payments disbursed.

Throughout the 1990s, the GOJ has promptly given back to the GOB, as untied credits for non-military public sector imports, the debt service payments it has received from the GOB. These debt service obligations, although legally discharged, were not paid in any meaningful economic sense; rather, they were effectively forgiven. By counting these debt service payments given back by the GOJ as debt service payment disbursements, the World Bank and IMF debt service accounts greatly overstate the GOB's debt service performance. Moreover, these debt service give-backs from the GOJ increased steadily from \$24 million or 8% of the GOB's recorded debt service obligations in FY 90/91, to \$145 million or 40% of the GOB's recorded external debt service obligations in FY 95/96.³⁵ Consequently, counting these give-backs as payments overstates the GOB's external debt service performance by an increasing amount, both in absolute terms and relative to its known external debt service obligations.

Net of debt relief from the GOJ, the GOB has never paid more than 41% of its debt service obligations in any year during the 1990s. It paid more than 28% only in FY 95/96, when its unsustainable quadrupling of state-monopolized rice exports briefly increased public sector foreign exchange receipts (Table D.4). Throughout the 1990s, the GOB has fully serviced its debt to the international financial institutions, notably the World Bank and the Asian Development Bank, and to the U.S. Government (which accepts payment in kyat), but to few other external creditors. The Embassy estimates that the GOB paid no more than one-third of its non-defense external debt service obligations in FY 96/97, when it suffered from a foreign exchange shortage so acute that it was obliged to impose import rationing on Burma's private sector. Since its foreign exchange shortage apparently remains unresolved, it seems unlikely to do better in FY 97/98. The GOB appears to be borrowing massively from private lenders at commercial interest rates; it seems unlikely that the GOB would do this while simultaneously making payments to service official bilateral debt carrying much lower rates of interest.

³⁵However, in FY 96/97, these debt relief grants from the GOJ declined to US \$78 million.

From the end of FY 89/90 to the end of FY 95/96, Burma's stock of known external debt service arrears (debt service payments due but not disbursed) appears to have nearly quintupled in current U.S. dollar terms, from \$0.4 billion to \$1.9 billion (Table D.4).³⁶

Starting in mid-1998, the GOB will receive about US \$150 million a year in receipts from Yadana field natural gas exports that are already largely obligated until well into the next decade. It is unclear whether or the GOB will also receive additional foreign exchange in the form of taxes on the profits of the private partners in the Yadana field consortium. However, any such receipts would start only after the private investors in the Yadana field consortium have recouped their investment costs, or possibly sometime later than that if a tax holiday was negotiated. Meanwhile, the GOB's prospective US \$150 million a year in receipts from Yadana field natural gas exports, even if it were entirely free for debt service, would not cover even half the GOB's recorded external debt service obligations for FY 95/96.

During the coming years, the GOB's recorded external debt service obligations are likely to grow even faster than its still growing stock of recorded external debt, because in recent years that stock has increasingly become composed of medium-term high-interest commercial credit rather than highly concessional long-term development loans. Its unrecorded defense-related external debt service obligations also appear likely to grow. The GOJ limits the amount of debt that it will relieve unilaterally. Consequently, continued accumulation of external arrears appears likely unless the GOB can greatly reduce Burma's external financial deficit or gain access either to Paris Club relief of its official bilateral debt or to London Club relief of its new private external debt. However, such access is likely to require an IMF financial program, which does not appear to be in prospect for both economic and political reasons. The GOB has not had an IMF program since 1982. In early 1997, the GOB withdrew its unsuccessful 1995 bid for a non-financial IMF monitoring program, for which conditions are less rigorous than for a financial program.

-- Aggregate external accounts: the flow of funds

This report presents Burma's external accounts in two formats: the balance of payments (BOP) format (Tables D.1), and the flow of funds format (Tables F). The BOP format is obligations-basis; the flow of funds format is cash-basis, accounting for debt service on a disbursements basis, and excluding the external arrears account present below the line in the BOP format. Although less familiar, the flow of funds has two advantages over the BOP. First, it avoids one source of error in the BOP, namely the common failure of differences between debt service paid and debt service due accounts (debt flow data) to reconcile precisely with arrears figures that represent changes in accumulated arrears (debt stock data). Therefore, the error and omissions term in the flow of funds is more accurate than that in the BOP, by the amount of the statistical discrepancies in Tables F. Second, the flow of funds format corresponds to the identity central to GDP expenditure accounting (Tables B): $M - X = I - S$, imports in excess of exports (the merchandise and non-factor services trade deficit, or net foreign goods and services inflows) equals investment minus savings (the cash-basis financial deficit, or net foreign financial inflows).

³⁶ The estimate for bilateral official arrears for FY 95/96 in Table D.4 is greater than that given in *IMF/RED/97*. However, it is based on the difference between debt service obligations and disbursements for FY 95/96 shown in *IMF/RED/97*; the arrears stock and debt service flow figures for FY 95/96 in Table D.4 reconcile; those in *IMF/RED/97* do not.

In exchange-rate-adjusted terms, and based on UNCTAD merchandise trade data, the share of ARGDP to which Burma's recorded merchandise and non-factor services trade deficit was equivalent, grew from 5.5% (\$65 million) in FY 89/90 to 20.0% (\$1.1 billion) in FY 95/96 (Table B.3.c). By contrast, in exchange-rate-unadjusted terms, based on GOB trade data, the share of URGDP to which the recorded merchandise and non-factor services trade deficit was equivalent, ranged from 0.2% to 2.2% during this period, and was only 0.8% in FY 95/96 (Table B.3.a).

The recorded cash-basis financial deficit consists of recorded net foreign financial inflows: the decrease in net foreign assets, plus unrequited private transfers, foreign direct investment disbursements, foreign grant disbursements, and foreign loan disbursements, minus external debt service payment disbursements. In exchange-rate-adjusted terms, the share of ARGDP to which the recorded financial deficit was equivalent declined from 19.7% in FY 90/91 to 12.7% in FY 95/96, and averaged 13.6% during the period.

From FY 90/91 through FY 95/96, the value of net foreign financial inflows was consistently greater than recorded GDP growth -- about twice as great, on average. For six years, on average, Burma's recorded economy appears to have absorbed net foreign financing equivalent to more than 13% of its own volume, but to have grown less than 6%. Since legal investment appears to have stagnated at about 20% of ARGDP during this period (Table B.3.c), this situation might be unsustainable, if these financial inflows were chiefly profit-seeking rather than charitable in nature. However, during the mid-1990s, recorded foreign financial inflows of an apparently charitable nature (grants, unrequited net private transfers, and the implicit grant element of concessional loans) accounted for more than half the value of net foreign financial inflows. Unrequited private transfers alone accounted for about half. Even though the volume of cash-basis grants remained small, and the grant element of new loans declined sharply as commercial financing replaced concessional financing, recorded external financial inflows of a charitable nature exceeded those of a profit-seeking nature (foreign direct investment and commercial loans).

-- Errors and omissions: unrecorded external flows

Net recorded cash basis foreign financial inflows should, ideally, equal the recorded merchandise and non-factor services trade deficit. In the GOB's balance of payments accounts as presented in GOB and IMF publications, they do, with only small net errors and omissions terms (Table D.I.a).³⁷ However, when the trade deficit is based on UNCTAD rather than GOB merchandise trade data (Table D.1.b), they do not. Instead, the net errors and omissions terms are increasing, indicating increasing net unrecorded foreign exchange inflows -- that is, recorded imports in excess of recorded export receipts and net foreign financial inflows to pay for them.

Recorded net cash-basis foreign financial inflows, which had declined during the early 1990s, increased from US \$336 million in FY 92/93 to US \$700 million in FY 95/96. However, they grew less rapidly than the recorded merchandise and non-factor services trade deficit. As indicated by the net

³⁷ The fact that the GOB's balance of payments accounts routinely come close to balancing despite the evident incompleteness of its merchandise trade accounts suggests that this incompleteness may not be merely the result of random omissions by customs officials. The GOB's balance of payments accounts are compiled by its central bank.

errors and omissions terms in the balance of recorded payments (Tables D.1.b and F.2.b), they were US \$243 million greater than the recorded trade deficit in FY 91/92. However, by FY 95/96, they were \$400 million less than the recorded trade deficit. Every year in between, the recorded trade deficit grew relative to recorded net financial inflows. In other words, net unrecorded foreign exchange inflows grew steadily by almost \$650 million, from negative \$243 million to positive \$400 million.

The share of ARGDP to which net unrecorded foreign exchange inflows were equivalent also grew steadily, from negative 9.3% in FY 91/92 to positive 7.3% in FY 95/96. By FY 95/96, when the recorded trade deficit was equivalent to 20.0% of ARGDP, net recorded foreign financial inflows were equivalent to only 12.7% of ARGDP; they financed only two-thirds of the recorded trade deficit. The remaining third was covered by net unrecorded foreign exchange inflows.

In other words, during the early 1990s, there were about \$200 million a year of recorded foreign exchange inflows (export receipts and net foreign financial inflows) in excess of recorded imports. However, after FY 91/92, this excess first diminished and then was reversed. By FY 95/96, there were \$400 million of recorded imports in excess of recorded foreign exchange inflows -- i.e., for which there were no evident means of payment in the recorded economy.

Because unrecorded merchandise trade involving neither defense imports nor narcotics exports is likely to balance (see the discussion of the overall trade balance earlier in this section), the net unrecorded foreign exchange inflows indicated by the net errors and omissions terms in Burma's balance of payments based on UNCTAD merchandise trade data are likely to reflect the sum of the following:

- (a) the GOB's unrecorded payments, apparently including debt service payments as well as up-front payments, for imports of finished military goods generally omitted from UNCTAD data;
- (b) unrecorded travel services export receipts, which cannot readily be taken in the form of foreign merchandise; and
- (c) domestically retained receipts from narcotics exports, which, due to international illegalization, are uniquely profitable enough to cover money laundering costs, so that they need not be taken in the form of foreign merchandise.

The Embassy estimates that up-front payments for finished defense imports increased from US \$56 million in FY 91/92 to \$178 million in FY 95/96 (Table G.5). Defense-related external debt service payments cannot readily be estimated. The extent to which unrecorded defense-related payments account for the \$200 million a year in net unrecorded foreign exchange outflows during the early 1990s is not clear. Capital flight may also have contributed; during that period political risks were widely perceived to be high and the use of foreign currency deposited in domestic banks was severely restricted. However, it seems highly likely that unrecorded defense-related foreign exchange outflows amounted to at least \$200 million in FY 95/96. Consequently, gross unrecorded foreign exchange inflows seem likely to have amounted to at least \$600 million, equivalent to 11% of ARGDP, in FY 95/96.

Unrecorded travel export services export receipts may have accounted for some but not much of this. As described in the discussion of the overall trade balance earlier in this section, this could hardly have amounted to more than \$100 million, and \$50 million seems a more likely figure. This leaves at least \$500 million and more probably \$550 million in apparent gross unrecorded foreign exchange inflows to be explained.

-- *Narcotics exports and other foreign exchange rents*

and their real exchange rate effects

During the mid-1990s, there was abundant anecdotal evidence, much of it reported in the international press, that a growing proportion of Burma's narcotics export receipts were staying home rather than being kept abroad. Businesses affiliated with the opium-growing and opiate-exporting Wa and Kokang ethnic group organizations, with which the SLORC negotiated cease-fires during the late 1980s and early 1990s, began during the mid-1990s not just to operate openly in Rangoon, but to do large volumes of business. Some of Burma's private banks, legalized since 1992, appear to be affiliated with these organizations; some also are authorized to handle foreign exchange transactions. The GOB has increasingly tolerated and appears actively to have welcomed the participation of such firms in constructing physical infrastructure in targetted sectors, such as hotels and transportation. During the mid-1990s, Burmese businesspeople have widely complained of the increasing difficulty of competing against businesses affiliated with and apparently financed by these organizations and the Khun Sa organization with which the GOB reached an accommodation in January 1996.

The growing net unrecorded foreign exchange inflows during the mid-1990s, indicated by the net errors and omissions terms of the balance of payments based on UNCTAD merchandise trade data, are consistent with this anecdotal evidence. In the absence of any alternative explanation for these growing and recently large net unrecorded foreign exchange inflows, the best available statistical evidence appears consistent with the widely reported anecdotal evidence.

Burma's potential narcotics export receipts appear *not* to have increased much during the 1990s. As the data in Table D.5 indicate, the volume of Burma's potential opiates exports did not increase much during that period. Neither, until 1995, did the prices observed at and near Burma's borders.

However, soon after the SLORC was constituted, the GOB stopped its Ne Win era practice of confiscating bank deposits that could not be shown to have been legally earned. Abuses of this practice had contributed to a widespread lack of confidence in the formal banking system, which had received few deposits. Instead, the GOB instituted a "money whitening tax" of 40% on foreign currency income that could not be shown to have been legally earned. This rate of tax was reduced to 25% during brief amnesties from February to December 1990, and again from November 1994 to March 1995.

No less importantly, in early 1993, the SLORC for the first time allowed foreign currency to be converted into kyat at the market exchange rate to buy domestically produced goods and services for domestic consumption. This partial exchange rate regime liberalization caused recorded workers' remittances to double from FY 92/93 to FY 92/94. (See the discussion of net unrequited private transfers earlier in this section.) It must have similarly stimulated domestic retention of narcotics export receipts.

From 1989 until 1993, the greatest obstacle to domestic retention of narcotics export receipts had not been money laundering costs. The GOB derived little income from its official "money whitening tax" even when it was reduced to 25 percent in 1990 and 1994-95; this suggests that average money laundering costs may have been less than 25%. By contrast, conversion at the official exchange rate was tantamount to a confiscatory tax rate - already about 90% in 1990, about 95% by 1993. Absent any offsetting increase in GOB efforts to confiscate narcotics export receipts -- which did not materialize -- the partial exchange rate regime liberalization of early 1993 made Burma, for the first time, competitive as a venue for investing such receipts.

Quantifying narcotics exports is problematic and subject to large errors. However, the data in Table D.5, based on official USG estimates of potential opiates production and on U.S. Drug Enforcement Administration information on the prices at or near Burma's border, suggest potential at-border opiates production values of about US \$500 million a year during 1992 through 1994, more than \$850 million a year in 1995, and \$1.2 billion a year in 1996. While it is impossible to know how much potential production was exported and at what prices these amounts -- which omit receipts from amphetamine exports that reportedly have grown rapidly during the mid-1990s - are large enough that increased domestic retention of them could account for the apparent increase of about US \$550 million in gross unrecorded foreign exchange inflows from FY 92/93 to FY 94/95.

By FY 95/96, workers' remittances from abroad and gross unrecorded foreign exchange inflows that may have been domestically retained narcotics export receipts were equivalent to about 17% of ARGDP, or more than 80% of Burma's recorded merchandise and non-factor services trade deficit. From FY 91/92 to FY 95/96, workers' remittances (net unrequited private transfers) increased from \$83 million to \$352 million a year, and domestically retained narcotics export receipts may have increased from near zero to about \$550 million. Together, they appear to have increased by more than \$800 million. Increases in workers' remittances and in domestic retention of narcotics export receipts may have financed the preponderance of the \$950 million increase in the overall recorded trade deficit -- apparently comparable to the increase in the total overall trade deficit -- from FY 91/92 to FY 95/96. Increased unrecorded travel service export receipts may have accounted for much of the rest.

Thus, the import-driven consumption growth in excess of production growth that created an illusion of sustained rapid economic growth in Burma during the mid-1990s appears to have been fueled largely by increases in workers' remittances from abroad and in domestically retained narcotics export receipts.

Both workers' remittances and narcotics export receipts are largely foreign exchange rents: that is, they increase the supply of foreign goods at relatively little opportunity cost in domestic resources. Consequently, they tend to cause the price of foreign goods to decline relative to the price of domestic goods; that is, they tend to make the market value of the domestic currency appreciate in real term - to make the real exchange rate appreciate. In response, domestic resources are reallocated away from production of internationally tradable goods - both exports and import substitutes - to production of non-tradables for domestic consumption, causing exports to decline and imports to rise relative to GDP. Thus, such foreign exchange rents tend to have adverse effects on the balance of payments, tending to widen the overall trade deficit.

During FY 93/94 through FY 95/96, both the GOB's two main indicators of aggregate price levels -- its GDP deflator and its Rangoon consumer price index -- nearly doubled, increasing at an average annual rate of almost 26% (Table C). Meanwhile, the market exchange rate remained virtually unchanged in nominal terms, staying near 120 kyat per U.S. dollar. Since price inflation in the U.S. averaged only two to three percent a year during the period, the real market value of the kyat -- that is, the real exchange rate - appreciated by more than 80%, at an average annual rate of about 23%, during these three years.

The effect of this real exchange rate appreciation on Burma's exports has been limited. Most major exports are either state monopolies (rice, wood, gems, jade, rubber) or are produced by foreign investors (most garments) who have little interest in earning kyat. The largest recorded export neither monopolized by the state nor produced largely by foreign investors, beans and pulses, is a crop for which

there is little domestic demand, grown during the dry season on land that is good for little else if not irrigated during that season. Moreover, the growth of UNCTAD-recorded merchandise exports slowed from an average annual rate of 21% from 1989 to 1992 to an average annual rate of 18% from 1992 to 1995, even though 1995 was a peak year of unsustained rapid export growth. During FY 95/96 and early 97/98, merchandise exports appear to have stagnated, although UNCTAD data is not yet available.

The effect on the production of import-substitutes was more readily apparent. Many Burmese firms producing import-substitutes failed or switched to other lines of business during 1995 and early 1996; this contributed to a slowing of growth in the cities of upper Burma, where such firms are concentrated.

Since early 1996, the appreciation of the real exchange rate has been arrested, although not reversed, by the public sector's foreign exchange shortage, which the GOB has transferred to the private sector first by buying and spending private foreign exchange and then by imposing import rationing. Between April and July of 1996, the GOB's printing of kyat to buy private sector foreign exchange caused the kyat to depreciate enough to offset domestic price inflation for FY 96/97, even though it also caused inflation to accelerate. Further nominal depreciation of the kyat during May and June 1997, apparently reflecting private capital flight in response to the imposition of import rationing, has continued to keep the real exchange rate stable.

In FY 96/97, the GOB appears to have curtailed public sector imports, including defense imports. However, public sector exports also decreased from the already low levels of FY 95/96. High GOB officials have stated publicly as well as privately that they are counting on the receipts from Yadana field gas exports, due to start in mid-1988, to solve many of their problems.

Like its workers' remittances and narcotics export receipts, Burma's gas export receipts will be foreign exchange rents: they will have small domestic opportunity costs. Consequently, if they are used to pay for non-capital imports rather than invested in producing exports and import substitutes, they, too, may cause the real exchange rate to appreciate, and may have adverse indirect balance of payments effects. The prospect of gas receipts seems already to be diminishing the SLORC's interest in other means of alleviating its foreign exchange shortage. On the other hand, unless these receipts are used to pay for non-capital public sector imports, the public sector foreign exchange shortage and hence private sector import rationing could persist for several years.

The SLORC appears to be trying to avoid this dilemma by mortgaging its prospective gas export receipts well into the next decade so as to use them now both for investment and for consumption. It has obligated most of its first three years' worth of Yadana field gas to fund the "three-in-one" project, which will produce both electricity and import-substituting urea fertilizer. However, it has also borrowed heavily on commercial terms against its future gas export receipts to fund current non-capital public sector imports.

Infrastructure situation

Many projects are underway or planned to improve Burma's physical infrastructure, which remains an impediment to the production and distribution of goods and services, and may constrain short- and medium-term economic growth. Although much of the improvement in transportation and irrigation infrastructure was accomplished through increasing use of uncompensated "people's contributions" of labor from 1993 through 1995, since mid-1996 the GOB appears to have reduced its use of uncompensated labor, at least in central Burma and for some kinds of infrastructure projects. However, the most serious long-term infrastructural constraint on Burma's economic growth appears to be a human infrastructure problem, namely the failure of much of the population to receive even a basic education. Many kinds of skilled labor are already in short supply. Even if other problems were overcome, enabling Burma's economy to grow rapidly in the short and medium term, a shortage of semi-skilled and functionally literate labor might develop in less than a decade.

-- *Human infrastructure: education and health*

Since the SLORC was constituted, central government expenditures for health and education have decreased both in real terms and as shares of central government disbursements in exchange-rate-unadjusted terms (Table G.4). Expenditures for social services, as a share of total central government disbursements, would almost certainly be even smaller in exchange-rate-adjusted terms, since the health and education ministries (unlike the defense, agriculture and construction ministries) do not account for a large share of the central government's consumption of imports. Declining real government funding of health and education has led to increased formal and informal user fees in the health and education sectors, and appears to have reduced both the quality and the quantity of health and education services consumed by the overwhelming majority of the population.

GOB receipts from school fees increased from 50 million, equivalent to less than 2% of unadjusted central government disbursements for education, in FY 89/90, to about 500 million kyat, equivalent to more than 10% of estimated central government disbursements for education, in FY 95/96. In addition, the salaries of teachers -- which, like those of all non-military central government employees, declined in real terms from FY 89/90 through FY 96/97 -- were increasingly supplemented by side payments from the families of students. Despite the *de facto* privatization of Burma's educational system, the GOB, which nationalized all private schools in 1964, continues not to permit the establishment of legally private multi-subject schools at any level. However, the increasingly dysfunctional state education system is widely supplemented by religious schools, as well as by some new private single-subject schools that teach English, business skills and computer skills.

These increasing formal and informal school fees are widely said to be contributing materially to Burma's high and apparently increasing primary and secondary school dropout rates. Two nationwide surveys, conducted during the early and mid-1990s by the Ministry of Education with the assistance of U.N. agencies, indicated that 65% to 75% of children entering primary school drop out of school before the fifth year of formal education, and that fewer than 5% of them complete secondary school. Among the rural poor, many children never start school at all. GOB statistics (*GOB/RFESC/97*) show enrollment in primary schools to have declined from 5.9 million in FY 93/94 to an 5.5 million in FY 95/96; although these figures may overstate levels of enrollment, they are consistent with a widespread perception that enrollment even in primary school is declining, although the relevant age cohort appears to be growing.

In the state schools, classrooms are overcrowded, textbooks and school supplies are inadequate, and much of the teaching relies on rote memorization. Universities and other institutions of higher education were closed from 1988 to 1992; most of them have been closed again since December 1996, following widespread student demonstrations. Some high schools were also closed following those demonstrations. As of the end of June 1997, primary, middle and high schools still had not opened for the 1997 school year, which normally starts in the first week of June.

Similarly, the public health care that most Burmese can afford has by all accounts deteriorated during the 1990s; many hospitals expect patients to provide or pay for food, bedding, medicines, non-reusable medical supplies and use of diagnostic equipment, without regard to ability to pay. Although licenses to practice private medicine remain difficult to obtain, private side-payments to state-employed doctors reportedly have increased, as the value of their compensation from the GOB has fallen in real terms. Private clinics for the affluent have begun to flourish in Rangoon.

-- *Physical infrastructure*

Burma's electrical supply remains inadequate, especially outside Rangoon and Mandalay. Some state and private enterprises operate below capacity due to chronic shortages of electricity. Private and foreign firms often rely on costly, diesel-fueled generators. Individual GOB ministries and SEEs under their supervision generate their own electricity: an estimated 521 million kilowatt hours (MKWH) in FY 95/96, up 7% from FY 91/92. In addition, from FY 89/90 to FY 95/96, the commercial supply of centrally generated electricity increased by 40%, from 2,494 MKWH to an estimated 4,056 MKWH, of which 57% was generated by burning natural gas, and 40% was generated by damming water. Meanwhile, losses, chiefly in distribution, of commercially supplied electricity, increased from 901 MKWH (36% of total) to an estimated 1,648 MKWH (41% of total). Electrical power delivered commercially therefore increased from 1,593 MKWH to 2,408 MKWH, an increase of 51.2%, at an average annual rate of about 7.1%. Thus, from FY 89/90 to FY 96/97, commercial delivery of electrical power appears to have increased slightly faster than recorded GDP (*GOB/RFESC/97*, Tables 77-80, and previous).

Most of the large and increasing share of power lost in distribution reflects, not physical loss, but rather (a) widespread illegal line tapping and systematic underreporting of consumption by monitoring employees of the state power monopoly (MEPE) in return for side-payments from consumers; and (2) a massive unreported supply of cost-free electricity to the Ministry of Defense. That ministry, which includes the many factories of the Directorate of Defense Industries and has by far the largest budget of any ministry, generated only 15.2 MKWH of the 521 MKWH generated by the public sector for its own use in FY 95/96 (*GOB/RFESC/97*, Table 77) and does not pay for any electricity supplied from outside the ministry. About half of the 40% of commercially generated electricity "lost in distribution" in FY 95/96 is authoritatively said to have been consumed and not paid for by the Ministry of Defense. This constituted, at the FY 95/96 industrial price of 3.0 kyat per KWH, a hidden subsidy of about 2.5 billion kyat, equivalent to nearly 11% of the GOB's exchange-rate-unadjusted defense disbursements for FY 95/96 (Table D.5). This subsidy appears to have increased in recent years, both in real absolute terms and relative to the value of non-defense power consumption, due to the expansion of the armed forces in general and of the Directorate of Defense Industries in particular.

Most of rural Burma still has no centrally generated electrical supply. From FY 89/90 to FY 95/96, the number of villages with electricity increased by 29%, from 786 to 1,015. However, most of the villages gaining access to centrally produced electricity during the period were near pre-existing power lines. From FY 89/90 to FY 95/96, the total mileage of electrical power transmission and distribution lines increased by only 12%, from 1,948 miles to an estimated 2,181 miles. From FY 92/93 to FY 95/96, rural electrification slowed: only 82 new villages gaining access to the grid, down from 147 during the previous three years; and only 60 miles of power lines added, down from 173 during the previous three years. Four of Burma's fourteen divisions and states (Arakan, Chin, Kachin, and Tenasserim) are not connected to the national power grid. Urban centers in these regions rely for electricity chiefly on costly locally-generated diesel power, and on inadequate local hydro-power facilities; electricity is rationed, and protracted blackouts are routine. (*GOB/RFESC/97*, Tables 81-82, and previous).

The GOB improved the financial basis for further expansion of the electricity supply by raising the price of electricity from 0.5 to 2.5 kyat per KWH, and to 3.0 kyat per K.WH for industrial users, in FY 94/5. It might improve this basis still further by charging all public sector users the prevailing price for electricity.

The paucity of bridges over Burma's major rivers, which flow from north to south, impedes east-west land travel. There is no bridge across the Irrawaddy River south of Sagaing, a suburb of Mandalay more than 400 miles upstream from the sea, although one is under construction at Prome (Pyay), about 200 miles upstream. On the other hand, Burma's rivers, some of which, like the Irrawaddy, are navigable far inland, provide inexpensive access to many remote regions.

According to GOB statistics, Burma had 17,301 miles of roads and bridges at the end of FY 95/96, up 18% from 14,602 at the end of FY 88/89 (Table G.6.b); this implies that extant road mileage grew at an average annual rate of only 2.5%, less rapidly than recorded GDP, during the first seven years of the SLORC's rule. Many roads are not passable during the rainy season.

Rail service is poor, although more rail connections have been added, and some passenger and freight forwarding services on the main routes have been upgraded, in some cases by allowing private sector participation. At the end of FY 95/96, there were 3,305 miles of railroad track in Burma, up 18% from 2,791 at the end of FY 88/89, according to GOB statistics (Table G.6.b); this implies that railroad track mileage increased at an average annual rate of 3.4%, less rapidly than recorded GDP, during the first seven years of the SLORC's rule.

The port of Rangoon, through which nearly all legal seaborne external trade passes, cannot accommodate vessels of more than 10,000 tons. Until mid-1996, when the GOB began to restrict imports, it was often severely congested, imposing large demurrage costs on seaborne trade. No airport in Burma, including Rangoon International, can accommodate jumbo jets.

Telephone facilities have improved but remain inadequate. Card phones and digital and radio telephone systems have been introduced in Rangoon, Mandalay and several other cities. The number of licensed phones in Rangoon is approaching 100,000, up from 47,000 in 1991; the number of licensed phones in the whole country is approaching 200,000, up from 95,600 in 1991. However, international fax and phone calls to and from Burma are still expensive, problematic, and strictly regulated. In 1995, there were about 1,300 licensed fax machines in Burma (*GOB/SA/96*, Table 31). Since mid-1995, the GOB has issued few satellite TV dish licenses and has periodically fined owners of unlicensed dishes

and confiscated unlicensed equipment. There is no commercially available Internet Service Provider in Burma.

In exchange-rate-unadjusted terms, the share of recorded GDP to which legal public sector fixed investment (non-defense capital expenditure) was equivalent, peaked at 5.2% of recorded GDP in FY 91/92, rebounded to 4.4% in FY 95/96 and to an estimated 6.6% in FY 96/97, after having declined to 2.9% in FY 92/93, 2.6% in FY 93/94 and 3.6% in FY 94/95 (Table G.1 .b). Data needed to generate exchange-rate-adjusted statistics on public sector investment, specifically the value of public sector capital imports, are not publicly available. However, the decline in public sector capital spending during FY 92/93 to FY 94/95 appears to reflect increased use of uncompensated labor, rather than decreased infrastructure construction (Tables G.6.a and G.6.b).

In exchange-rate-unadjusted terms, the share of recorded GDP to which total public sector expenditure on construction and renovation works (Table G.6.b) was equivalent, which had peaked at 5.9% in FY 91/92, rebounded to 5.0% in FY 94/95 and 6.1% in FY 95/96, after having fallen to 4.7% in FY 92/93 and 3.9% in FY 93/94.³⁸ The share of total public sector expenditure on construction and renovation that was for buildings rather than for transportation or irrigation infrastructure, was consistently above 50% from FY 90/91 through FY 93/94, although it declined to 42% in FY 95/96 (*GOB/RFESC/97*, Table 84, and previous). The surprisingly low share of expenditure on transportation and irrigation infrastructure appears to reflect much greater use of uncompensated "people's contributions" in transportation and irrigation infrastructure projects than in building projects.

-- Use of uncompensated labor on infrastructure projects

The GOB's published official statistics on the costs of local rural development works projects disaggregate those costs into state expenditures and "people's contributions" including "public donations in cash, kind and services" (Table G.6.a). The great majority of the "people's contributions" to these works are widely said to be in the form of uncompensated labor.

Since the "people's contributions" are, by definition, uncompensated, the GOB statistics evaluating them must be based on a GOB-assigned shadow price for contributed labor. The shadow price used for this purpose appears to be the official GOB government contract price for day labor, which was 10 kyat per day before 1988, 15 kyat per day from 1988 to 1993, and has been 20 kyat per day since 1993. Until 1988, this government wage was a competitive wage in most of Burma during the dry season, the time of year when most "people's contributions" were and still are mobilized. However, due in part to agricultural liberalization, increased multiple cropping, and aggregate price inflation, this government wage has fallen relative to the dry-season market wage. The average market wage for dry-season day labor in rural Burma appears to have been about 60 kyat in FY 94/95, 70 kyat in FY 95/96, and 80 kyat in FY 96/97 -- about four times the government contract wage for day labor. (During planting and harvest times, and near the Thai border, the market wage was and is much higher still.) Consequently, the GOB's statistics appear to undervalue "people's contributions" to local rural development projects, both in absolute terms and relative to state expenditures, by a factor of about 3.5 for FY 95/96 and 4.0 for FY 96/97, but by a lesser factor for earlier years.

³⁸ Total public sector construction expenditures slightly exceed total public sector capital expenditures (both on a disbursements basis) apparently due to inclusion in the former of some current expenditure of the Ministry of Construction, which includes the Dept. of Public Works.

Published GOB statistics (Table G.6.a) show that the recorded costs (state expenditures plus "people's contributions") of local rural development project construction rose, in current kyat terms, from 28.9 million kyat in FY 89/90 to 429.5 million kyat in FY 95/96, but fell to an estimated 322.6 million kyat in FY 96/97. In real terms, calculated using the GOB's official construction sector GDP deflator,³⁹ this represents an increase of 408% (from 17.2 to 87.3 million FY 85/86 kyats), at an average real annual increase of 26%, from FY 89/90 to FY 95/96, followed by a decline of 33% (to 58.9 million FY 85/86 kyats) in FY 96/97. Adjusting for the apparent increasing undervaluation of "people's contributions" of labor by its evaluation at the government wage, the market-price cost of local rural development project construction appears to have increased even more rapidly, from about 30 million current kyats in FY 89/90 to about 900 million kyats in FY 95/96, before falling to an estimated 763 million kyats in FY 96/97; in real terms, this is more than a ten-fold increase (from 17.2 to 182.1 million FY 85/86 kyats), at an average rate of 40% a year, from FY 89/90 to FY 95/96, followed by a decline of 23% (to 139.4 million FY 85/86 kyats) in FY 96/97.

Of the costs of these local infrastructure projects, the proportion derived from "people's contributions" was greater from FY 93/94 to FY 96/97 than in any previous year. Before FY 93/94, the value of "people's contributions" to these projects, evaluated at GOB-assigned shadow prices, never, for any year, exceeded state expenditures on these projects; on average, state expenditures were twice as great as "people's contributions" evaluated at GOB shadow prices. However, the share of costs represented by "people's contributions," evaluated at GOB shadow prices, rose to 50.5% in FY 93/94 and to 53.9% in FY 94/95, falling to 43.5% in FY 95/96 and an estimated 45.5% in FY 96/97. Adjusting for the increasing undervaluation of "people's contributions" of labor at the government wage, the share of total market-price costs represented by "people's contributions" appears to have increased from about one-third in FY 89/90 and earlier to about 73% in FY 94/95 and FY 95/96 and 77% in FY 96/97. However, "people's contributions" fell sharply relative to state expenditures for local irrigation projects in FY 95/96, due to increased use of GOB-imported heavy earthmoving equipment.

In current kyats terms, the value of "people's contributions" to local development projects, evaluated at GOB shadow prices, rose from 8.9 million kyats in FY 89/90 to 186.9 million kyats in FY 95/96, but fell to 146.8 million kyats in FY 96/97 (Table G.6.a). In real terms, based on the GOB's construction sector deflator, this represents roughly a seven-fold increase (from 5.3 to 38.0 million FY 85/86 kyats), at an average annual rate of 33%, from FY 89/90 to FY 95/96, followed by a 29% decline in FY 96/97. Adjusting for the apparent increasing undervaluation of "people's contributions" of labor by their evaluation at the government wage, the market value of "people's contributions" to local rural development project construction appears to have increased, in real terms, about twenty-five-fold (from 5.3 to 133.0 million FY 85/86 kyats) from FY 89/90 to FY 95/96, at an average annual rate of 59%, before declining by 19% in FY 96/97.

As a proportion of the total cost of local rural development project construction, calculated by evaluating "people's contributions" at GOB-assigned shadow prices, the cost of road and bridge building projects increased from an average of 58% during FY 62/63-92/93, to 73% in both FY 93/94 and FY

³⁹The construction sector deflator, on a base of FY 85/86 = 100, was 168.4 for FY 89/90, 222.9 for FY 90/91, 266.0 for FY 91/92, 279.1 for FY 92/93, 288.8 for FY 93/94, 370.1 for FY 94/95, an estimated 492.0 for FY 95/96, and an estimated 547.5 for FY 96/97. Source: *WB/PSEER*, p. 99 and *GOB/RFESC*, which gives construction sector value added in both current and constant kyats terms. The slowing of the increase in the construction sector deflator to rates lower than those of general price inflation during FY 92/93 and FY 93/94 may in itself reflect the increasing use of uncompensated labor in that sector during those years.

94/95 but fell to 56% in FY 95/96; the cost of irrigation project construction increased from an average of 15% in the thirty years to FY 92/93 to 17% in FY 93/94, 18% in FY 94/95, and 36% in FY 95/96; the cost of school construction decreased from an average of 18% in the thirty years to FY 92/93 to 3% in FY 93/94, 4% in FY 94/95 and 4% in FY 96/97 (Table G.6.a). For recent years, evaluating "people's contributions" at the dry-season market wage would further increase the road-building share and decrease the school-building share of total costs, because road-building projects used a higher ratio of "people's contributions" to state expenditures than school-building projects.

"People's contributions," chiefly in the form of uncompensated labor, have been extensively used, not only in local rural development construction projects, but also in larger regional and national physical infrastructure construction projects. *GOB/RFESC/95* affirmed that some of these larger-scale regional and national "construction works" are "being carried out... by the State in co-operation with the public," whereas others are "being carried out solely by the State." However, the GOB does not publish data on the magnitude of "people's contributions" to these projects. International conventions on forced labor, to which the GOB is signatory, may allow some involuntary labor in local public works projects, but not in regional or national projects.

However, both anecdotal evidence and casual observation indicate: (a) that the regional and national construction works for which uncompensated labor has been used are chiefly (although not exclusively) road, railroad, irrigation and embankment construction, renovation and improvement projects; and (b) that the technologies, the capital-labor mix, and the use of uncompensated labor in these projects were similar to those employed in the local rural development works construction projects at least through FY 93/94. However, by FY 96/97, the regional and national projects appeared substantially more capital-intensive than the local projects.

For regional or national construction works to build new roads and bridges, irrigation works and embankments, railtracks, airstrips, jetties, *etc.*, or to renovate and improve roads and bridges, the state spent 4.7 billion kyat in FY 93/94, 8.5 billion kyat in FY 94/95, an estimated 16.0 billion kyat in FY 95/96, and an estimated 18.6 billion kyat in FY 96/97 (Table G.6.b). Assuming the same roughly three-to-one ratios of state expenditures to "people's contributions" (evaluated at dry season market wages) in regional and national public works projects as in local public works projects, this implies that the market value of uncompensated labor employed in these regional and national construction works projects may have been about 14 billion kyat in FY 93/94, 23 billion kyat in FY 94/95 and about 43 billion kyat in FY 95/96. These figures, plus the much smaller market values of "people's contributions" to local rural development projects, suggest that the share of ARGDP to which market value of uncompensated labor employed by the GOB in public works projects was equivalent, was about 3% in FY 93/94, 4% in 94/95, and 7% in FY 95/96. Allowing for increasingly greater capital-intensivity in regional and national projects than in local projects since FY 94/95, it seems very likely that the market value of uncompensated labor used by the GOB in public works was equivalent, during FY 93/94 through FY 95/96, to at least 3% of recorded GDP, or about 6% of the agricultural sector's share of GDP.⁴⁰

⁴⁰ Assuming (a) shadow-pricing at the government day-labor rate of 20 kyat per day, and (b) the same ratio of uncompensated labor to state expenditure in regional and national road, bridge, irrigation, and railroad, airstrip, jetty, *etc.* construction and road and bridge renovation and improvement projects (Table G 6 c), implies about 660 million person hours of uncompensated labor on such projects in FY 93/94, and 1,270 million in FY 94/95. GOB statistics estimate agricultural employment for these years at about 11 million people, or about 4,050 million person-days, assuming no days of rest. This suggests corvee labor equivalent to 16% of potential agricultural labor in FY 93/94, and to more than 30% of potential agricultural labor in FY 94/95. Although this FY 94/95 figure may be overstated due to increasing capital-intensivity of regional/national projects relative to local projects, the FY 93/94 figures seem plausible. However, much of this corvee labor was exacted during the dry season, when agricultural labor is underemployed, especially in upper Burma. Furthermore, because the state's requirements for labor contributions have been specified in terms of persons per household, households have tended to contribute

In FY 96/97 the use of uncompensated civilian labor for some kinds of regional and national public works projects appears to have declined, at least in central Burma, although the magnitude of this decrease is difficult to quantify because of increasing technological disparities between these regional and national projects and the smaller local projects for which data is available. Military labor has largely replaced uncompensated civilian labor in railroad construction projects, and irrigation projects and road-building projects have become much more capital intensive, due to increased use of imported earthmoving and construction equipment.⁴¹ However, extensive use of uncompensated civilian labor for road and irrigation maintenance and roadbuilding projects reportedly continues. In June 1997, the GOB media prominently publicized a speech by Senior General Than Shwe calling for military labor in the construction of the full range of public works projects, not just railroads.

The GOB's use of increased amounts of uncompensated labor during FY 92/93 to FY 94/95 is reflected in other GOB statistics, too. During these years, public sector capital expenditures appear to have been unusually low relative to recorded GDP (Table G.1.b), although the pace of infrastructure construction accelerated. Similarly, the increase in irrigated area per constant kyat spent on irrigation works by the public sector was much higher during FY 92/93 through FY 94/95 than in previous or following years (Table G.6.b). However, the increase in road mileage per constant kyat spent was much higher, not only from FY 93/94 through FY 95/96 but also in FY 96/97, than during the early 1990s. Again, this is consistent with the available non-quantitative evidence.

-- *Major infrastructure projects*

Major infrastructure projects are underway or planned to build roads and bridges, railroads, ports, airports, irrigation works, industrial parks, fertilizer and hydroelectric power plants, and natural gas pipelines. Since 1996, apparently due both to the GOB's shortage of foreign exchange and to international pressure to reduce its use of corvee labor, the Ministry of Construction's Public Works Department has invited fewer international tenders relating to physical infrastructure projects than in previous recent years; new physical infrastructure projects increasingly tend to be financed by private foreign investors or foreign governments.

In 1996, the GOB awarded contracts for the construction of an expressway from Rangoon to Mandalay, and the upgrading of the road from Mandalay to Muse on the Chinese border. Some of the main contractors are firms with links to the Wa and Kokang opiate trafficking organizations. In February 1997, Thailand's Ministry of Finance agreed to provide \$11.6 million to finance two-thirds of the expected cost of upgrading a road from Tachilek, on the border between eastern Shan State and Thailand, to Kengtung, where it will connect with a road that runs to Mongla on the Chinese border, effectively giving Thailand its first paved road link with China. The GOB's Ministry of Public Works awarded this construction contract to a Thai firm, Son of Tueng, in December 1996. The GOB is also in the process of building several major bridges, most notably a bridge across the Irrawaddy River near Prome.

their least valuable labor; labor gangs seen working on roads have frequently consisted disproportionately of old women and young girls; consequently, the relevant potential labor pool may be larger than the farm population aged 15 to 59.

⁴¹ UNCTAD data indicates that the F.O.B. value of Burma's imports of construction and mining machinery rose from US \$9.7 million in 1991 and \$8.8 million in 1993, to \$13.4 million in 1994 and \$34.2 million in 1995.

The Rail Ministry is adding new lines and upgrading existing lines in several parts of the country, including a line from Ye to Tavoy in Tenasserim Division, and a spur line to Pagan from the main Rangoon-Mandalay trunk; use of uncompensated civilian labor on these projects is widely reported to have been largely replaced by military labor since mid-1996. Since 1996, the Rail Ministry has also been filling in two gaps in existing lines so as to create a circle line from Rangoon to Mandalay on both sides of the Pegu Yoma, a north-south range of hills in central Burma.

The Transport Ministry is building new international airports at Hanthawaddy (between Rangoon and Pegu), Mandalay, Taunggyi and Nantsam in Shan State. It is also seeking to upgrade airports at Kawthaung in Tenasserim Division and at Thandwe in Arakan State, as well as Rangoon International. The new international airport at Mandalay is being built by a Thai firm, Ital-Thai, with \$40 million in external financing guaranteed by the Export-Import Bank of Thailand in 1996. A main contractor for the \$145-million Hanthawaddy airport construction project is scheduled to be announced in mid-1997. Meanwhile, the Transport Ministry is trying to lengthen the runway of Rangoon International Airport from 2,500 to 3,400 meters to accommodate jumbo jets, such as Boeing 747s. To improve its domestic service, state-owned Myanmar Airways bought several used Fokker planes in 1994 and 1995. Air service connections with other countries in the region proliferated during 1994 through 1996, but at least one carrier, Condor, discontinued connections with Europe in early 1997 due to lack of demand.

Since July 1996, when the GOB imposed import rationing, the previously overcrowded port of Rangoon has been underutilized. However, the Myanmar Port Authority (MPA) has continued to expand Burma's port facilities. In 1996, MPA formed a joint venture with Yunnan Machinery and Equipment Import and Export Corporation, of China, to build a new container wharf and two new bulk cargo wharves at the Port of Rangoon. Construction is to be finished in 1998. MPA is also building a new port at Thilawa, 16 km downriver from Rangoon, through two separate joint ventures with foreign investors who will manage it for 25 years on a BOT basis. Containerization and Packaging (C&P) Holdings of Singapore is building four container terminals at Thilawa; Sinmardev, a joint venture between the MPA and a Singapore-based consortium representing Singaporean, Hong Kong, and Indonesian investors, is also building two terminals there, and has an option to build two more. Although the first two berths become operational in January 1997, they remain underutilized due to poor land transportation links with Rangoon. Mitsui Engineering and Shipbuilding is engaged in building bridges, jetties, barges, buildings and sluice gates for the Thilawa port. In April 1996, MPA signed a contract with a Burmese company owned by the immediate relatives of a former Kokang druglord to build two new wharves for seagoing vessels in the port of Rangoon. The company will be allowed to operate one of these wharves for twenty-five years. Construction on one of these wharves, for vessels smaller than 3,000 tons, began in early 1997.

In March 1997, MPA signed a memorandum of understanding with Thailand's Shavitiya Group to develop a deep sea port near Bokpyin in southern Tenasserim Division, on the western side of the Malay peninsula, to be connected by rail to a Thai port on the eastern side of the peninsula, in order to provide an alternative route to the Straits of Malacca from traffic between the Indian and Pacific Oceans. Ital-Thai Development and the Industrial Estate Authority of Thailand are also studying the feasibility of a deep-sea port project at Tavoy, in northern Tenasserim Division, that might serve as an Indian Ocean port for Bangkok and central Thailand; this would require the construction of road and/or rail links from Tavoy to Thailand.

The Transport Ministry and MPA also seek to develop Burma's inland waterways, which may carry more traffic than its roads and railroads. In 1996, MPA also formed a joint venture with Allied Container Services of Singapore to manage and operate an inland container depot. In May 1997, the Government of China's reportedly reached agreement with the GOB to improve Yunnan's access to the Indian Ocean via the Irrawaddy River by developing port facilities at Bhamo, in northern Burma's Kachin State, and upgrading the 100-km road from Bhamo to the Chinese border. This agreement is expected to be formalized in late 1997.

Since 1996, foreign investors have purchased from the GOB the rights to develop three industrial parks near Rangoon. Mitsui of Japan received GOB approval to develop a "Mingaladon Industrial Park" north of Rangoon in February 1996; infrastructure development work is now nearly complete. Subsequently, Sinmardev of Singapore won GOB approval to develop a "Thanlyin-Kyauktan Industrial Zone" adjacent to the new Thilawa seaport east of Rangoon, and Rojana Industrial Park Co. of Thailand received GOB approval to develop a "Hlaingthayar Industrial Zone" west of Rangoon, across the Rangoon River. Hyundai Corporation of Korea bought a share of Sinmardev's industrial park project in early 1997. The GOB is reportedly negotiating with Genting Sanyen Berhad of Malaysia and Marubeni of Japan to permit development of two more industrial parks near Rangoon. However, demand for industrial park facilities may be limited for the foreseeable future, due in part to political risks involved in exporting to North America or Europe goods manufactured in Burma.

The Agricultural and Irrigation Ministry is in the process of building dozens of reservoirs, canals and dams to increase irrigated acreage, as described in the section on "agriculture," above. Some of these dams are also used to generate electricity. Since 1996, irrigation construction work appears to have slowed and to have become more capital-intensive.

The Forestry Ministry and the Agriculture and Irrigation Ministry are engaged in extensive reforestation and greening projects in the dry zone of upper Burma. The long-term goal is to reclaim the region from its present near-desert state; impressive results have been achieved in various localities.

The Energy Ministry is involved in the building/installation of natural gas pipelines, and in plans to build both natural-gas-powered electricity generating plants and urea plants using natural gas inputs, to make use of recently discovered offshore gas resources. The largest such natural gas project, the development of the offshore Yadana field, is described in the discussion of U.S. investment in the section on the nature of the bilateral relationship, below.

II. POLITICAL ENVIRONMENT

The political environment is increasingly unfavorable for U.S. business in and with Burma.

Nature of the bilateral relationship with the United States

Although legal U.S. trade with Burma remains small, the value of both U.S. merchandise exports to Burma and legal merchandise imports from Burma has grown, with garment imports accounting for virtually all legal merchandise import growth, and with the U.S. running a proportionally large bilateral merchandise trade deficit. However, the growth of both U.S. merchandise imports and of American tourism to Burma slowed during the mid-1990s. In May 1997, the U.S. Government banned new investment in Burma by U.S. firms and nationals. The U.S. Government continues neither to promote nor to prohibit trade with Burma, except as may be required by law. However, mounting public concern in the United States and other countries about the political and narcotics trafficking situations in Burma poses growing "other-market" political risks for many firms that invest in or buy from Burma, and has induced many Western firms to restrict their commercial activities in or with Burma.

American concerns: human rights violations and narcotics exports

The nature of the bilateral relationship between the United States and Burma is greatly influenced by concern among the American public about the GOB's continued violation of human rights, including the right of people to choose their government, and about the high volume of exports of narcotics, chiefly opiates, from Burma.

-- Human rights, including the right of people to choose their own government

The Secretary of State indicated in April 1995 that any businessperson contacting any U.S. Government officer for information about doing business with Burma is to be informed of the human rights situation in Burma. Some of the aspects of that situation that generate concern among the American public are described by the following selections from the summary of the U.S. Government's *1996 Country Report on Human Rights Practices: Burma*, published in January 1997:

The SLORC permitted a relatively free election in 1990, but it failed to honor the results -- which were an overwhelming rejection of military rule -- or to cede power to the victorious pro-democracy forces. Instead, the SLORC attacked the coalition of winning parties and their leaders through intimidation, detention, and house arrest. In January 1993, the SLORC established the "National Convention," a body ostensibly tasked with drafting a new constitution. Overwhelmingly made up of delegates hand-picked by the military forces, the SLORC has carefully stage-managed the Convention's proceedings and ignored even limited opposition views. Despite having no legal mandate, the SLORC appears determined to draft a constitution that would ensure a dominant role for the military forces in the country's political future.

The Government re-inforces its rule via a pervasive security apparatus led by military intelligence, the Directorate of Defense Services Intelligence (DDSI). Control is buttressed by selective restrictions on contact by citizens with foreigners, surveillance of government employees and other private citizens,

harassment of political activists, intimidation, arrest, detention and physical abuse. The Government justifies its security measures as necessary to maintain order and national unity, although most major insurgent groups have reached accommodation with the SLORC in recent years. Members of the security forces committed numerous serious human rights abuses....

The Government's severe repression of human rights increased during 1996, even as increased economic activity fostered the appearance of greater normalcy. Out of sight of most visitors, citizens continued to live subject at any time and without appeal to the arbitrary and sometimes brutal dictates of the military dictatorship. Citizens do not have the right to change their government. There continued to be credible reports, particularly from ethnic minority-dominated areas, that soldiers committed serious human rights abuses, including extrajudicial killing and rape. Disappearances continued, and members of the security forces beat and otherwise abused detainees. Prison conditions remained harsh. Arbitrary arrests and detentions continued for expression of dissenting political views. Several hundred, if not more, political prisoners remained in detention, including approximately 20 Members of Parliament (MPs) elected in 1990. The judiciary is subject to executive influence, and the Government infringes on citizens' rights to privacy.

The SLORC intensified restrictions on basic rights to free speech, press, assembly, and association. Political party activity remained severely restricted. Although the authorities recognize the chief opposition party, the National League for Democracy (NLD), as a legal entity, they detained more than 260 NLD MPs elected in 1990 in connection with the Party's Convention in May [1996]. While most were released shortly thereafter, seven remain in custody. The SLORC's relentless harassment of the NLD continued with the arrest in August [1996] and later conviction of 26 NLD activists on charges of spreading disinformation and threatening the stability of the State. In September [1996] the SLORC again prevented the NLD from holding its first All-Burma Congress and detained more than 560 NLD members and supporters, most of whom they released after questioning. In December [1996], in the wake of student demonstrations, the SLORC detained more than 200 NLD activists and supporters whom they accused of aiding and abetting the student protests. At year's end, more than 147 NLD activists and supporters who had been arrested during the year remained in detention.

The SLORC restricted the political activities of opposition leader Aung San Suu Kyi (it held her under house arrest from 1989 until July 1995). Beginning in late September [1996], it prevented her from addressing public gatherings of her supporters, and confined her to her compound from December 6 to December 29.

Although more than 220,000 Rohingyas, Burmese Muslims from Arakan state, who fled to Bangladesh in 1992, had returned by year's end, about 33,000 remained in camps across the border. An estimated 10,000 new asylum seekers entered Bangladesh this year. A few thousand students and dissidents remained in exile in Thailand. Approximately 90,000 citizens were residing in ethnic minority camps along the Thai-Burma border, among these thousands of new arrivals driven out by army attacks in the areas controlled by Karen and Karenni ethnic minorities. Discrimination against women and ethnic minorities, violence against women, and child prostitution remained problems.

The Government restricts worker rights and uses forced labor. The use of porters by the army - with attendant mistreatment, illness, and even death for those compelled to serve - remained a common practice. The military authorities continued to force ordinary citizens (including women and children) to "contribute" their labor on a massive scale, often under harsh working conditions, on construction projects throughout the country. During the year, the military began using soldiers instead of civilians at certain infrastructure projects, following the issuance of directives in 1995 to end the practice of forced civilian labor. Child labor is also a problem.

The SLORC has given no sign of willingness to cede its hold on absolute power. The generals have continued to refuse to negotiate with pro-democracy forces and ethnic groups for a genuine political settlement to allow a return to the rule of law and respect for basic human rights.

-- *Narcotics exports*

Similarly, the following selections from the summary of the chapter on Burma in the latest annual *International Narcotics Control Strategy Report (INCSR)*, published by the U.S. Department of State in March 1997, describe some of the aspects of the narcotics situation in Burma that are of concern to the U.S. Government:

Burma is the world's largest source of illicit opium and, potentially, heroin, as opium cultivation and production in 1996 increased to near record levels. The 1996 crop estimates indicate that there were 163,000 hectares under opium poppy cultivation which could yield up to 2,560 metric tons of opium gum -- enough to produce 250 metric tons of heroin and satisfy the US heroin market many times over. Although there were some limited improvements in the Burmese Government's counternarcotics performance with regard to drug and precursor chemical seizures, these efforts fell far short of what is needed to cope with Burma's burgeoning drug trade. Burma's antidrug efforts suffer from a lack of resources as well as the lack of a strong and consistent commitment....

Although the "surrender" of drug lord Khun Sa and the dismantling of his Mong Tai Army (MTA) [in January 1996] was portrayed by the State Law and Order Restoration Council (SLORC) as a positive development, Khun Sa has not been brought to justice and has apparently been granted personal clemency from prosecution or extradition. He is said by authorities to be under a form of house confinement in Rangoon and permitted to engage in business activities, but not narcotics-related activities. Reports suggest, however, that he and his MTA colleagues continue to be involved in the narcotics trade.

The ethnic drug trafficking armies with which the government has negotiated cease-fires, such as the United Wa State Army (UWSA) and the Myanmar National Democratic Alliance Army (MNDAA) Kokang Chinese remain armed and heavily involved in the heroin trade and have to some extent moved into territory vacated by Khun Sa's former MTA.... As part of the SLORC's efforts to bring the ethnic groups under its control, it granted leaders of these drug trafficking armies significant political legitimacy, and several participate in the government's National Constitutional Convention. These leaders have exploited their relationship with Rangoon to expand their businesses -- legitimate and illegitimate - although their prosperity has not filtered down to the ordinary people of the ethnic areas.

Money laundering is a growing problem in Burma, and there is reason to believe that the laundering of drug profits is having a substantial impact on the Burmese economy. An underdeveloped banking system and lack of enforcement against money laundering have created a business and investment climate conducive to the use of drug-related proceeds in legitimate commerce....⁴²

Nevertheless, during 1996 and the first half of 1997, GOB efforts to curtail the production and exportation of opiates increased, albeit from a low base level. The GOB accelerated both its seizures of narcotics and its destruction of heroin refineries. It also returned to Thailand a suspected drug trafficker who had jumped bail in Thailand; this individual was subsequently extradited to the U.S.

⁴² Table D 5, below, offers *INCSR* data on opium cultivation, potential heroin production and potential exports since 1987

During the mid-1990s, U.S. public concern about the human rights and narcotics trafficking issues described above has grown and has manifested itself in a variety of ways that directly affect the political risks of doing business in Burma for both U.S. and foreign firms. Some of these expressions of concern, through organizations and institutions other than the U.S. Government, are described below, in the subsection on political factors affecting the business environment.

U.S. Government activities and policies

The major concerns of the U.S. Government in Burma are human rights, democratization and counter-narcotics performance. In light of these concerns, the U.S. government has taken the following actions:

The U.S. Government has not had an Ambassador to Burma since 1990, although it continues to operate an embassy in Rangoon, headed by a *charge d'affaires*.⁴³

The U.S. Agency for International Development closed its mission in Burma in August 1988, during the GOB's brutal suppression of Burma's pro-democracy movement, and the U.S. Government has not, for several years, provided any direct bilateral financial or material assistance of any kind to the GOB.

The U.S. Information Agency (USIA) operates an American Center in Rangoon; it maintains a reference center, distributes printed information about the U.S., and conducts cultural exchanges.

The U.S. Government contributes funding for grass-roots basic human needs programs administered by the U.N. Development Program (UNDP), UNICEF, the U.N. High Commission for Refugees (UNHCR) and other U.N. agencies, as well as for crop-substitution programs administered by the U.N. Drug Control Program (UNDCP). The U.S. Department of State's Bureau of Democratization, Human Rights and Labor Affairs also funds democratization and basic humanitarian assistance programs for Burmese nationals administered by non-governmental organizations both in Burma and in neighboring countries. The USG does not in any way fund organizations that advocate or practice political violence in Burma.

The Voice of America, a U.S. Government radio service, broadcasts Burmese-language programs that feature information about the United States. In early 1997, Radio Free Asia, a newly founded private non-profit corporation, funded entirely by the U.S. Government and given the use of U.S. Government transmission facilities, began to broadcast Burmese-language programs featuring information about Burma. Despite some jamming by the GOB, these broadcasts reach a wide audience in Burma eager for uncensored information.

⁴³ The GOB requires two weeks' advance notice of proposed travel by foreign diplomats to nearly all places outside Rangoon. Permission for such travel is sometimes denied by the Foreign Ministry, and sometimes revoked upon arrival by local military authorities. Meetings with GOB officials, including teachers, professors and employees of state economic enterprises as well as visits to most government facilities, including all educational institutions, require ministerial approval through a formal exchange of diplomatic notes. Such requests are sometimes denied. Burmese nationals are often not given permission and/or passports to participate in cultural exchange programs involving visits to or study in the U.S. GOB officials sometimes avoid meeting foreign diplomats because of onerous reporting requirements imposed by military intelligence. Private Burmese citizens are sometimes afraid to talk with foreigners, due to the prospect of surveillance and interrogation by internal security personnel. Since late 1995, Burmese embassies have occasionally denied applications by members and staff of the U.S. Congress for visas to visit Burma.

Due to its inability to certify the GOB as cooperating in international efforts to suppress narcotics trafficking, the U.S. Government is obliged by law to vote against any non-humanitarian financial assistance to the GOB by the World Bank or Asian Development Bank (ADB). Since 1996, the U.S. Government is also obliged by law to vote against any use of World Bank or ADB funds by the GOB pending substantial political liberalization. It is also U.S. Government policy to seek to restrict the GOB's access to non-humanitarian financial assistance not only from these institutions but also from the IMF, as well as its access to Paris Club debt relief, due in part to concerns about the GOB's excessive military expenditures, its lack of macroeconomic transparency, and its violations of human rights including the right of people to choose their own government.

Due to concerns about the GOB's abuses of human rights, including workers' rights and the right of people to choose their own government, and about its failure to cooperate against international narcotics trafficking, the U.S. Government does not encourage trade with Burma by U.S. firms and nationals, although it does not prohibit such trade. Since January 1990 or earlier:

- the U.S. Government does not grant to imports of Burmese origin the GSP (Generalized System of Preferences) preferences that it commonly grants to imports from lower-income countries;
- the Export-Import Bank of the United States (U.S. EXIMBANK), a parapublic financial institution, does not provide, in support of U.S. exports to Burma, the preferential financing that it commonly provides in support of U.S. exports to other countries;
- the U.S. Overseas Private Investment Corporation (OPIC), a parapublic financial institution, does not provide any financial services in support of U.S. investors in Burma; and
- the U.S. Government, along with a number of other governments, including the member governments of the European Union, does not approve licenses to export arms to Burma.

In 1996, the President of the United States issued a proclamation prohibiting travel to the U.S. by SLORC members, high-level GOB officials, and other Burmese who formulate, implement or benefit from policies that impede Burma's transition to democracy. In 1996 the U.S. Congress and President also enacted legislation that required the President to ban new investment in Burma by U.S. firms under specified political conditions, such as widespread repression of Burma's pro-democracy movement. In April 1997, President Clinton, finding this condition fulfilled, announced a ban on new investment in Burma by U.S. firms and nationals that was implemented by an executive order issued in May 1997.

The U.S. Department of Commerce's Foreign Commercial Service has no employees in Burma. American Embassy Rangoon does not organize, participate in, promote, or encourage private participation in any commercial events in Burma or in the U.S. The Embassy also does not initiate market research reports to identify commercial opportunities for U.S. businesses. The Embassy's commercial activities are limited to responding to specific requests for information and assistance, except as may be required by law and regulation.

However, the U.S. Government is obligated by its World Trade Organization (WTO) commitments to extend most-favored-nation tariff treatment to imports from Burma, which is also a member of the WTO.

Private investment, trade and travel.

- *U.S. direct investment in Burma*

During FY 90/91 through FY 95/96, firms legally domiciled in the U.S. appear to have disbursed about US \$281 million of foreign direct investments in Burma in cumulative undiscounted current dollar terms (Table D.6). This is more than the amount disbursed by firms legally domiciled in any other country, and almost one-fourth of all disbursed foreign direct investment during the period for which disaggregation by country is available. However, these undiscounted cumulative disbursement figures are a poor indicator of current value, especially in the oil and gas sector, where the relation between investment and returns can be very uncertain. Most direct investment by U.S.-domiciled firms during the early 1990s was in oil exploration efforts that failed to discover commercializable reserves.

The value of new realized (disbursed) direct investment in Burma by firms legally domiciled in the United States declined steadily, in current dollar terms, from a peak of US \$83.4 million in GOB FY 91/92 to US \$16.4 million in FY 94/95, before rising back to US \$30.8 million in FY 95/96. In both FY 94/95 and FY 95/96, direct investments disbursed by U.S.-domiciled firms appear to have been exceeded in value by those disbursed by firms domiciled in the United Kingdom, France, Singapore and Thailand. However, the figures for the U.K. are authoritatively said to include subsidiaries, domiciled in such British dependencies as Bermuda and the British Virgin Islands, of oil and gas multinationals not generally thought of as British firms.

During 1996, PepsiCo, responding to pressure from consumers in America and elsewhere, divested itself of its investments in Burma. As of May 1997, only five firms that might be characterized as "American" were known to have active investments in Burma.

UNOCAL, an energy firm with headquarters in California, owns 28% of the Yadana Field Consortium, formed to explore and develop the offshore Yadana natural gas field 60 km. south of the Irrawaddy River delta; a subsidiary of Total, a French oil and gas parastatal, is the consortium's operating partner and owns 31%. Thailand's hydrocarbons parastatal, PTT, owns 26% of this consortium, and Burma's hydrocarbons parastatal, Myanmar Oil and Gas Enterprises (MOGE) owns 15%. The Yadana field has certified reserves of about 5.7 trillion cubic feet (150 billion cubic meters) of natural gas. The consortium has contracted to deliver 525 million cubic feet per day (mmcf/d) to PTT at the Thai border starting in mid-1998, by means of a pipeline with 900 mmcf/d capacity that is to run undersea from the Yadana field, 346 km. eastward to the coast of Burma's Tenasserim Division, and about 63 km. overland eastward to the Thai border; construction of this pipeline started in late 1996. Five Burmese working on the pipeline were killed in an April 1995 attack by insurgents on a surveying party; in February 1996, a rocket attack is reported to have been launched near Total's pipeline project base camp at Kanbauk. At least five GOB light infantry battalions are providing pipeline project security.

UNOCAL and Total have also joined a consortium, of which Mitsui of Japan is the operating partner, that contracted with the GOB in 1996 to use at least 125 mmcf/d of the Yadana field's proven output domestically, to supply a projected import-substituting urea plant with a capacity of 570,000 metric tons a year and a large electrical power plant - a so-called "three-in-one" project.

In 1996, offshore exploratory drilling by the Yadana field consortium discovered gas reserves, certified at about 700 billion cubic feet, in the Badamyar sands structure adjacent to the Yadana field, and in the Sein field near the Yadana field. Gas flows from Sein and Badamyar could be exported to Thailand using the surplus capacity of the Yadana field pipeline. In February 1997, UNOCAL and Total

signed a contract with MOGE to explore and develop another offshore area near the Yadana field, known as "Block M-8;" seismic exploration surveys of this area are to be conducted before 1999.

Another U.S. energy firm, Texaco, is the operating partner of a consortium, including Britain's Premier Oil and Japan's Nippon Oil, that has discovered proven reserves of natural gas in commercializable quantities (1.7 trillion cubic feet) in the Yetagun field off the coast of Tenasserim. This consortium, reportedly now including Thailand's PTT, signed a contract with the GOB in February 1997 to export Yetagun field gas by pipeline to Thailand. However, in May 1997, a Texaco official was cited in international press reports announcing that Texaco was exploring the sale of Texaco's shares in this consortium to firms not domiciled in the USA.

ARCO (Atlantic Richfield), another energy firm with headquarters in the U.S., began exploring offshore for hydrocarbons in Burma in 1995, and reportedly discovered commercializable reserves of natural gas in early 1997.

Two firms with U.S. affiliations are attempting to discover and/or mine gold and copper in upper Burma. In addition, some individual Americans of Burmese origin own or operate businesses in Burma.

-- *U.S. exports to Burma*

According to official U.S. Department of Commerce (USDOC) statistics, the value of direct shipments of merchandise exports from the United States to Burma, F.A.S. basis, doubled to US \$32 million in 1996, after having fluctuated between \$4 million and 23 million between 1989 and 1995. (See Table D.2.b[3].) In 1996, most of the value of direct U.S. merchandise exports to Burma was accounted for by shipments of heavy construction machinery, manufactured and directly marketed by a single U.S. firm, reportedly to the GOB through a trading company owned by UMEH (a military holding company described in the section on defense, above.) In recent years, machinery and transport equipment exports consistently accounted for at least two-thirds of the F.A.S. value of direct U.S. merchandise shipments to Burma; exports of other manufactured goods and chemicals accounted for nearly all of the rest. Although the U.S. Government does not grant licenses to export arms to Burma, it does not restrict exports of "dual-use" goods (that is, goods that may have both civilian and military uses). Between 1989 and 1995, the proportion of Burma's UNCTAD-reported imports accounted for by direct merchandise shipments from the U.S. to Burma ranged from 0.4% in 1992 to 2.7% in 1991 (Table D.2.b[4]).

However, GOB data (Table D.2.a[2]) show that goods of U.S. origin accounted for between one and four percent of the C.I.F. value of Burma's recorded merchandise imports every year from FY 89/90 to FY 94/95, except for GOB FY 90/91, when imports of capital equipment by U.S. firms engaged in oil exploration efforts caused a surge in imports of U.S. origin. These GOB figures imply that the value of Burma's recorded imports of merchandise of U.S. origin, C.I.F. arrivals basis, was about US \$109 million in FY 90/91, \$26 million in FY 91/92, \$37 million in FY 92/93, \$45 million in FY 93/94, \$17 million in FY 94/95, and \$58 million in GOB FY 95/96.

Together, the USDOC export data and the GOB import data imply that merchandise flows from the U.S. to Burma have in large part been intermediated as re-exports from such regional commercial entrepôts as Singapore. Since UNCTAD trade data (Table D.2.b[3]) suggest that the GOB has failed to record a growing share of its merchandise exports in recent years, it seems likely that most U.S.-origin merchandise arriving in Burma continues to be re-exported from third countries, and that USDOC's

direct shipments data continue to capture only a minority of U.S. merchandise exports to Burma. This is consistent with anecdotal evidence from international businesspeople based in or visiting Rangoon, Burma's largest port.

-- U.S. imports from Burma

Conversely, the customs value of U.S. imports of Burmese-origin merchandise, shown by USDOC statistics, has greatly exceeded the F.O.B. value of direct merchandise shipments from Burma to the U.S., as implied by GOB statistics. This suggests that most merchandise flows from Burma to the U.S., too, have been intermediated as re-exports from regional commercial entrepôts. This, too, is consistent with anecdotal evidence from businesspeople in Rangoon.

GOB data (Table D.2.a[1]) indicate that the share of the F.O.B. value of Burma's recorded merchandise export shipments accounted for by direct shipments to the U.S. increased steadily from 0.2% in FY 89/90 and 0.1% in FY 90/91 to 5.1% in FY 94/95, but declined to 4.7% in FY 95/96, the most recent year for which GOB direction-of-trade data are publicly available. These data indicate that the F.O.B. value of direct shipments of merchandise from Burma to the U.S. was about US \$41 million in GOB FY 95/96, \$47 million in FY 94/95, \$26 million in FY 93/94, \$12 million in FY 92/93, \$2 million in FY 91/92, and less than \$1 million in FY 90/91. Official USDOC statistics (Table D.2.b[1]) also show that the current-dollar customs value of U.S. merchandise imports marked as being of Burmese origin has increased rapidly and steadily since 1989, but at much higher levels than is suggested by the GOB's direct shipments data, to US \$108 million in calendar year 1996, up from \$81 million in 1995, \$67 million in 1994, \$46 million in 1993, and \$17 million in 1989.

Imports of garments marked as being of Burmese origin accounted for a large and (until 1996) growing share of the customs value of these imports: US \$27 million or 71% in 1992, \$30 million or 65% in 1993, \$47 million or 70% in 1994, \$65 million or 80% in 1995, and \$84 million or 77% in 1996. The customs value of U.S. imports of garments marked as being of Burmese origin grew, in current U.S. dollar terms, by 10% from 1992 to 1993, by 56% from 1993 to 1994, by 38% from 1994 to 1995, and by 29% from 1995 to 1996.

Published GOB economic statistics, which provide figures for less valuable export commodity groups, contain no statistics about garment exports. However, comparison of UNCTAD merchandise trade data (Table D.2.b.[5]) with USDOC import data indicates that about two-thirds of Burma's garment exports were ultimately consumed in the U.S. during the mid-1990s.

As of 1996, the number of textile and garment factories in Burma that were producing chiefly for foreign markets was said by sources close to the industry to have increased to about thirty. At least one is controlled and owned by a family whose wealth derives from narcotics activities. At least sixteen were wholly or partly foreign-owned, mostly by Hong Kong or South Korean firms. Of these sixteen, most were joint ventures either with Myanmar Textiles Industries, a GOB parastatal firm, or with Union of Myanmar Economic Holdings (UMEH), a military holding company described in the section on defense, above.

At the end of 1990, the U.S. Government did not renew its textile trade agreement with the GOB due to concerns over GOB violations of internationally accepted norms of workers' rights; however, this action clearly did not prevent the subsequent growth of U.S. imports of Burmese-origin

garments. America's largest labor organization, the AFL-CIO, has advocated restricting U.S. imports of Burmese manufactured products, such as garments, which have been targeted by an active and apparently growing "Free Burma" consumer boycott movement in the U.S. This boycott has induced many U.S. garment distributors to announce that they would stop sourcing from Burma, and has induced many to stop sourcing from GOB and UMEH joint ventures in particular. It has helped to slow, but has not halted, the growth of Burma's garment exports to the U.S. The U.S. Customs Service now allows imported goods of Burmese origin to be marked "Made in Myanmar," a geographical term relatively unfamiliar to Americans; during the early 1990s, it required them to be labelled "Made in Burma" or "Made in Myanmar (Burma)."

Although the U.S. Government's Committee on the Implementation of Tariff Agreements (CITA) currently imposes quotas on several categories of garment imports from Myanmar, U.S. law authorizes CITA to restrict imports only when they threaten to disrupt U.S. markets. The U.S. Government's already limited ability to restrict garment imports unilaterally may be further reduced during the next few years by the phasing-in of World Trade Organization garment trade liberalization commitments to which the U.S. Government agreed upon joining the WTO in 1994.

-- *Travel and migration*

According to the *GOB/SMEI*, the number of GOB-recorded tourist visits to Burma by American citizens, which increased at an average annual rate of 89% from 586 in FY 91/92 to 3,942 in FY 94/95, increased by only 42%, to 5,586, in FY 95/96. The growth of American tourist visits to Burma appears to have slowed further during the first nine months of FY 96/97, when the GOB recorded 3,476 tourist visits to Burma by American citizens, up only 15% from 3,029 during the first nine months of FY 95/96.

The American share of total GOB-recorded foreign tourist visits to Burma was 10.2% in FY 90/91, 7.4% in FY 91/92, 5.4% in FY 92/93, 3.1% in FY 93/94, 4.1% in FY 94/95, 4.7% in FY 95/96, and 2.0% during the first nine months of FY 96/97. However, the American share of recorded foreign tourist arrivals by sea or air, which generate nearly all of the value of Burma's tourism service exports, was higher: 9.8% in FY 92/93, 7.2% in FY 93/94, 7.9% in FY 94/95, 6.7% in FY 95/96, and 4.5% during the first nine months of FY 96/97.

The number of American citizens who are registered with the Embassy as residing in Burma has remained stable since 1995 at about 200; more than half of these are U.S. Government officials and their dependents. Many of the rest are employed by international non-profit organizations; the resident American business community is small. American religious missionaries were active in Burma, and ran many schools, hospitals and clinics, until 1964; since then, the GOB has generally forbidden foreign non-Buddhist clergy or missionaries to operate in Burma, with some rare exceptions.

The U.S. Embassy in Rangoon issued about 2,500 non-immigrant and 800 immigrant visas to Burmese nationals in U.S. FY 1996. These numbers have increased in recent years. The Embassy estimates that there may be around 500 Burmese nationals studying at American colleges and universities, perhaps 15,000 Burmese nationals with permanent resident status (including political asylum recipients), and perhaps 20,000 American citizens of Burmese (including Shan, Karen, *etc.*) ethnicity. Many Burmese-Americans and Burmese living in America participate actively in organized efforts to restore democracy to Burma, including efforts to bring external economic pressure to bear on the GOB. However, individuals with ethnic ties to Burma appear to constitute only a minority of American nationals and residents engaged in such activities.

Major political issues affecting the business climate

In contemporary Burma, one political issue transcends all others: the thoroughly undemocratic nature of the government, despite the overwhelming victory of Burma's democratic opposition in a 1990 national election, the results of which the SLORC has refused to honor. The SLORC continues to intimidate political dissidents and to spread disinformation in order to block any efforts toward increased pluralism. This issue adversely affects Burma's business climate in at least three distinct ways:

(1) The undemocratic form of government contributes greatly to Burma's macroeconomic instability and retards development of a healthy and educated workforce.

The government's reliance on armed force rather than popular support is directly related to its high levels of defense spending and imports (Table G.5). Its lack of the popular support also contributes to its inability to collect internal revenues effectively, and thus to its reliance on export monopolies for much of its revenues (Table G.2), and to its reliance on external financing and tapping of private sector foreign exchange reserves to cover public sector imports and debt service in excess of public sector foreign exchange receipts. Together, these effects slow growth, crowd out both legal credit to the private sector and government spending on health and education, and contribute greatly to chronically large fiscal and BOP deficits, to chronic double-digit money supply expansion and price inflation, and to restrictions on private sector imports.

(2) Public concern in the U.S. and other democracies about the SLORC's suppression of democracy in Burma poses substantial and apparently increasing "other-market" political risk for firms that do business in or with Burma. The commercially relevant manifestations of this concern are not limited to the U.S. Government policies and actions already described above.

Since 1994, adverse publicity and threatened and actual consumer boycotts have contributed to inducing many U.S. garment distributors to announce that they would stop sourcing from Burma, and, recently, have even induced some U.S. firms (*e.g.*, Anheuser-Busch) to announce that they would stop exporting to Burma. Some of the few U.S. corporations that have invested in Burma have experienced sustained adverse publicity, consumer boycotts, and repeated interrogatories and protests by shareholders. Consumer boycotts in the U.S. and elsewhere contributed to inducing PepsiCo to announce, in April 1996, that it would liquidate its direct investment in beverage bottling and distribution facilities in Burma, which it had previously hoped to expand.

Since 1995, eleven U.S. cities, including San Francisco, Oakland and most recently (in May 1997) New York City, as well as one California county and the state of Massachusetts, have enacted "selective purchasing" laws that forbid their governments to buy or lease from, or (in some cases) to invest pension funds in, any firm, or (in some cases) the affiliate of any firm, that directly or indirectly buys from or invests in Burma or (in some cases) sells to the GOB. Similar selective purchasing legislation is reportedly pending in other municipal and state legislatures, despite questions from some U.S. observers about the constitutionality of such laws, and questions from some foreign governments about their compatibility with the U.S. Government's obligations under the Government Procurement Agreement administered by the WTO. Since 1996, these secondary procurement boycotts by subnational governments have contributed to inducing some U.S. firms, including Motorola and Apple Computer, to stop exporting to Burma's public sector, and to inducing some other U.S. and third-country firms to

postpone or limit planned or contemplated commercial activities in Burma. In 1996, a large Japanese firm, Mitsubishi, reportedly failed to win a large airport conveyance contract from San Francisco's municipal government because of Mitsubishi's commercial activities in Burma.

In third countries, during 1996 or early 1997:

- The European Union withdrew from manufactured and agricultural imports of Burmese origin the Generalized System of Preference (GSP) tariff preferences it accords to imports from most lower-income countries, on the grounds that the GOB makes extensive use of forced labor. This was the first instance in which the E.U. had taken such an action with respect to any country.
- Two European brewers, Heineken and Carlsberg, abandoned planned investments in Burma in response to politically-motivated consumer boycotts in Europe and elsewhere; the GOB responded by banning the importation of Heineken or Carlsberg beer into Burma.
- An Australian brewer, Fosters, announced, in response to politically-motivated consumer pressures, that it would stop exporting to Burma.
- Former Philippine President Cory Aquino and South Korean opposition leader Kim Dae Jung led efforts to organize Asians concerned to promote democratization and human rights in Burma; international conferences in India and the Philippines called for multilateral economic sanctions against the SLORC.

(3) The absence of democracy tends to increase long- and medium-term "same-market" political risk. A June 1994 report of global scope commissioned by the headquarters of the U.N. Development Program, prepared by an international team of independent scholars led by Dr. Mahbub ul Haq, identified Burma as one of 17 countries that have the highest long- and medium-term risk of serious political instability.

Questions about Burma's medium-term political stability were intensified during late 1996 and early 1997 by civil disturbances without precedent since 1988, including: an incident in October 1996 of organized physical violence against democratic opposition leaders including Aung San Suu Kyi, for which no one has been arrested; widespread demonstrations by university and high school students in November and December 1996, in response to which the GOB closed most universities and some high schools for, so far, half a year; widespread anti-Muslim disturbances with political overtones in March and April 1997; and two fatal bombings in Rangoon. Burma's retired former dictator, General Ne Win, is now about 87 years old, and the allocation of power within the military after his demise remains uncertain.

Brief synopsis of the political system, schedule for elections, and orientation of major political parties

As the summary of the U.S. Government's *1996 Country Report on Human Rights Practices: Burma*, published in January 1997, states:

Burma continue[s] to be ruled by a highly authoritarian military regime widely condemned for its serious human rights abuses. The military Government, known as the State Law and Order Restoration Council (SLORC), headed by armed forces commander Than Shwe and composed of top military officers, seized power in September 1988 after harshly suppressing massive pro-democracy demonstrations.... The judiciary is not independent of the executive....

The Government reinforces its rule via a pervasive security apparatus led by military intelligence, the Directorate of Defense Services Intelligence (DDSI). Control is buttressed by selective restrictions on contact with foreigners, surveillance of government employees and private citizens, harassment of political activists, intimidation, arrest, detention, and physical abuse. The Government justifies its security measures as necessary to maintain order and national unity, although almost all major insurgent groups have reached accommodation with the SLORC in recent years. Members of the security forces committed numerous serious human rights abuses.

The most widely supported political party in the country is the National League for Democracy (NLD), of which Daw Aung San Suu Kyi is the Secretary General. The NLD won a large majority of the popular vote and an overwhelming majority of the parliamentary seats in the 1990 election. The NLD is social-democratic in orientation; since its formation in 1989, it has advocated a more liberal and open economy than has existed in Burma since independence, as well as greater state efforts in basic education and health, and a democratic federal system of government with an independent judiciary and substantial autonomy for ethnic minority regions.

Since 1994, the SLORC has built up a pro-government mass-line organization known as the Union Solidarity and Development Association (USDA), to which the GOB has given valuable commercial real estate and intercity bus transportation monopolies, and, reportedly, exemptions from GOB restrictions on imports that USDA sells to private importers. Many civil servants, including teachers, medical personnel, firefighters, as well as members of the general population, are effectively required to participate in USDA rallies to give an appearance of popular support for the SLORC's policies.

No elections have been held or scheduled since the national election of 1990, the results of which remain unimplemented.

Sources, data and method.

Recent improvements in publicly available economic data

Since mid-1995, publicly available information on Burma's economy has greatly improved.

In 1995, the International Monetary Fund (IMF) and the World Bank, of which the GOB is a member, implemented new policies of increased transparency. These new policies entail routine publication of periodic and occasional reports on member countries' economies, circulation of which had previously been restricted to the staffs of these international financial institutions (IFIs) and officials of their member governments.

In October 1995, the World Bank published a 150-page report entitled, *Myanmar: Policies for Sustaining Economic Reform*, presenting the findings of World Bank technical missions that visited Burma between November 1994 and September 1995 (hereafter cited as "*WB/PSER*"),⁴⁴ In December 1995 and May 1997, the IMF published hundred-page reports, prepared in October 1995 and February 1997, entitled, *Myanmar - Recent Economic Developments*, consisting of the descriptive background information appended to the IMF staffs October 1995 and February 1997 reports to the IMF Board of Executive Directors on the Article IV consultations between the GOB and IMF technical missions that visited Burma in August 1995 and November 1996 (hereafter cited as "*IMF/RED/95*" and "*IMF7RED/97*").⁴⁵ The statistical tables in these reports are in many respects more complete, more current, and more usefully formatted than published GOB economic statistics. In particular, they provide some kinds of current data on the GOB's internal and external financing, on external financial flows (including disbursed as distinct from approved foreign direct investment), on monetary aggregates, and on services trade that are not available in any GOB publications.

The GOB periodically issues various publications, in both Burmese- and English-language versions, containing national economic data. Among the most useful of these are four publications of broad scope, prepared by the Central Statistical Organization (CSO) of the Ministry of National Planning and Economic Development, which contain some data not presented in the above-mentioned IMF and World Bank reports:

- *Review of the Financial, Economic and Social Conditions*, published annually, two to three months after the close of the fiscal year. It provides detailed sectoral input and output data, as well as cursory national accounts, fiscal and balance of payments data, for the past and recent previous fiscal years, as well as selected planning targets for the coming fiscal year. (Hereafter cited as "*GOB/RFESC*").⁴⁶

⁴⁴ Staff Report No 14062-BA Available free of charge from World Bank Publications, P O Box 7247-8619, Philadelphia, PA 19170-8619, U S A , or from The World Bank, Order Fulfillment Operations, 1818 H Street, N W, Washington, D C 20433, USA, telephone 202-473-1155, Internet "pic@worldbank.org "

⁴⁵ IMF Staff Country Reports No 95/126 and 97/31 Available for US \$ 15 from International Monetary Fund, Publication Services, 700 19th Street, N W , Washington, D C 20431 USA, telephone (202) 623-7430, telefax (202) 623-7201, Internet publications@imf.org

⁴⁶ Regional disaggregations of many of the statistics in the *Annual Review*, separately printed and bound, have been displayed in locked glass cabinets in the Planning Ministry exhibit in the Armed Forces Museum in Rangoon, and are distributed to selected visitors by some regional military commanders, but appear not to be publicly available

- *Selected Monthly Economic Indicators*, published every two months, provides selected annual and monthly data, extending up to three months before the publication date, on external trade, production, consumer prices, money supply, exchange rates, tax revenues, foreign investment, and transportation and tourism. (Hereafter "*GOB/SMEI*")
- *Statistical Abstract*, published annually, most recently in 1996, provides data on social conditions, such as media, crime and education, government finances including defense spending, and consumer prices outside Rangoon, in addition to information published in the "GOB Annual Review." (Hereafter "*GOB/SA/96.*")
- *Statistical Yearbook* ("*GOB/SY*"), published most recently in 1995, provides in greater detail, including some regional disaggregation, but with a longer lag time, the same broad range of statistics provided by the *Statistical Abstract*.

Since 1995, the GOB's published economic data have improved in several respects. Much of the data in *GOB/RFESC* have become more current, covering the fiscal year just ended. Publication of the *GOB/SY*, suspended since 1978, has resumed. The CSO has inaugurated a new annual publication, *Foreign Trade Statistics of Myanmar*, which disaggregates declared legal merchandise trade by country of origin or destination and international Harmonized Commodity Description and Coding System categories; however, these data have been several years out of date when published. The Ministry of Agriculture has resumed, for the first time since 1990, releasing its own statistical publications on the agricultural sector, including a twelve-volume English-language "*Report on Myanmar Agriculture Census, 1993.*"

The IMF's quarterly and annually published *Direction of Trade Statistics* (*IMF/DOTS*), and various commercial economic database services, such as the Centre Francais du Commerce Exterieur in Paris and Australia National University's International Economic Database (*ANU/IEDB*) in Canberra, provide data on Burma's external merchandise trade, based on trade data reported to the COMTRADE databank of the United Nations Commission on Trade and Development (UNCTAD) by the governments of other countries that trade with Burma. These data are substantially more complete than the GOB's merchandise trade data, but require careful interpretation, preferably based on multiple sources.⁴⁷

The IMF's monthly *International Financial Statistics* (*IMF/IFS*) provides the most current publicly available information on Burma's foreign reserves; otherwise, its pages on "Myanmar" are largely blank for recent years, reflecting the failure of recent GOB economic data to meet IMF quality standards. The World Bank's annually published *World Debt Tables* (*WB/WDT*) provide in some respects the most complete, although not the most current, publicly available data on Burma's external debt. The United Nations Development Programme's (UNDP) annual *Development Cooperation Report* on Myanmar may be the best publicly available source of information on non-military external

⁴⁷ All these sources provide data on Burma's exports by aggregating the recorded imports of Burmese-origin goods that other governments report to UNCTAD, and provide data on Burma's imports by aggregating the recorded shipments of goods to Burma that other governments report to UNCTAD. However, the *IMF/DOTS* gives Burma's imputed exports FOB basis, and gives Burma's imputed imports CIF basis, by assuming that CIF value is 10% greater than FOB value. Some other sources, such as *ANU/IEDB*, give Burma's imputed exports CIF basis, and its imputed imports FOB basis. The data of some sources appear incomplete for many trading partners for some years (e.g., *ANU/IEDB* for 1991). Corrections must also be made for omissions due to non-reportage by governments of some of Burma's trading partners, either occasionally (India in 1990) or consistently (many African countries). The disaggregation of this imputed trade data by country is more reliable than its disaggregation by commodity group, due to some non-standardization of customs records across countries, reflecting this, the *IMF/DOTS*, the most readily available source of imputed trade data, does not attempt any disaggregation by commodity group. Finally, the *IMF/DOTS* data for more than five years prior to publication are estimates, apparently generated by a global aggregate import/export reconciliation program, that differ greatly, in the case of Burma, from the original data reported by Burma's trading partners.

assistance to the GOB. It and other UNDP reports, and various UNICEF reports including UNICEF's *Annual Report on Myanmar*, are excellent sources of information about social and human infrastructure development, including basic health and education.⁴⁸

Remaining flaws in the publicly available economic data

However, not only the GOB's public economic statistics, but *all publicly available statistics on Burma's economy are flawed* in a variety of respects, of which the following eight are salient:

- (1) *General incompleteness*. Burma's national income (GDP and GNP) accounts are grossly incomplete.

In Burma's domestic non-farm economy, underreporting of economic activity is widespread,⁴⁹ driven by tax evasion that is facilitated both by grossly inadequate government wages and by the unpopularity of the SLORC. Since the legal banking system offers negative real interest rates and lends chiefly to the government, which now also restricts private foreign exchange outflows, many private financial transactions are handled by a large informal banking system that offers positive real interest rates and has well-developed transnational capabilities. GDP statistics also exclude substantial uncompensated "people's contributions," mostly of labor, to public sector construction projects. There is a large unrecorded money supply, consisting largely of gold, gems, and U.S. and Chinese paper currencies, as well as kyat- and foreign-currency-denominated deposits in the informal banking system.

The contrast between GOB and UNCTAD merchandise trade data (Tables D.2.a[1] through D.2.b[5]) shows that, for most recent years, GOB data record only about three-fourths of the value of the exports that other countries' data record as imports of Burmese origin. For some recent years, most notably FY 95/96, GOB data also record imports worth substantially less than the values that other countries' data record for exports shipped to Burma. Moreover, even the UNCTAD data, being based on the customs records of the governments of Burma's trading partners, fail to capture trade that evades the customs not only of Burma, but also of its trading partners. Such trade includes Burma's large unrecorded exports of opiates (Table D.5) and recently also of amphetamines, and apparently also Burma's imports of finished military goods (Table G.5).

Even using UNCTAD data to value merchandise trade, the per capita recorded money GDP figure implied for recent years by exchange-rate-adjusted recorded GDP (ARGDP) and by GOB population estimates is around US \$100 a year - lower, by a factor of at least two, than that of almost

⁴⁸ Various private subscription services, including the quarterly *Economist Intelligence Unit Country Reports*, provide periodic overviews of recent political, economic and business events in Burma. Several regional weeklies, including *Far Eastern Economic Review* and two Bangkok dailies, *The Nation* and *The Bangkok Post*, provide extensive English-language coverage of Burma. Besides the English-language government-owned daily newspaper, *The New Light of Myanmar*, several private Burmese-language monthlies, such as *Dana*, *Myanma Dana* and *Kyaw-nyan Lan Hnyun* publish economic news and information. Current economic, business and political news about Burma may be comprehensively and cheaply monitored by subscribing to the BurmaNet listserv on the Internet. The BurmaNet is funded by the Soros Foundation, which also publishes *Burma Debate* magazine every two months. To subscribe to the BurmaNet, send the command, "subscribe burmanet-1" (lower-case "L") to "majordomo@igc.apc.org"

⁴⁹ Until recently, GOB statistics have tended to overstate agricultural production, and rice production in particular, for reasons described in the section on agriculture, below. However, during the past year, senior SLORC officials have repeatedly and publicly denounced the filing of inflated rice production figures by local Ministry of Agriculture officials, and the GOB's downward revision of GDP growth rates for recent years appears to be based on an at least partial correction of previously inflated rice production figures.

any other country. Even allowing for probable slight undervaluation of the kyat at the market exchange rate,⁵⁰ and for substantial apparent overcounting of the population,⁵¹ this is clearly far too low, given that PPP-basis per capita GDP is generally estimated to be in excess of US \$600, and that the cash economy extends throughout the country. All this suggests that the unrecorded economy could be comparable in size to the recorded economy.

-- (2) *Exchange rate distortion.* Burma's national accounts, as published by the GOB and most other sources, are pervasively distorted by the GOB's practice of converting foreign-currency-denominated (external sector) transactions into kyat at the official rate. The preponderance of kyat-denominated (internal sector) transactions occur at prices reflecting the exchange rate in a foreign exchange market that has been fully legal since 1995 and which the GOB tacitly tolerated even before 1995. (See the discussion of the exchange rate regime in the section on monetary developments, below.) Since the kyat was worth more at the official rate than at the market rate by a factor that increased from about eight in FY 89/90 to about 27 in FY 96/97, external sector transactions (imports, exports, net unrequited foreign transfers, foreign grants, foreign borrowing, foreign debt service, and direct foreign investment) and hence Burma's trade, balance of payments and savings deficits have been greatly and increasingly undervalued relative to recorded GDP in the GOB's national accounts (compare Tables B.3.a and B.3.b, also Tables F.1 and F.2.a). Since the public sector is heavily engaged in the external sector, this practice also seriously distorts GOB public sector financial accounts, causing the public sector's recorded receipts, expenditures and fiscal deficits to be substantially understated relative to recorded GDP (compare Tables G. 1 .b and G.2). Furthermore, since much of the recorded money supply consists of foreign-currency-denominated deposits and banknotes, this practice also distorts the monetary aggregates (compare Tables E. 1 .a and E. 1 .b).⁵²

- (3) *Defense-related omissions.* As the IMF states publicly every month in its *International Financial Statistics*, some defense imports are excluded from the GOB's (and hence also from the IMF's and the World Bank's) merchandise import and balance of payments (BOP) accounts. Financing of military imports appears to be omitted from long-term loan disbursements in the capital account. External debt incurred in connection with military imports, as well as defense-related external debt service obligations and payments, appear to be omitted from the GOB's statistics on external debt. For example, GOB statistics (Table D.4) show the GOB's outstanding official debt to China as only US \$73 million as of

⁵⁰ Generally accepted microeconomic theory suggests that the equilibrium exchange rate that would be observed if the official exchange rate were abolished would value the kyat more highly than the market exchange rate does, although the relatively small volume of transactions occurring at prices reflecting the official rate suggests that the equilibrium rate would have been only slightly different from the market rate during the 1990s, especially since the partial exchange rate regime liberalization of early 1993

⁵¹ Based on casual observation, many foreign observers estimate the populations of Rangoon and Mandalay to be substantially less than the GOB estimates. The GOB's population data is ultimately based largely on household registers, and Burmese have a variety of incentives to be listed on more than one household register. Farmers can transfer land freely, without approval from local government officials, only to other individuals on the same household register. Tenure of urban residential real estate is legally contingent upon residence, so individuals can own use rights for more than one dwelling only by multiple registration. Young adults no longer living with their parents risk inheritance problems unless they remain listed on their parents' household register, such registration also enables children to exercise power of attorney for a parent without legal costs, and to visit parents overnight without registering at the local police station. For all these reasons, multiple registration appears to be widespread although technically illegal. The 1983 census-takers were supposed to check that all individuals and only those individuals registered as members of a household were physically present at the household, however, anecdotal evidence suggests that the integrity of the census in this respect may have been widely undermined by bribery.

⁵² Valued at the official exchange rate, as they are in GOB statistics, recorded merchandise imports appear equivalent to less than 2% of recorded GDP, and recorded merchandise exports appear equivalent to about 1% of GDP. This implies that Burma, seven years after the SLORC largely liberalized foreign trade, remains the world's most closed economy, with much less foreign trade relative to GDP than North Korea, however, legally imported consumer goods are relatively abundant in Burma.

March 1994; however, during FY 90/91 through FY 93/94, the GOB imported several hundreds of millions of dollars worth of military equipment and services from China, most of it believed to be concessionally financed. Moreover, in recent years, the GOB's statistics on its defense operating expenditures (published in *IMF/RED/97*) have been incomplete and understated, as the IMF points out in *IMF/RED/97* (p. 18n). All these defense-related omissions tend to cause understatement of the GOB's external debt and external debt service obligations and payments, of its foreign borrowing, of its capital account and overall BOP deficits, and of the public sector's expenditure, external financing, and fiscal deficits.

- (4) *Overstatement of debt service payments.* The publicly available data on the GOB's external debt service performance is seriously distorted by non-standard accounting for debt relief from the Government of Japan (GOJ), the GOB's largest recorded external creditor. Debt service payments from the GOB to the GOJ are promptly given back to the GOB as import credits. However, these give-backs are not subtracted from the GOB's debt service payments in IMF and World Bank statistics on Burma's external debt (on which the GOB itself publishes no data). For the mid-1990s, during which such GOJ debt relief was large and increasing, this makes the GOB's external debt service performance appear to have been better, by a large and increasing amount, than it really was (Table D.4). This does not distort the overall BOP accounts (Tables D.1) and the flow of funds accounts (Tables F), where the GOJ debt relief is included in the "foreign grants" account, offsetting the distortion of the amortization and interest (debt service) payment accounts. However, this does distort the national income accounts, by understating net factor income (cash basis), and, hence, the amount by which gross national product (GNP) exceeds GDP. Furthermore, the practice (in *IMF/RED97* and *95* and *WB/SPER*) of including GOJ debt relief in both "foreign grants" and as "external debt service payments" rather than as external financing in public sector budget accounts distorts those accounts by overstating non-financial receipts and understating both the cash-basis operating deficit and the overall obligation-basis deficit. Since GOJ debt relief merely reduces the GOB's external arrears without increasing its purchasing power, it should be counted not as a non-financial receipt, but rather as non-cash external financing. Since the debt service payments given back through GOJ debt relief are not in fact paid in any economically meaningful sense, they should not be included among the "external debt service payments" that differentiate the GOB's cash-basis operating deficit from its overall cash-basis deficit; rather, they should be included in the debt service payment obligations in excess of debt service disbursements that differentiate the overall obligations-basis deficit from the overall cash-basis deficit.

- (5) *Omission of NFS trade from GDP expenditure accounts.* Trade in non-factor services (NFS) is not included in the trade balance in the GOB's accounting of expenditure on GDP. Although the trade balance entry in the GDP expenditure accounts is mislabelled as including NFS in *IMF/RED/95*, *IMF/RED/97* and *WB/PSEER*, in fact it includes only merchandise exports (F.O.B. terms, shipments basis) and merchandise imports (C.I.F. terms, arrivals basis), as is evident from the identity of the GDP expenditure and merchandise trade accounts in *GOB/RFESC*. Since Burma has had an NFS trade surplus in most recent years, this omission has tended to overstate the recorded merchandise and NFS trade deficit, and hence to understate consumption and overstate net domestic savings (both calculated as residuals), in the GDP expenditure accounts.

- (6) *Overstatement of GDP growth for FY 92/93.* The GOB's national accounts for FY 92/93, imply an extraordinarily high real unadjusted recorded GDP growth rate of 9.7% - which turns out to be even higher, indeed implausibly high, in exchange-rate-adjusted terms (compare Tables B.1.a, B.1.b and B.1.c).

Most of this ostensible unadjusted recorded GDP growth for FY 92/93 is due to recorded real growth of 12% in agricultural production, chiefly reflecting a 12.4% recorded increase in the production (by weight) of rice, Burma's staple crop. As is described in the section on agriculture, below, the rice production figures for FY 92/93 and subsequent years were recognized during 1995 and 1996 to be inflated: the overstatement of rice production appears to be greatest for FY 92/93, the first year of a GOB campaign to boost state-monopolized rice exports. Recognizing this, the GOB, in early 1997, revised its rice production and hence its GDP figures downward for FY 94/95 and 95/96, but it has not revised its already "final" figures for FY 92/93 and 93/94. This causes real recorded GDP growth to be substantially overstated for FY 92/93, and slightly understated for FY 93/94 and for FY 94/95 -- although recorded GDP growth would still be slowing during the period even after any plausible correction for these errors.

As is described in the section on tourism, below, the entry for travel service export receipts recorded by the GOB for FY 92/93 (US \$117 million) also appears about two times too large, relative both to the preceding and following years' travel receipts, and in terms of the per capita receipts per foreign visit (excluding overland arrivals on tourist visas) that it implies. This, too, tends to overstate GDP -- more in exchange-rate-adjusted terms than in unadjusted terms.

The external debt service payment disbursements recorded by the GOB for FY 92/93 (US \$58 million) appear substantially too small. This figure is less than the sum of debt service known to have been paid to (and given back by) the Government of Japan, plus payments owed to the World Bank and the Asian Development Bank, to which the GOB has never accumulated significant arrears. However, this has no implications for GDP accounting.

- (7) *Overstatement of capital imports for some recent years.* Comparison of GOB data on the composition of Burma's merchandise imports (Table D.2.a[4]) with UNCTAD data on the composition of merchandise shipped to Burma from other countries, as reported to the U.N. by the governments of those countries (Table D.2.b[5]), indicates that the GOB data for FY 92/93 and FY 93/94 substantially overstates the value of capital goods imports, thereby tending to make investment appear greater than it really was (compare Tables B.2.b and B.2.c). This, in turn, tends to understate consumption and overstate net domestic savings (both calculated as residuals), in the GDP expenditure accounts. Why this discrepancy exists for FY 92/93 and FY 93/94, and only for those years, is unclear.

-- (8) *Optimistic bias in non-final figures.* As is pointed out in *IMF/RED/97*, the provisionally estimated figures for the most recent year, both in GOB publications and in other publications based largely on GOB data, such as the *IMF/RED* reports, are based in part on planning targets, and therefore tend to be systematically biased in an optimistic direction, pending revision into semi-final estimates and final statistics.

In addition to these eight data problems, the services trade account (Table D.3) contains apparent anomalies. There are large year-to-year fluctuations in the unspecified "other" service import payments, the causes of which are unknown. The large "other" non-service export receipts since FY 90/91 consist largely of "signature bonuses" paid to the GOB by foreign investors upon receiving approval to invest. These payments, essentially purchases of investment options, might more appropriately be recorded in the BOP accounts as capital inflows, where they would have no effect on GDP and GDP expenditure accounting.

The statistical basis and methodology of this report

The quantitative analysis presented in this report, and most figures cited in it, derive largely from the statistical tables appended to it. Each table's data sources are noted at the bottom of the table. Where figures cited in the text do not derive from these tables, their sources, when publicly available, are indicated in footnotes or in parenthetical notes in the text.

Nearly all statistics presented in most tables appended to this report are based on (1) GOB data, as presented in either GOB, IMF or World Bank publications; (2) World Bank data on Burma's external debt, based on information supplied by Burma's external creditors as well as by the GOB; (3) data on merchandise trade with Burma reported to UNCTAD by the governments of countries with which Burma trades; and (4) the Embassy's monthly observations of the parallel market kyat/dollar exchange rate. The exceptions are Tables D.5, on the opiates sector, which is based largely on U.S. Government publications; and Table G.5, on exchange-rate-adjusted defense expenditures, which is based in part on Embassy estimates of defense imports. In the statistical tables, Embassy estimates of independent entries that are not fully determined by public-source data are printed in **boldface type**.

The statistical tables appended to this report cope as follows with the eight salient defects, listed in the previous sub-section, in the published data on Burma's economy:

- (1) *General incompleteness*.

This report can do nothing to remedy the incompleteness of the GOB's national income accounts with respect either to Burma's domestic economy, or to its external trade in services -- except to maintain, throughout, a terminological distinction between "recorded GDP" and an unobservable but presumably much larger "GDP."

However, this report does present, in addition to the GOB's external merchandise trade data (Tables D.2.a[1-4]), more complete data on Burma's external merchandise trade, based on data reported to UNCTAD's COMTRADE databank by the governments of countries with which Burma trades (Tables D.2.b[1-5]). This report's presentation of the UNCTAD trade data is based on detailed comparison of UNCTAD data as presented by three sources: a published source, *IMF/DOTS*; a commercial trade database service, *ANU/IEBD*; and a trade database service internal to the U.S. Government. This presentation includes an allowance for omissions due to incomplete reportage or non-reportage to UNCTAD by some countries (mostly in Africa) to which Burma has shipped substantial exports (mostly rice); this allowance, an Embassy estimate based in part on the Embassy records of the direction of rice exports for the most recent years and on data on the direction of rice exports in *GOB/SYfor* previous years, is explicit in Table D.2.b(1).

This report also presents not only BOP accounts and national income accounts based on the GOB's merchandise trade data (Tables D.I.a and B.1-3.a-b), but also BOP accounts and national income accounts based on this UNCTAD merchandise trade data (Tables D.I.b. and B.1-3.c).⁵³ Because the UNCTAD data derive from merchandise trade with Burma recorded by the customs services of Burma's trading partners:

⁵³ In its presentation and use of UNCTAD merchandise trade data, this report builds both on the Embassy's 1996 *FETR*, which presented UNCTAD data for Burma's imports but not its exports, and on *IMF/RED97*, which presented UNCTAD merchandise trade data as presented in *IMF/DOTS*, but presented neither a disaggregation by commodity groups (something *IMF/DOTS* does not provide) nor overall BOP and GDP accounts based in part on UNCTAD rather than GOB merchandise trade data.

- (a) they may meaningfully and usefully be combined and compared with GOB-recorded BOP and national income accounts data, as in Tables D.1.b. and B.1-3.c; and
- (b) they are, by definition, no less complete, on average, than the merchandise trade data of Burma's trading partners, so any remaining large omissions in the merchandise trade data must be related to trade that is not recorded by Burma's trading partners, *e.g.*, narcotics trafficking and trade in military goods.

Since UNCTAD merchandise trade data are on a calendar year basis, this report aggregates and compares the GOB data for a GOB fiscal year (April 1 through March 31) with UNCTAD data for the previous calendar year. However, any distortions that this may cause should be relatively small due to the 75% temporal overlap, and should be free of any systematic bias.

-- (2) *Exchange rate distortion.*

This report (like this Embassy's 1996 *Foreign Economic Trends Report*) corrects, in so far as possible, the distortions in Burma's national accounts created by the GOB's practice of recording foreign-currency-denominated transactions at the official exchange rate, although most kyat-denominated transactions occur at prices fully reflecting the market exchange rate. It presents the national income, public sector finance and monetary accounts both in the exchange-rate-unadjusted form given by GOB and IMF publications (Tables B.1-3.a, E.1.a, G.1.a-b and G.4) and in an exchange-rate-adjusted form that corrects, in so far as possible, for these distortions (Tables B.1-3.b-c, E.1.b, E.2, G.2, G.3 and G.5). This exchange-rate-adjustment is made by equating dollars and kyat at the market rate rather than the official rate; in kyat-denominated accounts, this is done by subtracting foreign-currency-denominated entries at the official rate, and adding them back in at the market rate.

The GOB has never published any data on the market exchange rate, despite having legalized it for an increasing range of transactions since 1990. The FY period-average and period-end values for the market exchange rate (Tables B.1-3.b and E.1.b) used in this report to exchange-rate-adjust Burma's national accounts are based on monthly Embassy observations of the prices at which U.S. dollars (not FEC) are offered by high-volume market-makers in downtown Rangoon; the FY period-average rate values (Tables B.1-3.b) are simple averages of these observations. The bid-ask spread in this market has generally been less than one percent, except in periods of exceptional price volatility, reflecting little or no official effort to suppress nominally illegal private trading in foreign currency. (The spread in bank transfer rates has been larger.) Since the GOB's introduction of the FEC in February 1993, the kyat price at which FEC are offered (now legally) by market-makers in downtown Rangoon has rarely deviated by more than one percent from the dollar offer price, except during periods of exceptional volatility. The FEC has sometimes sold for slightly more than a dollar, sometimes slightly less; there was no systematic discount or premium until early 1997, when the FEC began to sell consistently at a one or two percent discount to the dollar.⁵⁴

⁵⁴ The IMF, in *IMF/RED/97*, adopts the practice of exchange-rate-adjusting the national income accounts and some monetary accounts. However, in doing so, it uses a "market" exchange rate, obtained from GOB authorities, that consistently values the kyat substantially more highly, by a varying proportion, than the market exchange rate observed by the Embassy. The "market" rate used in *IMF/RED/97* appears to be a preferential rate at which the GOB has made limited amounts of foreign exchange available to quasi-private cooperatives; relatively few transactions have occurred at this "cooperative market rate."

The exchange-rate-adjustment of recorded GDP is problematic. For a country whose currency is not an international medium of exchange, GDP may be disaggregated into foreign- and domestic-currency-denominated transactions as follows:

$GDP = D + X - Mi$, where

D = domestic production of finished goods and services for domestic consumption;
 X = exports of goods and non-factor services produced during the current period; and
 Mi = "intermediate" imports in the national accounting sense of goods and services imported and resold by firms, or used by firms as inputs to make other goods sold to consumers

during the current period, as distinct from imports of capital goods and of goods imported by their ultimate consumers.⁵⁵

D is domestic-currency-denominated; X and Mi are foreign-currency-denominated. In the case of contemporary Burma, X and Mi should be equated with D at the market exchange rate: no private import supplier will accept payment in kyat at the official rate, and no export supplier is either willing or constrained to accept payment in kyat at the official rate. Thus, the GOB's GDP figures tend to be understated due to their booking of exports at the official rate; however, they tend to be overstated due to their booking of intermediate imports at the official rate. To exchange-rate-adjust the GOB's GDP figures, two corrections are necessary:

- (a) exports (X) must be subtracted from unadjusted GDP at the official rate, then added back in at the much greater market rate; and
- (b) intermediate imports in the national accounting sense (Mi) must be added to unadjusted GDP at the official rate, then subtracted out again at the much greater market rate.

However, there are no published data on the value of intermediate imports in the national accounting sense. Estimating their value is problematic. They clearly include most imports of intermediate imports in the conventional sense (raw materials, tools and spare parts), and exclude capital goods. They exclude goods and services that are both imported and consumed by the public sector; but there are no data quantifying such imports. However, in Burma, intermediate imports seem to constitute a smaller proportion of private consumer imports than in some other countries. For example, in Burma, although almost all cars are imported, they are generally imported by their ultimate consumers, with distributors acting as agents rather than principals, in order to evade a sales tax known as the commercial tax; consequently, cars appear not to be intermediate imports in the national accounting sense. Moreover, for exchange-rate-adjustment purposes, one should exclude from intermediate imports the limited set of goods -- some fertilizer and some refined petroleum products -- that the public sector imports and sells directly to ultimate consumers at prices reflecting the official rate of exchange. Accordingly, in light of what is known about the composition of Burma's merchandise imports (Tables D.2.a[4] and D.2.b[5]), this report, in exchange-rate-adjusting the GOB's GDP statistics, estimates the value of intermediate imports at 40% of the value of imports of merchandise (F.O.B.) and non-factor services (Tables B.1-3.b-c).⁵⁶

⁵⁵ When a firm imports and resells a good, its import cost must be subtracted from GDP to offset its addition to GDP resulting from the ultimate sale of the good to a consumer; otherwise the importation of something not produced domestically increases domestic product.

⁵⁶ In our 1996 FETR, the Embassy finessed this problem, implicitly estimating intermediate imports at zero. *IMF/RED/97* (page 14) also appears to do this.

The exchange-rate-adjustment of recorded GDP is further complicated by the discrepancies between the GOB and UNCTAD values for merchandise exports and imports. This report offers one set of exchange-rate-adjusted GDP accounts based on GOB merchandise trade data (Tables B.1-3.b), and another based on UNCTAD merchandise trade data (Tables B.1-3.c). However, because the UNCTAD data appear more complete than the GOB data on merchandise trade, the term "adjusted recorded GDP" and its abbreviation, "ARGDP," are used in this report to denote recorded GDP exchange-rate-adjusted on the basis of UNCTAD merchandise trade data, unless otherwise indicated.

Given the sensitivity of ARGDP to the value of intermediate imports, which can be estimated only crudely, relatively little importance should be given to any single year's ARGDP growth rate. Longer-term trends are more indicative. Nevertheless, *the usefulness of exchange-rate-adjusting the national accounts lies not in what it tells us about the growth of recorded GDP, but in what it tells us about the importance of the outside world to Burma's economy.* It reveals the magnitude of foreign trade, transfers, financing and investment relative to recorded GDP, and hence the size of the trade, financial, BOP and fiscal deficits relative to recorded GDP. It also reveals the importance of foreign-currency-denominated receipts, expenditures and financing in the public sector budget, and hence the size of the public sector relative to recorded GDP.

ARGDP figures are useful chiefly as points of reference to which other exchange-rate-adjusted data can meaningfully be compared, and their usefulness for this purpose is only slightly diminished by the problematic aspects of estimating ARGDP. For example, errors as large as ten percent in estimating ARGDP could cause Burma's deficit in recorded trade in goods and non-factor services for FY 95/96 to account for anywhere from 22% to 18% of expenditure on recorded GDP based on UNCTAD merchandise trade data (Table B.3.c), or anywhere from 13.5% to 16.5% of expenditure on recorded GDP based on GOB merchandise trade data (Table B.3.b). Although disturbing, possible errors of this magnitude are trifling in comparison with the insight, provided by the exchange rate adjustment, that this trade deficit is vastly greater relative to recorded GDP than the 0.8% of recorded GDP shown by exchange-rate-unadjusted accounts (Table B.3.a).

Unfortunately, the exchange-rate-adjustment of the public finance accounts is incomplete, because the available data do not permit the identification of all foreign-currency-denominated public sector receipts, expenditures and financing (Table G.2). Consequently, public sector receipts, expenditures and financing probably remain understated even after the fullest exchange-rate-adjustment that the available data permit (Tables G.3 and G.5).

- (3) *Defense-related omissions.* Table G.4 gives estimates of exchange-rate-unadjusted defense spending for FY 94/95 and 95/96 that are more complete than those published by the GOB; Tables G.1 through G.3 use them in calculating total public sector expenditures. Table G.5 gives estimates of up-front payments for defense imports (apparently much less than the market value of those imports), and uses them to calculate a comprehensively exchange-rate-adjusted estimate of public sector expenditures.
- (4) *Overstatement of debt service payments.*

Table D.4 shows GOB-recorded debt service disbursements, both gross and net of debt relief from the Government of Japan (GOJ). It gives the ratio of debt service payments disbursed to debt service payments due, both gross and net of that debt relief.

The interest portion of this debt relief should be added to the factor services trade balance into the "net factor income (cash basis)" account in the calculation of GNP, since GDP should not be reduced by the amount of factor service payments that were not really paid in any economically meaningful sense. Because no disaggregation of the value of GOJ debt relief into amortization and interest seems to be publicly available, half the value of the debt relief is assumed to be interest, and is added to the factor services trade balance (Table D.3) to yield the estimates for "recorded net factor income (cash basis)" in Tables B.1-3.b-c. (A value of US \$ 20 million is assumed for GOJ debt relief for FY 89/90: the Embassy has no data on GOJ debt relief for that year.) This increases the amount by which recorded GNP exceeds recorded GDP. This also increases the accuracy of the figure for GNP unless at least 75% of the value of debt relief is amortization.

In this report's presentation of the public sector budget accounts (Tables G.1.a, G.1.b, G.2 and G.3), GOJ debt relief is excluded both from the "foreign grants" entry in the non-financial receipts accounts, from the "external debt service due" that differentiates the cash-basis operating deficit from the "external debt service paid" and differentiates the cash-basis operating deficit from the overall cash-basis deficit in Tables G.2 and G.3. Instead, it is counted, along with external arrears, both as non-cash external financing and as external debt service obligations in excess of external debt service disbursements. This treatment of external debt relief is commonly observed in IMF budget accounting for governments that receive such relief. Relative to the budget accounting in *IMF/RED/95*, it decreases receipts and increases both the cash-basis operating deficit and the overall obligations-basis deficit, without affecting the overall cash-basis deficit. In exchange-rate-adjusted budget accounts, these differences are significant, and this treatment of GOJ debt service is necessary to avoid giving two incorrect impressions: that foreign grants are the source of a large portion of the GOB's purchasing power, and that the GOB's overall cash-basis deficits consist chiefly of external debt service disbursements rather than operating deficits.

-- (5) *Omission of NFS trade from GDP expenditure accounts.* In accounting for expenditure on GDP in Tables B.1.a through B.3.c, the non-factor services (NFS) trade balance (from Table 3) is added to the BOP-basis merchandise trade balance (from Table D. 1 .a or D. 1 .b) to yield the value for "recorded balance of external trade." For the years in which the GOB recorded a surplus in NFS trade (all but FY 90/91), this increases the value of consumption and decreases the value of net national savings, both calculated as residuals, relative to accounting that follows the GOB's practice of omitting NFS trade from its GDP expenditure accounting.⁵⁷

-- (6) *Overstatement of GDP growth for FY 92/93.* This report's service export accounts (Table D.3) give an estimate of travel service exports for FY 92/93 that is about \$57 million less than the figure in GOB accounts; besides increasing the trade deficit, this decreases recorded GDP growth for FY 92/93, and increases GDP growth for FY 93/94, by about 2% in exchange-rate-adjusted terms. However, this report's national income accounts do not correct the overstatement of agricultural production and

⁵⁷ In order to include NFS trade without double-counting insurance and freight imports, this report, in its GDP expenditure accounts based on GOB merchandise trade data, uses payments-basis merchandise trade figures rather than arrivals-basis merchandise import figures and shipments-basis merchandise export figures used by the GOB. The GOB's arrivals-basis merchandise import figures are given at CIF valuation, whereas merchandise imports and exports are both given at FOB valuation, although on a payments basis, in the GOB's BOP accounts. Using FOB values for merchandise imports avoids double-counting of insurance and freight service imports, and, although no arrivals-basis FOB -valuation figures for merchandise imports are available, they are presumably closely approximated by the payments-basis FOB -valuation figures for merchandise imports. However, GOB payments-basis data for merchandise imports are substantially larger than GOB arrivals-basis data for merchandise imports (and larger than UNCTAD data for merchandise imports) for FY 90/91 and FY 92/93. The causes of this discrepancy are not clear.

recorded GDP caused by the GOB's unusually large overstatement of rice production for FY 92/93, and its apparently smaller overstatement of rice production for FY 93/94. Consequently, GDP growth remains substantially overstated for FY 92/93, and slightly understated for FY 93/94 and FY 94/95. For want of correct data, this report's external debt accounts (Table D.4) also do not correct for the apparent understatement of debt service disbursements for FY 92/93.

-- (7) *Overstatement of capital imports for some recent years.* The exchange-rate-adjustment of fixed investment in the GDP expenditure accounts (Tables B.1-3.b-c) proceeds by subtracting the C.I.F. value of capital goods imports at the official rate, and adding them back at the much greater market rate. In calculating expenditure on ARGDP based on GOB trade data (Tables B.1-3.b), this report uses GOB data on capital imports (from Table D.2.a[4]) to exchange-rate-adjust investment. In calculating expenditure on ARGDP based on UNCTAD trade data (Tables B.1-3.c), this report uses UNCTAD data on capital imports (from Table D.2.b[5]) to exchange-rate-adjust investment. For FY 92/93 and FY 93/94, UNCTAD data show substantially lower capital imports than GOB data, implying less investment, and hence greater consumption and lower net domestic savings (both calculated as residuals).

- (8) *Optimistic bias in non-final figures.* The headings of the statistical tables appended to this report indicate the years for which figures are not yet final, and thus may be optimistically biased. However, this report refrains from substituting its own estimates for published GOB figures that are not yet final, with two notable exceptions. First, based in part on information from some of the GOB's major external creditors, Table D.4 offers lower estimates for FY 96/97 debt service disbursements, and higher estimates of recent arrears and debt accumulations, than the GOB figures cited in *IMF/RED/97*. Second, based largely on publicly available although not yet officially published information about levels of Japanese debt relief, Tables D.I and Tables F offer a lower estimate of foreign grants than the figures in *IMF/RED/97*. In addition, based on published information about levels of Japanese debt relief and U.N. agency grants, this report revises upward the GOB's final statistic for external grants for FY 94/95.

In sum, this report tries to offer as useful a presentation of Burma's national accounts as the available data permit. Nevertheless, due to the serious flaws in the data, these accounts remain inadequate to serve as a basis either for structural adjustment planning or for financial programming.

Abbreviations commonly used in this report:

ADB = Asian Development Bank
AM2 = exchange-rate-adjusted recorded broad money supply
ARGDP = exchange-rate-adjusted recorded gross domestic product
ARGNP = exchange-rate-adjusted recorded gross national product
BOP = balance of payments
C.I.F. = cost, insurance and freight (shipment valuation basis)
CPI = consumer price index
GDP = gross domestic product
GNP = gross national product
GOB = Government of Burma
F.A.S. = free alongside (shipment valuation basis)
FCD = foreign-currency-denominated
FEC = Foreign Exchange Certificate
FETR = Foreign Economic Trends Report
F.O.B. = free on board (shipment valuation basis)
FY = fiscal year (April through March, for Burma)
GSP = Generalized System of Preferences
IMF = International Monetary Fund
MAPT = Myanmar Agricultural Produce Trading
PPP = purchasing power parity
SEE = state economic enterprise (state-owned firm, parastatal firm)
SLORC = State Law and Order Restoration Council
UM2 = exchange-rate-unadjusted recorded broad money supply
UMEH = Union of Myanmar Economic Holdings
UNCTAD = United Nations Commission on Trade and Development
UNDP = United Nations Development Program
URGDP = exchange-rate-unadjusted recorded gross domestic product
URGNP = exchange-rate-unadjusted recorded gross national product
USDA = (1) U.S. Department of Agriculture; (2) Union Solidarity and Development Association
USDOC = U.S. Department of Commerce

For abbreviations of sources cited in this report, see the section on "Data, sources and method."

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Table A: Socio-Economic profile of Burma, June 1997

- Population: Officially estimated by the GOB at about 47 million; most recent census in 1983.
- Ethnic composition: 60 -70% ethnic Burmans; indigenous Shan, Karen, Mon, Kachin, Karenni, Chin, and other minorities concentrated in border areas; large Indian minority in lower Burma; small Chinese minority concentrated in cities.
- Population growth rate: Officially estimated by the GOB at 1.84% a year and declining.
- Labor force: Officially 18 million, of which about 15 million rural; about 11.4 million employed, about 63% in agriculture, 10% in trade, 9% in manufacturing.
- Literacy: Estimates vary greatly; official figures have ranged from 80% to 20% since late 1980s.
- Land area: 669,000 sq. km, or 167 million acres, including 80 m. acres of forest and 45 m. of arable non-forest land, of which 22 m. acres are sown, 12 m. with rice.
- Other natural resources: Hydrocarbons, teak, jade, rubies, sapphires, manganese, copper, gold.
- Government system: Military dictatorship, since 1962 *coup d'etat*.
- Religions(s): Buddhism is the state religion. Large Christian and Muslim minorities are concentrated in non-Burman ethnic groups. Printing and importation of local-language Bibles and Korans are restricted. Foreign missionaries were expelled, and their educational and health facilities nationalized, in 1964.
- Languages: Burmese (Myanma) is the sole official language. Minority languages are not taught in state schools, and publications in them are rare.
- Information: Daily broadcasting and daily newspapers are monopolized by the government. All publications are subject to state censorship. Fax machines and modems must be registered with the government. There are no known domestic Internet servers.
- Education: The number of children enrolled in primary schools declined during the mid-1990s. At least two-thirds drop out before fifth grade. No private multi-subject schools are allowed despite declining real government funding of state schools. Most universities have been closed since December 1996 following student demonstrations.
- Health care: Private medical services limited by state, but government funding declining. AIDS spreading, blood supply unsafe. Malaria endemic in border areas and near coasts.
- Measurement systems: Non-metric, a mixture of indigenous and traditional English.
- Work week: Monday - Friday.
- Fiscal year: April 1 - March 31.
- Currency: Burma's *kyat*, officially pegged since 1977 to the IMF's SDR at 8.51 kyat per SDR, currently about 6 kyat per U.S. dollar, is traded legally at about 200 kyat per U.S. dollar. Currency notes were repeatedly declared void between 1962 and 1988.
- GDP per capita: Perhaps U.S. \$200 to \$300 per capita on a money basis at the market exchange rate, including the large unrecorded economy; perhaps \$600 to \$900 a year on a comprehensive purchasing power parity basis.

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Table B.1.a: Unadjusted recorded GDP (URGDP) composition and expenditure, in current kyat, based on GOB trade data, FY 89/90-96/97

(Figures are in billions of current kyat, unless otherwise indicated. External sector data are converted from U.S. dollars at the official exchange rate. Unrecorded transactions, including some military imports, are excluded. Figures for FYs 95/96 and 96/97 ^f are not final.)								
GDP Component / GOB Fiscal Year	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
Agriculture, livestock, fisheries & forestry	71.1	87.0	109.9	150.9	227.0	297.7	362.8	419.6
-- Agriculture	58.9	70.3	90.4	126.1	195.0	260.8	321.6	367.2
-- Livestock & fisheries	10.1	14.0	16.4	21.2	27.9	32.4	36.4	46.2
- Forestry	2.1	2.7	3.1	3.6	4.2	4.5	4.8	6.1
Industry	13.7	16.0	18.4	23.6	32.2	40.9	59.1	72.6
-- Manufacturing & processing	10.7	11.8	13.1	17.3	24.6	29.5	41.3	48.3
-- Construction, mining and power	3.0	4.2	5.3	6.3	7.6	11.4	17.8	24.3
Services	39.9	48.9	58.5	74.9	101.1	134.2	181.7	223.2
-- Trade	27.2	34.5	41.6	56.5	77.5	101.4	139.9	174.6
- Social and administrates services	5.7	6.0	6.4	6.7	8.7	9.9	10.7	11.4
-- Transportation, communications & finance	3.6	4.3	5.3	6.0	7.9	14.3	19.8	23.4
-- Rental and other services	3.4	4.1	5.2	5.8	6.9	8.6	11.3	13.9
Unadjusted recorded GDP (URGDP)	124.7	151.9	186.8	249.4	360.3	472.8	603.6	715.4
<i>URGDP at constant FY 85/86 prices</i>	<i>48.9</i>	<i>50.3</i>	<i>49.9</i>	<i>54.8</i>	<i>58.1</i>	<i>62.4</i>	<i>66.7</i>	<i>70.6</i>
<i>Nominal annual URGDP growth</i>	<i>63.5%</i>	<i>21.9%</i>	<i>22.9%</i>	<i>33.5%</i>	<i>44.5%</i>	<i>31.2%</i>	<i>27.7%</i>	<i>18.5%</i>
<i>GOB GDP deflator change (in percent)</i>	<i>57.7%</i>	<i>18.5%</i>	<i>23.7%</i>	<i>21.7%</i>	<i>36.2%</i>	<i>22.1%</i>	<i>19.4%</i>	<i>12.0%</i>
<i>Real URGDP growth (in percent)</i>	<i>3.70%</i>	<i>2.8%</i>	<i>-0.7%</i>	<i>9.7%</i>	<i>6.0%</i>	<i>7.5%</i>	<i>6.9%</i>	<i>5.8%</i>
Recorded gross investment	11.5	20.3	28.6	33.8	44.8	58.5	86.1	105.8
-- Recorded fixed investment	11.8	22.3	27.6	31.2	37.5	54.6	82.6	108.0
-- Public	5.9	7.3	12.5	13.5	15.7	25.8	41.0	53.0
- Private	5.9	15.0	15.1	17.7	21.8	28.8	41.5	55.0
- Reported changes in stocks	-0.3	-2.0	1.0	2.6	7.4	3.9	3.5	-2.2
Recorded balance of external trade in goods and non-factor services (GOB BOP basis)	-0.3	-3.4	-2.1	-2.2	-3.0	-2.4	-4.6	-5.4
Consumption (calculated as a residual)	113.4	135.0	160.3	217.8	318.5	416.8	522.1	615.0
<i>Net domestic saving (as a residual)</i>	<i>11.2</i>	<i>17.0</i>	<i>26.5</i>	<i>31.6</i>	<i>41.8</i>	<i>56.0</i>	<i>81.5</i>	<i>100.5</i>

Sources: GOB/RFESC/97 for all but trade balance, which is from Table E).1.a and includes services trade data from IMF/RED/97 and 95.

**Table B.1.b: Exchange-rate-adjusted recorded GNP, FY 89/90 - 96/97,
in current kyat, based on GOB trade data.**

(In billions of current kyat. External sector data convened from U.S. dollars at the market exchange rate.)								
Unrecorded transactions, including some military imports, excluded. Figures for FYs 95/96 and 96/97 not final.)								
GDP Component / GOB Fiscal Year	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
Adjusted recorded goods production (gross)	104.7	129.8	163.5	233.2	338.0	436.8	529.1	627.9
-- Unadjusted recorded goods production	84.8	103.0	128.3	174.5	259.2	338.6	421.9	492.2
-- Recorded goods exports (mkt. - off. rate)	20.0	26.8	35.2	58.7	78.8	98.2	107.2	135.7
Adjusted recorded NFS production (gross)	46.1	58.1	72.4	96.1	128.5	164.8	220.3	280.7
-- Unadjusted recorded NFS production	39.9	48.9	58.5	74.9	101.1	134.2	181.7	223.2
-- Recorded NFS exports (mkt. - off. rate)	6.1	9.2	13.9	21.1	27.4	30.6	38.6	57.4
Intermediate imports (mkt. - off. rate)	-11.2	-26.5	-30.8	-46.2	-64.6	-69.3	-95.7	-133.0
(estimated as 40% of GOB-recorded imports of goods [F.O.B.] and non-factor services)								
Adjusted recorded GDP (ARGDP)	139.6	161.4	205.1	283.0	401.9	532.2	653.6	775.6
Gross recorded investment	19.1	37.5	49.1	62.4	96.3	111.4	160.5	224.1
-- Adjusted recorded fixed investment	19.5	39.5	48.0	59.8	88.9	107.6	157.0	226.3
- Unadjusted recorded fixed investment	11.8	22.3	27.6	31.2	37.5	54.6	82.6	108.0
-- Capital goods imports (mkt - off rate)	7.6	17.2	20.5	28.6	51.5	53.0	74.4	118.3
-- Changes in stocks	-0.3	-2.0	1.0	2.6	7.4	3.9	3.5	-2.2
Recorded trade balance (payments basis)	-2.2	-33.7	-30.1	-37.8	-58.3	-47.0	-98.1	-144.8
- Merchandise trade balance, F.O.B.	-6.4	-30.7	-36.2	-44.3	-72.3	-64.5	-108.0	-150.0
-- Non-factor service (NFS) trade balance	4.2	-3.0	6.2	6.4	14.0	17.5	9.9	5.2
Consumption (as a residual)	122.6	157.6	186.1	258.4	363.9	467.8	591.3	696.2
Net domestic saving (as a residual)	16.9	3.8	19.0	24.6	38.0	64.5	62.4	79.3
Recorded net factor income (cash basis)	-1.9	1.2	-2.4	-0.9	-4.9	-0.5	-2.2	-4.8
Recorded net unrequited private transfers	2.9	4.8	7.3	12.9	32.6	36.3	42.4	57.3
Adjusted recorded GNP (ARGNP)	140.6	167.4	209.9	295.0	429.6	568.1	693.8	828.1
Memorandum items:								
Real ARGDP growth (in percent)	n/a	-2.5%	2.7%	13.4%	4.2%	8.5%	2.8%	5.9%
Official exchange rate, kyat/US\$(period-average)	6.6273	6.2154	6.2749	6.0775	6.1084	5.8917	5.6233	5.9104
Market exchange rate, kyat/US\$ (period average)	53.8	62.3	88.0	105.5	119.3	113.0	120.4	159.1
Market rate minus official rate (per.-average)	47.2	56.1	81.7	99.4	113.2	107.1	114.8	153.2

Sources: GOB/RFESC/97 and prev., except: IMF/RED/97 and previous for services trade, private transfers and official exchange rate; direct Embassy observations for market exchange rate. (Note: Capital goods imports at C.I.F. valuation.)

**Table B.1.c: Exchange-rate-adjusted recorded GNP, FY 89/90 - 96/97,
in current kyat, based on UNCTAD merchandise trade data.**

(In billions of current kyat. External sector data converted from U.S. dollars at the market exchange rate.

Unrecorded transactions, including some military imports, excluded. Figures for FYs 95/96 and 96/97 not final.)

GDP Component / GOB Fiscal Year	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
Production for domestic market, gross	121.0	148.0	183.0	244.5	354.6	465.7	596.5	708.0
-- Goods production minus exports at official rate	82.0	100.0	125.6	170.9	255.0	333.2	416.7	487.0
- Services prod, minus NFS exports at off. rate	39.0	47.9	57.4	73.7	99.6	132.5	179.8	221.0
Exported production (external sector), gross	29.4	42.0	69.7	100.5	130.9	139.5	187.7	n/a
-- UNCTAD-recorded goods exports at mkt. rate	22.4	31.8	54.7	78.1	102.0	107.2	147.2	n/a
- GOB-recorded NFS exports at market rate	7.0	10.2	15.0	22.4	28.9	32.3	40.5	59.7
Intermediate imports (mkt. - off. rate)	-11.5	-24.7	-30.6	-43.8	-64.9	-73.7	-122.1	n/a
(estimated as 40% of UNCTAD-reported imports of goods [F.O.B.] and non-factor services)								
Adjusted recorded GDP (ARGDP)	138.9	165.3	222.1	301.2	420.5	531.4	662.1	n/a
Gross recorded investment	20.1	38.1	50.5	56.6	86.1	111.1	160.3	n/a
-- Adjusted recorded fixed investment	20.4	40.1	49.5	54.0	78.8	107.2	156.8	n/a
-- Domestic fixed investm't (UNCTAD basis)	10.8	20.4	26.0	29.8	35.4	51.9	80.0	n/a
- UNCTAD capital goods imports (mkt. rate)	9.6	19.7	23.5	24.2	43.4	55.3	76.7	n/a
" <i>OL foreign direct investment</i>	1.1	13.6	21.9	14.5	11.3	15.6	39.1	54.8
- Changes in stocks	-0.3	-2.0	1.0	2.6	7.4	3.9	3.5	-2.2
Recorded trade balance	-3.5	-26.5	-12.8	-15.8	-40.2 "	-55.0	-132.4	n/a
-- Merchandise trade balance, F.O.B.	-7.7	-23.4	-18.9	-22.3	-54.2	-72.5	-142.3	n/a
-- Non-factor service trade balance	4.2	-3.0	6.2	6.4	14.0	17.5	9.9	5.2
Consumption (as a residual)	122.3	153.7	184.3	260.4	374.6	475.4	634.2	n/a
Net domestic saving (as a residual)	16.6	11.7	37.8	40.8	45.9	56.1	27.9	n/a
Recorded net factor income (cash basis)	-1.9	1.2	-2.4	-0.9	-4.9	-0.5	-2.2	-4.8
Recorded net unrequited private transfers	2.9	4.8	7.3	12.9	32.6	36.3	42.4	57.3
Adjusted recorded GNP (ARGNP)	139.9	171.3	226.9	313.1	448.2	567.3	702.2	n/a
Memorandum items:								
Real ARGDP growth (in percent)	n/a	0.4%	8.6%	11.4%	2.5%	3.5%	4.3%	n/a
Official exchange rate, kyat/US\$(period-average)	6.6273	6.2154	6.2749	6.0775	6.1084	5.8917	5.6233	5.9104
Market exchange rate, kyat/US\$ (period average)	53.8	62.3	88.0	105.5	119.3	113.0	120.4	159.1

Sources: IMF/DOTS, ANU/IEDB, other (UNCTAD data); IMF/RED/97 and prev. (services trade, transfers, official rate); Embassy observations (market rate); and GOB/RFESC/97 and prev. (Note: Capital goods imports at CIF valuation.)

**Table B.2.a: Unadjusted recorded GDP (URGDP) composition and expenditure,
in current do llars, based on GOB trade data, FY 89/90-96/97**

(Figures are in millions of current U.S. dollars, unless otherwise indicated. Internal sector data are converted from kyat at the official exchange rate. Unrecorded transactions, including some military imports, are excluded. Figures for FY 95/96 and 96/97 are not final.)								
GDP Component / GOB Fiscal Year	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
Agriculture, livestock, fisheries & forestry	10,724	13,997	17,512	24,830	37,168	50,523	64,515	70,993
-- Agriculture	8,883	11,315	14,410	20,751	31,922	44,266	57,182	62,133
-- Livestock & fisheries	1,530	2,249	2,615	3,483	4,561	5,494	6,480	7,824
-- Forestry	311	434	487	596	684	763	853	1,035
Industry	2,066	2,576	2,932	3,875	5,269	6,940	10,517	12,285
-- Manufacturing & processing	1,649	1,902	2,081	2,843	4,030	5,010	7,353	8,173
-- Construction, mining and power	447	673	851	1,032	1,239	1,930	3,164	4,112
Services	6,021	7,873	9,325	12,331	16,551	22,781	32,309	37,769
-- Trade	4,098	5,557	6,636	9,289	12,691	17,215	24,876	29,537
- Social and administrative services	867	969	1,022	1,101	1,425	1,681	1,904	1,924
-- Transportation, communications & finance	538	694	842	982	1,299	2,424	3,514	3,958
- Rental and other services	518	652	825	958	1,137	1,461	2,016	2,350
Recorded unadjusted GDP (URGDP)	18,811	24,446	29,770	41,036	58,988	80,244	107,340	121,047
<i>URGDP at constant-kyat FY 85/86 prices</i>	7,376	8,086	7,958	9,010	9,506	10,592	11,863	11,943
<i>Nominal annual RUGDP growth, kyat terms</i>	63.5%	21.9%	22.9%	33.5%	44.5%	31.2%	27.7%	18.5%
<i>GOB GDP deflator change, kyat terms (in %)</i>	57.7%	18.5%	23.7%	21.7%	36.2%	22.1%	19.4%	12.0%
<i>Real URGDP growth, kyat terms (in percent)</i>	3.7%	2.8%	-0.7%	9.7%	6.0%	7.5%	6.9%	5.8%
Recorded gross investment	1,736	3,270	4,558	5,559	7,338	9,924	15,315	17,906
-- Recorded fixed investment	1,785	3,591	4,394	5,131	6,134	9,267	14,686	18,276
-- Public	890	1,171	1,985	2,214	2,567	4,376	7,297	8,966
-- Private	895	2,419	2,409	2,917	3,567	4,891	7,388	9,310
-- Reported changes in stocks	-49	-321	164	428	1,205	658	630	-370
Recorded balance of external trade in goods and non-factor services (GOB BOP basis)	-41	-541	-342	-358	-489	-416	-815	-910
Consumption (calculated as a residual)	17,117	21,717	25,553	35,835	52,138	70,735	92,840	104,051
<i>Net domestic saving (as a residual)</i>	1,695	2,729	4,217	5,201	6,850	9,509	14,500	16,996

Sources: GOB/RFESC/97 for all but trade balance, which is from Table D.1.a and includes services trade data from IMF/RED/97 and 95.

**Table B.2.b: Exchange-rate-adjusted recorded GNP, FY 89/90 - 96/97,
in current dollars, based on GOB trade data.**

(In millions of current U.S. dollars. Internal sector data converted from kyat at the market exchange rate.

Unrecorded transactions, including some military imports, excluded. Figures for FYs 95/96 and 96/97 not final.)

GDP Component / GOB Fiscal Year	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
Adjusted recorded goods production (gross)	1,947	2,083	1,858	2,210	2,833	3,865	4,395	3,947
-- Unadjusted recorded goods production	1,576	1,653	1,458	1,654	2,173	2,996	3,505	3,094
-- Recorded goods exports (mkt - off rate)	371	430	400	557	660	869	890	853
Adjusted recorded NFS production (gross)	856	933	823	911	1,077	1,458	1,830	1,764
-- Unadjusted recorded NFS production	742	785	665	710	847	1,188	1,509	1,403
-- Recorded NFS exports (mkt. - off. rate)	114	147	158	200	230	271	320	361
Intermediate imports (mkt. - off. rate)	-209	-426	-350	-438	-541	-613	-795	-836
(estimated as 40% of GOB-recorded imports of goods [F.O.B.] and non-factor services)								
Adjusted recorded GDP (ARGDP)	2,594	2,590	2,331	2,683	3,369	4,710	5,430	4,875
Gross recorded investment	356	602	557	592	807	986	1,333	1,409
-- Adjusted recorded fixed investment	362	634	546	567	745	952	1,304	1,423
-- Unadjusted recorded fixed investment	220	358	313	296	314	483	686	679
-- Capital goods imports (mkt - off rate)	142	276	232	271	431	469	618	744
-- Changes in stocks	-6	-32	12	25	62	34	29	-14
Recorded trade balance (payments basis)	-41	-541	-342	-358	-489	-416	-815	-910
-- Merchandise trade balance, F.O.B.	-119	-492	-412	-420	-606	-571	-897	-943
-- Non-factor service (NFS) trade balance	78	-49	70	61	117	155	82	33
Consumption (as a residual)	2,280	2,529	2,115	2,450	3,050	4,140	4,912	4,377
Net domestic saving (as a residual)	315	61	216	233	319	571	518	499
Recorded net factor income (cash basis)	-36	20	-28	-9	-41	-5	-19	-30
Recorded net unrequited private transfers	54	77	83	122	273	322	352	360
Adjusted recorded GNP (ARGNP)	2,613	2,686	2,386	2,796	3,601	5,027	5,763	5,205
Memorandum items:								
<i>Real ARGDP growth, kyat terms (in percent)</i>	<i>n/a</i>	<i>-2.5%</i>	<i>2.7%</i>	<i>13.4%</i>	<i>4.2%</i>	<i>8.5%</i>	<i>2.5%</i>	<i>5.9%</i>
Official exchange rate, kyat/US\$(period-average)	6.6273	6.2154	6.2749	6.0775	6.1084	5.8917	5.6233	5.9104
Market exchange rate, kyat/US\$ (period average)	53.8	62.3	88.0	105.5	119.3	113.0	120.4	159.1
Market rate minus official rate (per.-averag	47.2	56.1	81.7	99.4	113.2	107.1	114.8	153.2

Sources: IMF/RED/97 and previous (services trade, transfers, official rate); Embassy observations (market rate); GOB/RFESC/97 and previous (all other data). (Note: Capital goods imports at C.I.F. valuation.)

**Table B.2.c: Exchange-rate-adjusted recorded GNP, FY 89/90 - 96/97,
in current dollars, based on UNCTAD merchandise trade data.**

(In millions of current U.S. dollars. Internal sector data converted from kyat at the market exchange rate.)								
Unrecorded transactions, including some military imports, excluded. Figures for FYs 95/96 and 96/97 not final.)								
GDP Component / GOB Fiscal Year	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
Production for domestic market, gross	2,249	2,375	2,080	2,318	2,972	4,121	4,955	4,451
-- Goods production minus exports at official rat	1,523	1,606	1,427	1,620	2,137	2,948	3,461	3,061
-- Services prod, minus NFS exports at off. rate	726	769	653	698	835	1,173	1,494	1,389
Exported production (external sector), gross	546	675	792	952	1,097	1,235	1,559	n/a
- UNCTAD-recorded goods exports at mkt. rate	416	511	622	740	855	949	1,223	n/a
-- GOB-recorded NFS exports at market rate	130	164	170	212	242	286	336	375
Intermediate imports (mkt. - off. rate)	-214	-396	-348	-416	-544	-653	-1,014	n/a
(estimated as 40% of UNCTAD-reported imports of goods [F.O.B.] and non-factor services)								
Adjusted recorded GDP (ARGDP)	2,581	2,654	2,524	2,855	3,525	4,703	5,500	n/a
Gross recorded investment	373	612	574	536	722	983	1,332	n/a
- Adjusted recorded fixed investment	379	644	562	512	660	949	1,302	n/a
-- Domestic fixed investm't (UNCTAD basis)	201	328	295	283	297	460	665	n/a
-- UNCTAD capital goods imports (mkt. rate)	179	316	268	229	363	489	637	n/a
- <i>cf. foreign direct investment</i>	20	219	249	138	95	138	324	344
- Changes in stocks	-6	-32	12	25	62	34	29	-14
Recorded trade balance	-65	-425	-145	-150	-337	-487	-1,100	n/a
- Merchandise trade balance, F.O.B.	-143	-376	-215	-211	-454	-642	-1,182	n/a
-- Non-factor service trade balance	78	-49	70	61	117	155	82	33
Consumption (as a residual)	2,273	2,466	2,095	2,468	3,140	4,207	5,268	n/a
Net domestic saving (as a residual)	308	187	429	387	385	496	232	n/a
Recorded net factor income (cash basis)	-36	20	-28	-9	-41	-5	-19	-30
Recorded net unrequited private transfers	54	77	83	122	273	322	352	360
Adjusted recorded GNP (ARGNP)	2,600	2,750	2,579	2,968	3,757	5,020	5,832	n/a
Memorandum items:								
<i>Real ARGDP growth, kyat terms (in percent)</i>	<i>n/a</i>	<i>0.4%</i>	<i>8.6%</i>	<i>11.4%</i>	<i>2.5%</i>	<i>3.5%</i>	<i>4.3%</i>	<i>n/a</i>
Official exchange rate, kyat/US\$(period-average)	6.6273	6.2154	6.2749	6.0775	6.1084	5.8917	5.6233	5.9104
Market exchange rate, kyat/US\$ (period average)	53.8	62.3	88.0	105.5	119.3	113.0	120.4	159.1

Sources: IMF/DOTS, ANU/IEDB, other (UNCTAD data): IMF/RED/97 and prev. (services trade, transfers, official rate); Embassy observations (market rate); and GOB/RFESC/97 and prev. (Note: Capital goods imports at C.I.F. valuation.)

**Table B.3.a: Unadjusted recorded GDP (URGDP) composition and expenditure,
in percent of UR GDP, based on GOB trade data, FY 89/90-96/97**

(Figures are in percent of URGDP,, unless otherwise indicated. The official exchange rate is used to equate internal and external sector data. Unrecorded transactions, including some military imports, are excluded. Figures for FYs 95/96 and 96/97 are not final

GDP Component / GOB Fiscal Year	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
Agriculture, livestock, fisheries & forestry	57.0%	57.3%	58.8%	60.5%	63.0%	63.0%	60.1%	58.6%
-- Agriculture	47.2%	46.3%	48.4%	50.6%	54.1%	55.2%	53.3%	51.3%
-- Livestock & fisheries	8.1%	9.2%	8.8%	8.5%	7.7%	6.8%	6.0%	6.5%
-- Forestry	1.7%	1.8%	1.6%	1.5%	1.2%	1.0%	0.8%	0.9%
Industry	11.0%	10.5%	9.8%	9.4%	8.9%	8.6%	9.8%	10.1%
-- Manufacturing & processing	8.6%	7.8%	7.0%	6.9%	6.8%	6.2%	6.9%	6.8%
-- Construction, mining and power	2.4%	2.8%	2.9%	2.5%	2.1%	2.4%	2.9%	3.4%
Services	32.0%	32.2%	31.3%	30.0%	28.1%	28.4%	30.1%	31.2%
-- Trade	21.8%	22.7%	22.3%	22.6%	21.5%	21.5%	23.2%	24.4%
-- Social and administrates services	4.6%	4.0%	3.4%	2.7%	2.4%	2.1%	1.8%	1.6%
- Transportation, communications & finance	2.9%	2.8%	2.8%	2.4%	2.2%	3.0%	3.3%	3.3%
-- Rental and other services	2.8%	2.7%	2.8%	2.3%	1.9%	1.8%	1.9%	1.9%
Recorded unadjusted GDP (URGDP)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<i>URGDP at constant FY 85/86 prices</i>	49	50	50	55	58	62	67	71
<i>Nominal annual RUGDP growth</i>	63.5%	21.9%	22.9%	33.5%	44.5%	31.2%	27.7%	18.5%
<i>GOB GDP deflator change (in percent)</i>	57.7%	18.5%	23.7%	21.7%	36.2%	22.1%	19.4%	12.0%
<i>Real URGDP growth (in percent)</i>	3.7%	2.8%	-0.7%	9.7%	6.0%	7.5%	6.9%	5.8%
Recorded gross investment	9.2%	13.4%	15.3%	13.5%	12.4%	12.4%	14.3%	14.8%
-- Recorded fixed investment	9.5%	14.7%	14.8%	12.5%	10.4%	11.5%	13.7%	15.1%
-- Public	4.7%	4.8%	6.7%	5.4%	4.4%	5.5%	6.8%	7.4%
-- Private	4.8%	9.9%	8.1%	7.1%	6.0%	6.1%	6.9%	7.7%
- Reported changes in stocks	-0.3%	-1.3%	0.6%	1.0%	2.0%	0.8%	0.6%	-0.3%
Recorded balance of external trade in goods and non-factor services (GOB BOP basis)	-0.2%	-2.2%	-1.1%	-0.9%	-0.8%	-0.5%	-0.8%	-0.8%
Consumption (calculated as a residual)	91.0%	88.8%	85.8%	87.3%	88.4%	88.2%	86.5%	86.0%
<i>Net domestic saving (as a residual)</i>	9.0%	11.2%	14.2%	12.7%	11.6%	11.8%	13.5%	14.0%

Sources: GOB/RFESC/97 for all but trade balance, which is from Table D.1.1 and includes services trade data from IMF/RED/97 and 95.

**Table B.3.b: Exchange-rate-adjusted recorded GNP, FY 89/90 - 96/97,
in percent of ARGDP, based on GOB trade data.**

(In percent of exchange-rate-adjusted recorded GDP. Market exchange rate used to equate internal and external sector data. Unrecorded transactions, including some military imports, excluded. Figures for FYs 95/96 and 96/97 not final.)

GDP Component / GOB Fiscal Year	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
Adjusted recorded goods production (gross)	75.0%	80.4%	79.7%	82.4%	84.1%	82.1%	80.9%	81.0%
-- Unadjusted recorded goods production	60.7%	63.8%	62.5%	61.6%	64.5%	63.6%	64.5%	63.5%
-- Recorded goods exports (mkt - off rate)	14.3%	16.6%	17.2%	20.7%	19.6%	18.5%	16.4%	17.5%
Adjusted recorded NFS production (gross)	33.0%	36.0%	35.3%	33.9%	32.0%	31.0%	33.7%	36.2%
-- Unadjusted recorded NFS production	28.6%	30.3%	28.5%	26.5%	25.2%	25.2%	27.8%	28.8%
-- Recorded NFS exports (mkt. - off. rate)	4.4%	5.7%	6.8%	7.5%	6.8%	5.7%	5.9%	7.4%
Intermediate imports (mkt. - off. rate)	-8.0%	-16.4%	-15.0%	-16.3%	-16.1%	-13.0%	-14.6%	-17.2%
(estimated as 40% of GOB-recorded imports of goods [F.O.B.] and non-factor services)								
Adjusted recorded GDP (ARGDP)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross recorded investment	13.7%	23.2%	23.9%	22.1%	24.0%	20.9%	24.6%	28.9%
-- Adjusted recorded fixed investment	13.9%	24.5%	23.4%	21.1%	22.1%	20.2%	24.0%	29.2%
-- Unadjusted recorded fixed investment	8.5%	13.8%	13.4%	11.0%	9.3%	10.3%	12.6%	13.9%
-- Capital goods imports (mkt - off rate)	5.5%	10.7%	10.0%	10.1%	12.8%	10.0%	11.4%	15.3%
-- Changes in stocks	-0.2%	-1.2%	0.5%	0.9%	1.8%	0.7%	0.5%	-0.3%
Recorded trade balance (payments basis)	-1.6%	-20.9%	-14.7%	-13.4%	-14.5%	-8.8%	-15.0%	-18.7%
-- Merchandise trade balance, F.O.B.	-4.6%	-19.0%	-17.7%	-15.6%	-18.0%	-12.1%	-16.5%	-19.3%
-- Non-factor service (NFS) trade balance	3.0%	-1.9%	3.0%	2.3%	3.5%	3.3%	1.5%	0.7%
Consumption (as a residual)	87.9%	97.6%	90.7%	91.3%	90.5%	87.9%	90.5%	89.8%
Net domestic saving (as a residual)	12.1%	2.4%	9.3%	8.7%	9.5%	12.1%	9.5%	10.2%
Recorded net factor income (cash basis)	-1.4%	0.8%	-1.2%	-0.3%	-1.2%	-0.1%	-0.3%	-0.6%
Recorded net unrequited private transfers	2.1%	3.0%	3.5%	4.5%	8.1%	6.8%	6.5%	7.4%
Adjusted recorded GNP (ARGNP)	100.7%	103.7%	102.4%	104.2%	106.9%	106.7%	106.1%	106.8%
Memorandum items:								
<i>Real ARGDP growth (in percent)</i>	<i>n/a</i>	<i>-2.5%</i>	<i>2.7%</i>	<i>13.4%</i>	<i>4.2%</i>	<i>8.5%</i>	<i>2.5%</i>	<i>5.9%</i>
Official exchange rate, kyat/US\$(period-average)	6.6273	6.2154	6.2749	6.0775	6.1084	5.8917	5.6233	5.9104
Market exchange rate, kyat/US\$ (period average)	53.8	62.3	88.0	105.5	119.3	113.0	120.4	159.1
Market rate minus official rate (per.-averag	47.2	56.1	81.7	99.4	113.2	107.1	114.8	153.2

Sources: IMF/RED/97 and previous (services trade, transfers, official rate); Embassy observations (market rate); GOB/RFESC/97 and previous (all other data). (Note: Capital imports at C.I.F. valuation.)

Table B.3.c: Exchange-rate-adjusted recorded GNP, FY 89/90 - 96/97, in percent of ARGDP, based on UNCTAD merchandise trade data.

(In percent of exchange-rate-adjusted recorded GDP. Market exchange rate used to equate internal and external sector data. Unrecorded transactions, including some military imports, excluded. Figures for FYs 95/96 and 96/97 not final.)								
GDP Component / GOB Fiscal Year	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
Production for domestic market, gross	87.1%	89.5%	82.4%	81.2%	84.3%	87.6%	90.1%	n/a
-- Goods production minus exports at official rate	59.0%	60.5%	56.5%	56.7%	60.6%	62.7%	63.0%	n/a
-- Services prod, minus NFS exports at off. rate	28.1%	29.0%	25.9%	24.5%	23.7%	24.9%	27.2%	n/a
Exported production (external sector), gross	21.2%	25.4%	31.4%	33.4%	31.1%	26.2%	28.4%	n/a
-- UNCTAD-recorded goods exports at mkt. rate	16.1%	19.3%	24.6%	25.9%	24.3%	20.2%	22.2%	n/a
-- GOB-recorded NFS exports at market rate	5.0%	6.2%	6.7%	7.4%	6.9%	6.1%	6.1%	n/a
Intermediate imports (mkt. - off. rate)	-8.3%	-14.9%	-13.8%	-14.6%	-15.4%	-13.9%	-18.4%	n/a
(estimated as 40% of UNCTAD-reported imports of goods [F.O.B.] and non-factor services)								
Adjusted recorded GDP (ARGDP)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	n/a
Gross recorded investment	14.5%	23.1%	22.7%	18.8%	20.5%	20.9%	24.2%	n/a
-- Adjusted recorded fixed investment	14.7%	24.3%	22.3%	17.9%	18.7%	20.2%	23.7%	n/a
-- Domestic fixed investm't (UNCTAD basis)	7.8%	12.4%	11.7%	9.9%	8.4%	9.8%	12.1%	n/a
-- UNCTAD capital goods imports (mkt. rate)	6.9%	11.9%	10.6%	8.0%	10.3%	10.4%	11.6%	n/a
-- € foreign direct investment	0.8%	8.3%	9.9%	4.8%	2.7%	2.9%	5.9%	n/a
-- Changes in stocks	-0.2%	-1.2%	0.5%	0.9%	1.8%	0.7%	0.5%	n/a
Recorded trade balance	-2.5%	-16.0%	-5.7%	-5.3%	-9.6%	-10.4%	-20.0%	n/a
- Merchandise trade balance, F.O.B.	-5.5%	-14.2%	-8.5%	-7.4%	-12.9%	-13.7%	-21.5%	n/a
-- Non-factor service trade balance	3.0%	-1.8%	2.8%	2.1%	3.3%	3.3%	1.5%	n/a
Consumption (as a residual)	88.1%	92.9%	83.0%	86.5%	89.1%	89.4%	95.8%	n/a
Net domestic saving (as a residual)	11.9%	7.1%	17.0%	13.5%	10.9%	10.6%	4.2%	n/a
Recorded net factor income (cash basis)	-1.4%	0.7%	-1.1%	-0.3%	-1.2%	-0.1%	-0.3%	n/a
Recorded net unrequited private transfers	2.1%	2.9%	3.3%	4.3%	7.8%	6.8%	6.4%	n/a
Adjusted recorded GNP (ARGNP)	100.7%	103.6%	102.2%	104.0%	106.6%	106.7%	106.1%	n/a
Memorandum items:								
<i>Real ARGDP growth (in percent)</i>	<i>n/a</i>	<i>0.4%</i>	<i>8.6%</i>	<i>11.4%</i>	<i>2.5%</i>	<i>3.5%</i>	<i>4.3%</i>	<i>n/a</i>
Official exchange rate, kyat/US\$(period-average)	6.6273	6.2154	6.2749	6.0775	6.1084	5.8917	5.6233	5.9104
Market exchange rate, kyat/US\$ (period average)	53.8	62.3	88.0	105.5	119.3	113.0	120.4	159.1

Sources: IMF/DOTS, ANU/IEDB, other (UNCTAD data); IMF/RED/97 and prev. (services trade, transfers, official rate); Embassy observations (market rate); and GOB/RFESC/97 and previous. (Note: Capital goods imports at C.I.F. valuation.)

Table C: Aggregate price indicators, FY 89/90 - 96/97.

(In percentages. Figures for FYs 95/96 and 96/97 are not final.)								
GOB Fiscal Year	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
Annual percentage change in GOB's GDP deflator								
Entire recorded economy (URGDP)	57.7	18.5	23.7	21.7	36.2	22.1	19.4	12.0
- Agriculture, livestock, forestry	55.6	20.2	29.4	24.3	41.1	23.8	16.3	10.6
-- Manufacturing, mining, power, construction	60.6	10.8	13.2	13.2	13.6	15.2	28.6	10.9
-- Services, including trade	59.6	18.9	18.7	19.0	25.3	22.5	26.2	16.7
Annual percentage change in GOB's Rangoon CPI								
FY 85/86 consumption basket (no imports)	23.7	21.9	29.1	22.3	33.6	22.5	21.8	n/a
- food and beverages (64.9%)	24.7	25.5	32.6	22.9	39.9	18.1	23.8	n/a
- fuel and light (8.8%)	0.9	20.9	27.5	25.3	18.9	59.5	15.3	n/a
- clothing (7.1%)	26.0	26.0	24.7	34.7	13.0	13.4	14.2	n/a
- house rent and repairs (3.1%)	22.2	22.8	39.0	11.4	16.3	23.2	25.5	n/a
- tobacco (2.3%)	12.4	9.0	15.4	26.5	12.0	8.6	3.9	n/a
- other (13.8% weight)	23.7	3.8	10.6	9.7	11.2	43.4	18.0	n/a
Memorandum items:								
Average annual percentage change in the GOB's Rangoon CPI, 12/88 - 12/96: 24.9								
Average annual percentage change in household spending per capita, C\ 1989 - 1996:								
- GOB household expenditure survey, Rangoon: 26.9								
- GOB household expenditure survey, Mandalay: 29.3								
Percentage change in GOB's CPI at Rangoon, 12/95-12/96: 31.5								
Annual % growth of UM2* (Table E1.a)	36.0	45.6	30.9	34.1	22.8	42.0	29.3	n/a
Nominal % growth of URGDP	63.5	21.9	22.9	33.5	44.5	31.2	27.7	18.5
Annual % growth of AM2 (Table E.1.b)	n/a	18.7	26.0	32.2	15.0	41.8	26.1	n/a
Nominal % growth of ARGDP (UNCTAD basis)	n/a	19.1	34.4	35.6	39.6	26.4	24.5	n/a
Notes: (1) * UM2 is exchange-rate-unadjusted broad money supply. ** AM2 is exchange-rate-adjusted broad money supply.								
(2) The GOB publishes a consumer price index (CPI) only for Rangoon. It is based on a FY 85/86 lower-income basket of necessities, including no imported goods. The GOB's GDP deflator is based on FY 85/86 input/output ratios. The GOB's above-cited figures for annual percentage changes in both its GDP deflator and its Rangoon CPI are period averages of monthly year-to-year changes in these indicators; consequently, these figures are lagged as well as smoothed indicators of price inflation.								
(3) $MV = PQ$, where M is money supply, V is velocity of money, P is aggregate prices, and Q is real GDP; so assuming V is constant, the percentage change in prices should equal the percentage change in money supply divided by the percentage change in real GDP.								

Sources: GOB/RFESC/97 and prev. (GDP deflator); GOB/SMEI/97.11-12 and prev. (Rangoon CPI); GOB/SA/96 and prev. (household expenditure surveys); IMF/RED/97 (CPI weights).

Table D.1.a: Recorded balance of payments (GOB data), FY 89/90 - 96/97.

(In millions of current U.S. dollars. Transactions not recorded in GOB statistics, apparently including some military imports and related financial inflows, are excluded. Figures for FYs 95/96 and 96/97 are not final)								
BOP component / GOB FY	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
GOB-recorded current account balance	-76	-527	-344	-332	-292	-195	-568	-663
-- GOB-recorded merchandise trade balance	-119	-492	-412	-420	-606	-571	-897	-943
-- Recorded exports, mainly F.O.B.	424	All	431	591	696	917	934	886
- of which: legal border trade (IMF)	140	78	101	104	79	75	35	n/a
- Recorded imports, mainly F.O.B.	-543	-970	-842	-1,010	-1,302	-1,488	-1,831	-1,829
- of which: legal border trade (IMF)	-157	-231	-260	-250	-258	-240	-239	n/a
-- GOB-recorded service trade balance*	-11	-111	-15	-34	41	54	-23	-80
-- Recorded receipts (service exports)	143	190	180	218	247	294	346	381
- of which: for non-factor services	130	164	170	212	242	286	336	375
-- of which: for travel services	18	24	35	60	118	144	164	n/a
-- Recorded payments due (serv. imp.)	-154	-301	-195	-252	-206	-240	-369	-461
- of which: recorded interest due	-102	-88	-95	-101	-81	-110	-115	-119
-- Recorded net unrequited private transfers	54	77	83	122	273	322	352	360
Recorded net non-monetary capital inflows	337	165	158	35	39	155	378	349
-- Grants from other gov'ts., UN agencies	29	29	64	71	98	165	183	120
-- of which, debt relief from Japan	n/a	24	37	33	58	125	145	78
-- Other long-term capital inflows, net	307	136	94	-36	-59	-10	195	229
-- Net foreign direct investment	20	219	249	138	95	138	324	344
-- Recorded net long-term borrowing	-16	-76	-151	-170	-152	-145	-126	-112
- Recorded loan disbursements	135	122	61	81	89	101	120	156
-- Recorded amortization payments due	-151	-198	-212	-251	-241	-246	-246	-268
-- Other capital, net	304	-7	-4	-4	-3	-3	-4	-4
Errors and omissions (net)	14	-9	-46	17	6	0	105	77
Overall balance of paym'ts (obligat'ns basis)	275	-371	-233	-280	-246	-40	-86	-237
Financial inflows, net	-275	371	233	280	246	40	86	237
New accumulation of external arrears	73	216	218	294	214	130	68	187
Decrease in net foreign assets (monetary)	-348	154	15	-14	32	-90	18	50
Memorandum	item:							
Net international reserves (end of period)	415	260	246	260	228	318	300	250
(in months of goods and NFS imports)	8.4	2.6	3.1	2.7	1.9	2.4	1.7	1.4

Sources: GOB/RFESC/97 and previous (merchandise trade, foreign investment, loans disbursed); Japan's ODA Annual Report 1996 and prev. (debt relief); IMF/RED/97 and previous (all other data, incl. border trade).

Table D.I.b: Balance of payments (UNCTAD merchandise trade data), FY 89/90 - 96/97.

(In millions of current U.S. dollars. Transactions not recorded in GOB statistics, apparently including some military imports and related financial inflows, are excluded. Figures for FYs 95/96 and 96/97 are not final.)								
BOP component / GOB FY	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
Current account balance	-100	-410	-148	-121	-140	-267	-853	n/a
-- Merchandise trade balance (UNCTAD)	-143	-376	-215	-211	-454	-642	-1,182	n/a
- Exports (UNCTAD, F.O.B., prior CY)	416	511	622	740	855	949	1,223	n/a
-- Imports (UNCTAD, F.O.B., prior CY)	-559	-887	-837	-951	-1,309	-1,591	-2,405	n/a
- GOB-recorded service trade balance	-11	-111	-15	-34	41	54	-23	-80
~ Recorded receipts (service exports)	143	190	180	218	247	294	346	381
-- of which: for non-factor services	130	164	170	212	242	286	336	375
- of which: for travel services	18	24	35	60	118	144	164	n/a
~ Recorded payments due (serv. imp.)	-154	-301	-195	-252	-206	-240	-369	-461
- of which: recorded interest due	-102	-88	-95	-101	-81	-110	-115	-119
-- Recorded net unrequited private transfers	54	77	83	122	273	322	352	360
Recorded net non-monetary capital inflows	337	165	158	35	39	155	378	349
~ Grants from other gov'ts., UN agencies	29	29	64	71	98	165	183	120
~ of which, debt relief from Japan	n/a	24	37	33	58	125	145	78
~ Other long-term capital inflows, net	307	136	94	-36	-59	-10	195	229
-- Net foreign direct investment	20	219	249	138	95	138	324	344
- Recorded net long-term borrowing	-16	-76	-151	-170	-152	-145	-126	-112
— Recorded loan disbursements	135	122	61	81	89	101	120	156
~ Recorded amortization payments due	-151	-198	-212	-251	-241	-246	-246	-268
- Other capital, net	304	-7	-4	-4	-3	-3	-4	-4
Errors and omissions (net)	38	-125	-243	-191	-145	71	390	n/a
Overall balance of paym'ts (obligat'ns basis)	275	-371	-233	-280	-246	-40	-86	-237
Financial inflows, net	-275	371	233	280	246	40	86	237
New accumulation of external arrears	73	216	218	294	214	130	68	187
Decrease in net foreign assets (monetary)	-348	154	15	-14	32	-90	18	50
Memorandum items								
Net international reserves (end of period)	415	260	246	260	228	318	300	250
(in months of goods and NFS imports)	8.1	2.8	3.1	2.8	1.9	2.2	1.4	n/a
Excess of UNCTAD merch. trade deficit over GOB-recorded merchandise trade deficit	24	-116	-197	-209	-152	71	289	n/a

Sources: IMF/DOTS, ANU/IEDB, other (UNCTAD merchandise trade data): GOB/RFESC/97 and previous (foreign investment, loans disbursed): Japans ODA Annual Report 1996 and prev. (debt relief): IMF/RED/97 and previous (all other data).

**Table D.2.a(1): Merchandise exports by country of destination, FY 89/90 - 95/96,
GOB data**

(In percentages of the value of total GOB-recorded merchandise exports.* Shipments basis: country of recorded

destination may not be country of ultimate consumption Figures are not final for FYs 94/95 and 95/96, not yet available for FY 96/97.)

Country / GOB Fiscal year	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
East and South Asia	78.0%	93.7%	92.9%	83.6%	83.4%	76.0%	83.8%	n/a
-- ASEAN countries (omitting Phil., Brun.)	16.5%	43.1%	46.0%	34.9%	40.8%	43.9%	41.2%	n/a
-- Thailand	8.8%	13.1%	19.6%	16.4%	17.4%	10.0%	10.6%	n/a
-- Singapore	7.1%	28.6%	23.3%	16.5%	19.4%	16.4%	19.7%	n/a
-- Malaysia	0.5%	1.4%	1.3%	1.6%	2.3%	1.9%	2.9%	n/a
-- Indonesia	0.1%	0.0%	1.8%	0.4%	1.7%	15.6%	8.0%	n/a
-- Greater China (omitting Taiwan)	35.0%	21.8%	22.4%	18.3%	15.7%	10.1%	10.3%	n/a
-- People's Republic of China	29.4%	13.4%	15.0%	9.3%	5.0%	5.1%	3.9%	n/a
-- Hong Kong	5.6%	8.4%	7.4%	9.0%	10.7%	5.0%	6.4%	n/a
-- India	14.5%	17.7%	11.1%	16.8%	15.0%	12.9%	20.7%	n/a
-- Japan	4.2%	7.5%	6.5%	4.1%	4.4%	4.8%	5.1%	n/a
-- Korea (South)	0.2%	0.5%	0.8%	0.8%	0.9%	0.7%	1.4%	n/a
-- Other	7.6%	3.1%	6.1%	8.7%	6.6%	3.6%	5.1%	n/a
Rest of world	22.0%	6.3%	7.1%	16.4%	16.6%	24.0%	16.2%	n/a
-- European Union	4.8%	3.1%	2.2%	2.9%	2.9%	1.8%	3.0%	n/a
-- United States of America	0.2%	0.1%	0.4%	2.0%	3.7%	5.1%	4.7%	n/a
-- Africa and Middle East	5.5%	2.1%	3.5%	4.5%	5.1%	5.7%	1.0%	n/a
-- Other	11.5%	1.0%	1.0%	7.0%	4.9%	11.4%	7.5%	n/a
Total GOB-recorded merchandise exports	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	n/a
<i>In millions of U.S. dollars:</i>								
GOB-recorded merchandise exports *	430	477	467	601	692	917	892	886
-- East and South Asia (implied from above)	335	447	434	503	577	697	748	n/a
-- Rest of world (implied from above)	94	30	33	99	115	220	145	n/a
-- of which, U.S.A. (implied from above)	1	0	2	12	26	47	42	n/a
GOB-recorded merchandise exports, BOP basis	424	477	431	591	696	917	934	886
<i>Year-to-year growth rate, in percent,</i>	25.2%	12.7%	-9.8%	37.2%	17.8%	31.8%	1.9%	-5.1%
<i>of GOB-recorded merchandise exports, BOP basis, in current U.S. dollar terms</i>								

Note: * C.I.F. valuation; shipments, not BOP basis; includes re-exports; from GOB/RFESC/97 and previous.

**Table D.2.a(2): Merchandise imports by country of origin, FY 89/90 - 95/96,
GOB data**

(In percentages of the value of total GOB-recorded merchandise imports.* Appears to exclude substantial military imports, chiefly from China.

Country-of-origin basis: country of origin may not be country' of shipment to Burma. Figures for F^Ys 94/95 and 95/96 are not final.)

Country / GOB Fiscal year	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
East and South Asia (with omissions)	70.0%	71.4%	80.7%	85.8%	86.7%	87.3%	88.4%	n/a
-- ASEAN countries (omitting Phil., Brun.)	28.5%	27.0%	35.6%	32.0%	32.5%	37.9%	39.5%	n/a
-- Thailand	16.5%	10.0%	15.0%	13.0%	10.9%	10.0%	12.8%	n/a
-- Singapore	9.3%	9.7%	12.4%	10.7%	10.3%	14.6%	17.7%	n/a
-- Malaysia	2.4%	7.0%	7.2%	6.1%	7.2%	9.4%	6.0%	n/a
-- Indonesia	0.3%	0.3%	1.0%	2.2%	4.1%	3.9%	3.0%	n/a
-- Greater China (omitting Taiwan)	11.6%	22.4%	17.3%	18.4%	17.6%	15.2%	15.5%	n/a
-- People's Republic of China	11.3%	21.8%	16.8%	17.7%	15.9%	12.2%	13.9%	n/a
-- Hong Kong	0.3%	0.6%	0.5%	0.7%	1.7%	3.0%	1.6%	n/a
-- India	1.4%	0.7%	2.8%	2.3%	3.6%	3.7%	3.3%	n/a
-- Japan	23.8%	16.3%	21.9%	28.6%	25.5%	23.6%	24.3%	n/a
-- Korea (South)	3.4%	3.6%	2.5%	3.3%	3.7%	4.7%	3.9%	n/a
-- Other	1.3%	1.4%	0.6%	1.2%	3.8%	2.2%	1.9%	n/a
Rest of world	30.0%	28.6%	19.3%	14.2%	13.3%	12.7%	11.6%	n/a
-- European Union	21.2%	10.6%	10.8%	4.6%	5.7%	4.0%	6.5%	n/a
-- United States of America	1.8%	12.3%	3.1%	4.2%	3.5%	1.2%	3.2%	n/a
-- Africa and Middle East	0.1%	1.8%	0.9%	2.1%	1.6%	0.2%	0.1%	n/a
-- Other	6.9%	3.9%	4.5%	3.3%	2.5%	7.3%	1.8%	n/a
Total GOB-recorded merchandise imports	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	n/a
<i>In millions of U.S. dollars:</i>								
GOB-recorded merchandise imports *	512	889	850	883	1,297	1,414	1,832	1,829
-- East and South Asia (implied from above)	359	634	686	757	1,125	1,235	1,619	n/a
-- Rest of world (implied from above)	154	254	164	125	173	180	213	n/a
-- of which, U.S.A. (implied from above)	9	109	26	37	45	17	59	n/a
GOB-recorded merchandise imports, BOP basis	543	970	842	1,010	1,302	1,488	1,831	1,829
<i>Year-to-year growth rate, in percent,</i>	2.3%	78.7%	-13.1%	19.9%	28.9%	14.3%	23.1%	-0.1%
<i>of GOB-recorded merchandise imports, BOP basis, in current U.S. dollar terms</i>								

Note: * C.I.F. valuation; arrivals, not BOP basis includes re-imports; from GOB/RFESC/97 and previous.

Table D.2.a(3): Composition of merchandise exports, FY 89/90 - 96/97, based on GOB data								
(In millions of current U.S. dollars. Shipments, not payments basis excludes re-exports.)								
Mainly F. O. B. valuation. Figures for FYs 95/96 and 96/97 are not final.)								
GOB Fiscal year	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
- Agricultural products	65	152	161	214	222	421	413	341
-- Rice and broken rice	40	28	40	41	44	198	78	47
-- Beans and pulses	19	83	68	119	119	136	241	207
-- Other (rubber, maize, animal feed <i>etc.</i>)	6	41	53	54	60	87	93	87
-- Animal products	0	1	1	0	1	1	1	1
-- Marine products	20	27	25	43	60	105	109	121
-- Forest products	153	182	150	184	222	205	227	216
- Teak logs and products	120	119	106	104	121	162	161	167
-- Hardwood logs and products (by sea)	14	42	42	53	82	18	26	29
- Other (veneer, plywood <i>etc.</i>)	19	21	2	28	19	24	40	20
-- Minerals and gems	31	28	18	25	15	38	38	20
-- Other (including border trade)	157	86	112	124	127	149	102	167
Total GOB-recorded merchandise exports	428	475	466	591	647	917	890	866
- Public sector exports	271	256	232	276	348	584	359	330
-- of which, rice and broken rice	40	28	40	41	44	198	78	47
-- of which, teak logs and products	120	119	106	104	121	162	161	167
-- of which, hardwood (by sea)	14	42	42	53	82	18	26	29
-- Private exports	156	219	234	315	344	333	451	556
Memorandum items:								
GOB-recorded merchandise exports, BOP basis	424	477	431	591	696	917	934	886
GOB-recorded border trade exports (IMF/RED)	140	78	101	104	79	75	35	n/a
<i>As percentages of total GOB-recorded merchandise exports (shipments basis, excluding re-exports):</i>								
-- Agricultural products	15.3%	31.9%	34.5%	36.2%	34.3%	45.8%	46.4%	39.4%
-- rice and broken rice	9.4%	5.8%	8.6%	6.9%	6.8%	21.6%	8.8%	5.4%
-- beans and pulses	4.3%	17.4%	14.7%	20.2%	18.3%	14.8%	27.1%	23.9%
-- Marine products	4.7%	5.6%	5.3%	7.2%	9.3%	11.4%	12.3%	14.0%
-- Forest products	35.8%	38.3%	32.2%	31.2%	34.3%	22.3%	25.5%	25.0%
-- Minerals and gems	7.3%	5.8%	3.8%	4.3%	2.3%	4.1%	4.3%	2.3%
-- Other (including border trade)	36.8%	18.2%	23.9%	21.0%	19.6%	16.2%	11.5%	19.3%
GOB-recorded public sector merch. exports	63.5%	53.8%	49.8%	46.7%	53.8%	63.7%	40.3%	38.1%
GOB-recorded private merchandise exports	36.5%	46.2%	50.2%	53.3%	53.1%	36.3%	50.7%	64.2%

Source: GOB/SMEI/96.11-12 (public/private sector disaggregation); GOB/RFESC/97 and previous (all other data).

Table D.2.a(4): Composition of merchandise imports, FY 89/90 - 96/97, based on GOB data								
(In millions of current U.S. dollars. Arrivals, not BOP basis: excludes reimports. Mainly C.I.F. valuation.)								
Appears to exclude substantial military imports. Figures for FYs 95/96 and 96/97 are not final.)								
GOB Fiscal year	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
Consumer goods	34	78	92	150	228	330	458	532
-- Durable goods	12	37	36	38	39	58	131	n/a
-- Foodstuffs	4	17	27	101	138	202	257	n/a
- Textiles	4	5	6	9	28	53	52	n/a
-- Medicines and Pharmaceuticals	11	15	19	2	4	3	5	n/a
-- Other consumer goods	3	3	5	0	19	14	13	n/a
Intermediate goods *	155	267	243	186	348	315	450	525
-- Raw materials	88	172	165	126	298	263	386	n/a
-- Tools and spare parts	66	95	78	60	50	52	64	n/a
Capital goods	162	307	250	288	455	495	648	772
-- Construction materials	38	80	66	97	83	80	190	n/a
-- Machinery and equipment	60	149	75	65	135	187	142	n/a
-- Transport equipment	54	64	102	119	223	212	289	n/a
-- Other capital goods	10	13	7	7	13	15	27	n/a
Unspecified (including border trade)	161	236	265	259	266	275	276	0
Total GOB-recorded merchandise imports	512	889	850	883	1,297	1,414	1,832	1,829
-- Public sector merchandise imports	313	517	385	400	472	509	596	670
-- Private merchandise imports	199	371	466	455	825	905	1,236	1,159
Memorandum items:								
GOB-recorded merch. imports. BOP basis (FOB)	543	970	842	1,010	1,302	1,488	1,831	1,829
GOB-recorded border trade imports (IMF/RED)	157	231	260	250	258	240	239	n/a
<i>As percentages of total GOB-recorded merchandise imports (arrivals basis, excluding re-imports):</i>								
Consumer goods	6.7%	8.8%	10.9%	17.0%	17.6%	23.3%	25.0%	29.1%
Intermediate goods	30.2%	30.1%	28.5%	21.0%	26.9%	22.3%	24.6%	28.7%
Capital goods	31.6%	34.5%	29.4%	32.6%	35.1%	35.0%	35.4%	42.2%
Public sector merchandise imports	61.1%	58.2%	45.2%	45.3%	36.4%	36.0%	32.5%	36.6%
Private merchandise imports	38.9%	41.8%	54.8%	51.6%	63.6%	64.0%	67.5%	63.4%
Note: * Not the same as intermediate imports in the national accounting sense of Tables B.1-3.b and B.1-3.C, which are goods imported not by their ultimate consumers, but by intermediaries that re-sell them domestically.								

Table D.2.b(1): Merchandise exports F.O.B. by country of destination, CY 1990 -1996, based on import data reported to UNCTAD by governments of Burma's trading partners

Country / Calendar year	1989	1990	1991	1992	1993	1994	1995	1996
(In millions of current U.S. dollars. Based on C.I.F. and customs-value data on merchandise imports of Burmese origin reported to UNCTAD by the governments of other countries, with C.I.F. data reduced by 9% to approximate F.O.B. values. Total may include some double counting of goods re-exported by regional entrepots. e.g., Singapore and the Netherlands. Some regional subtotals (East and South Asia, AS EAN, E.U.) are not complete. Figures for 1994 and 1995 are not final.)								
East and South Asia	337	409	512	605	692	733	993	n/a
-- ASEAN countries	128	196	268	253	277	330	526	n/a
-- Thailand	76	120	170	128	141	143	203	n/a
-- Singapore	39	59	81	98	101	128	190	n/a
-- Malaysia	12	16	15	17	21	25	38	n/a
-- Indonesia	1	1	2	10	14	34	95	n/a
-- Greater China	137	129	147	186	227	208	223	n/a
-- People's Republic of China	113	95	96	119	150	130	135	n/a
-- Hong Kong	19	27	34	45	56	50	58	n/a
-- Taiwan	5	7	17	22	21	28	30	n/a
-- India	38	43	48	118	110	116	147	n/a
--Japan	31	38	45	43	65	69	85	n/a
- Korea (South)	3	3	4	5	13	10	12	n/a
Rest of world	57	71	71	107	134	143	197	n/a
-- Australia	1	3	3	5	8	6	4	n/a
-- European Union	26	33	27	33	51	56	63	n/a
-- Belgium/Luxembourg	2	2	2	1	3	4	7	n/a
- France	3	6	3	4	2	5	7	n/a
-- Germany	8	9	7	10	13	17	24	n/a
- Italy	4	9	9	7	15	6	7	n/a
-- Netherlands	2	2	2	3	5	5	5	n/a
-- United Kingdom	7	5	4	8	13	19	13	n/a
-- United States of America	17	22	27	38	46	67	81	108
-- Other	13	13	14	31	29	14	49	n/a
Total, based only on reported trade data	394	480	583	712	826	876	1,190	n/a
Allowance for omissions*	22	31	39	28	29	73	33	n/a
Total, including allowance for omissions	416	511	622	740	855	949	1,223	n/a
<i>Year-to-year growth rate, in percent</i>		23%	22%	19%	16%	11%	29%	n/a

* Note: Omission estimates represent shipments, chiefly of rice, to countries, mostly in Africa, with incomplete reporting of imports.

Table D.2.b(2): Merchandise exports F O.B. by country of destination, CY 1990 - 1995, based on import data reported to UNCTAD by governments of Burma's trading partners

Country / Calendar year	1989	1990	1991	1992	1993	1994	1995	1996
(In percent of total merchandise exports. Based on C.I.F. and customs-value data on merchandise imports of Burmese origin reported to UNCTAD by the governments of other countries, with C.I.F. data reduced by 9% to approximate F.O.B. values. Total may include some double counting of goods re-exported by regional entrepots, e.g., Singapore and the Netherlands. Some regional subtotals (East and South Asia, ASEAN, E.I.) are not complete. Figures for 1994 and 1995 are not final.)								
East and South Asia	81.0%	80.0%	82.3%	81.8%	80.9%	77.2%	81.0%	n/a
-- ASEAN countries	30.8%	38.4%	43.1%	34.2%	32.4%	34.8%	43.0%	n/a
-- Thailand	18.3%	23.5%	27.3%	17.3%	16.5%	15.1%	16.6%	n/a
-- Singapore	9.4%	11.5%	13.0%	13.2%	11.8%	13.5%	15.5%	n/a
-- Malaysia	2.9%	3.1%	2.4%	2.3%	2.5%	2.6%	3.1%	n/a
-- Indonesia	0.2%	0.2%	0.3%	1.4%	1.6%	3.6%	7.8%	n/a
-- Greater China	32.9%	25.2%	23.6%	25.1%	26.5%	21.9%	18.2%	n/a
-- People's Republic of China	27.2%	18.6%	15.4%	16.1%	17.5%	13.7%	11.0%	n/a
-- Hong Kong	4.6%	5.3%	5.5%	6.1%	6.5%	5.3%	4.7%	n/a
-- Taiwan	1.2%	1.4%	2.7%	3.0%	2.5%	3.0%	2.5%	n/a
-- India	9.1%	8.4%	7.7%	15.9%	12.9%	12.2%	12.0%	n/a
-- Japan	7.5%	7.4%	7.2%	5.8%	7.6%	7.3%	7.0%	n/a
-- Korea (South)	0.7%	0.6%	0.6%	0.7%	1.5%	1.1%	1.0%	n/a
Rest of world	13.7%	13.9%	11.4%	14.5%	15.7%	15.1%	16.1%	n/a
- Australia	0.2%	0.6%	0.5%	0.7%	0.9%	0.6%	0.3%	n/a
-- European Union	6.3%	6.5%	4.3%	4.5%	6.0%	5.9%	5.2%	n/a
-- Belgium/Luxembourg	0.5%	0.4%	0.3%	0.1%	0.4%	0.4%	0.6%	n/a
-- France	0.7%	1.2%	0.5%	0.5%	0.2%	0.5%	0.6%	n/a
-- Germany	1.9%	1.8%	1.1%	1.4%	1.5%	1.8%	2.0%	n/a
-- Italy	1.0%	1.8%	1.4%	0.9%	1.8%	0.6%	0.6%	n/a
-- Netherlands	0.5%	0.4%	0.3%	0.4%	0.6%	0.5%	0.4%	n/a
-- United Kingdom	1.7%	1.0%	0.6%	1.1%	1.5%	2.0%	1.1%	n/a
-- United States of America	4.1%	4.3%	4.3%	5.1%	5.4%	7.1%	6.6%	n/a
-- Other	3.1%	2.5%	2.3%	4.2%	3.4%	1.5%	4.0%	n/a
Total, based only on reported trade data	94.7%	93.9%	93.7%	96.2%	96.6%	92.3%	97.3%	n/a
Allowance for omissions*	5.3%	6.1%	6.3%	3.8%	3.4%	7.7%	2.7%	n/a
Total, including allowance for omissions	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	n/a
* Note: Omission estimates represent shipments, chiefly of rice, to countries, mostly in Africa, with incomplete reporting of imports								

Table D.2.b(3): Merchandise imports F.O.B. by country of shipment, CY 1990 -1996, based on export data reported to UNCTAD by governments of Burma's trading partners

(In millions of current U.S. dollars. F.O.B. or F.A.S. data on merchandise shipments to Burma reported to UNCTAD by the governments of other countries. Country entries and regional subtotals exclude indirect exports through regional entrepots. Some regional subtotals (East and South Asia, ASEAN, E.U.) are not complete. Figures for 1994 and 1995 are not final. Substantial military imports, supplied chiefly by China since 1990, appear to be excluded from the data reported to UNCTAD.)

Country / Calendar year	1989	1990	1991	1992	1993	1994	1995	1996
East and South Asia	447	653	708	847	1,150	1,444	2,215	n/a
--ASEAN countries	129	318	400	440	624	871	1,246	n/a
--Thailand	25	42	58	74	145	223	318	n/a
-- Singapore	88	221	268	262	335	393	638	n/a
-Malaysia	14	51	67	90	104	220	230	n/a
--Indonesia	2	4	7	14	40	35	60	n/a
-- Greater China	191	195	197	276	369	427	703	n/a
--People's Republic of China	188	184	181	259	325	369	618	n/a
--Hong Kong	3	11	13	15	41	44	63	n/a
-- Taiwan	0	0	3	2	3	14	22	n/a
--India	2	1	0	4	15	22	23	n/a
--Japan	107	101	82	96	100	67	156	n/a
-- Korea (South)	18	38	29	31	42	57	87	n/a
Rest of world	112	234	129	104	159	147	190	n/a
--Australia	0	33	5	10	7	3	9	n/a
-- European Union	81	118	73	66	92	107	141	n/a
-- Belgium/Luxembourg	2	2	2	6	4	6	11	n/a
--France	15	24	8	5	6	44	50	n/a
--Germany	33	41	34	20	35	27	35	n/a
--Italy	3	3	2	1	7	3	9	n/a
--Netherlands	8	19	11	18	11	7	13	n/a
-- United Kingdom	20	29	16	16	29	20	23	n/a
- United States of America	5	20	23	4	12	11	16	32
--Other	26	63	28	24	48	26	24	n/a
Total	559	887	837	951	1,309	1,591	2,405	n/a
<i>Year-to-year growth rate, in percent</i>	--	59%	-6%	14%	38%	22%	51%	n/a
Memorandum items:								
Merchandise exports, UNCTAD/FOB	416	511	622	740	855	949	1,223	n/a
Merchandise trade deficit, UNCTAD/FOB	143	376	215	211	454	642	1,182	n/a

Table D.2.b(4): Merchandise imports F.O.B. by country of shipment, CY 1990 -1995, based on export data reported to UNCTAD by governments of Burma's trading partners

Country / Calendar year	1989	1990	1991	1992	1993	1994	1995
(In percent of total merchandise imports. F.O.B. or F.A.S. data on merchandise shipments to Burma reported to UNCTAD by the governments of other countries. (Country entries and regional subtotals exclude indirect exports through regional entrepôts. Some regional subtotals (East and South Asia, ASEAN E.U.) are not complete, Figures for 1994 and 1995 are not final, Substantial military imports, supplied chiefly by China since 1990, appear to be excluded from the data reported to UNCTAD.)							
East and South Asia	80.0%	73.6%	84.6%	89.1%	87.9%	90.8%	92.1%
-- ASEAN countries	23.1%	35.9%	47.8%	46.3%	47.7%	54.7%	51.8%
-- Thailand	4.5%	4.7%	6.9%	7.8%	11.1%	14.0%	13.2%
-- Singapore	15.7%	24.9%	32.0%	27.5%	25.6%	24.7%	26.5%
-- Malaysia	2.5%	5.7%	8.0%	9.5%	7.9%	13.8%	9.6%
-- Indonesia	0.4%	0.5%	0.8%	1.5%	3.1%	2.2%	2.5%
-- Greater China	34.2%	22.0%	23.5%	29.0%	28.2%	26.8%	29.2%
-- People's Republic of China	33.6%	20.7%	21.6%	27.2%	24.8%	23.2%	25.7%
-- Hong Kong	0.5%	1.2%	1.6%	1.6%	3.1%	2.8%	2.6%
-- Taiwan	0.0%	0.0%	0.4%	0.2%	0.2%	0.9%	0.9%
-- India	0.4%	0.1%	0.0%	0.4%	1.1%	1.4%	1.0%
-- Japan	19.1%	11.4%	9.8%	10.1%	7.6%	4.2%	6.5%
-- Korea (South)	3.2%	4.3%	3.5%	3.3%	3.2%	3.6%	3.6%
Rest of world	20.0%	26.4%	15.4%	10.9%	12.1%	9.2%	7.9%
-- Australia	0.0%	3.7%	0.6%	1.1%	0.5%	0.2%	0.4%
-- European Union	14.5%	13.3%	8.7%	6.9%	7.0%	6.7%	5.9%
-- Belgium/Luxembourg	0.4%	0.2%	0.2%	0.6%	0.3%	0.4%	0.5%
-- France	2.7%	2.7%	1.0%	0.5%	0.5%	2.8%	2.1%
-- Germany	5.9%	4.6%	4.1%	2.1%	2.7%	1.7%	1.5%
-- Italy	0.5%	0.3%	0.2%	0.1%	0.5%	0.2%	0.4%
-- Netherlands	1.4%	2.1%	1.3%	1.9%	0.8%	0.4%	0.5%
-- United Kingdom	3.6%	3.3%	1.9%	1.7%	2.2%	1.3%	1.0%
-- United States of America	0.9%	2.3%	2.7%	0.4%	0.9%	0.7%	0.7%
-- Other	4.7%	7.1%	3.3%	2.5%	3.7%	1.6%	1.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Memorandum items:							
Merchandise exports, UNCTAD/FOB	74.4%	57.6%	74.3%	77.8%	65.3%	59.6%	50.9%
Merchandise trade deficit, UNCTAD/FOB	25.6%	42.4%	25.7%	22.2%	34.7%	40.4%	49.1%

Table D.2.b(5): Composition of merchandise trade, CY 1989 -1995:**Embassy estimates based on UNCTAD data ***

(In millions of current U.S. dollars. Based on F. O. B . or F.A.S. data on merchandise shipments to Burma reported to UNCTAD by the governments of other countries. Substantial military imports, supplied chiefly by China since 1990, appear to be excluded from the data reported to UNCTAD. Figures for 1994 and 1995 are not final.)

Commodity group / Calendar year	1989	1990	1991	1992	1993	1994	1995	1996
Total merchandise exports **	416	511	622	740	855	949	1,223	n/a
-- Leading export commodity groups	350	443	523	645	763	844	1,003	n/a
-- wood and wood products	190	202	278	298	351	276	310	n/a
-- rice, beans, pulses, vegetables	75	115	119	179	177	286	370	n/a
-- fish and other seafood	25	49	54	66	91	127	150	n/a
-- garments	8	11	17	35	50	73	98	n/a
-- precious stones (gems, jade, pearls)	40	57	46	53	80	58	45	n/a
-- rubber	12	9	9	14	14	24	30	n/a
<i>Leading groups as percent of total exports</i>	<i>84%</i>	<i>87%</i>	<i>84%</i>	<i>87%</i>	<i>89%</i>	<i>89%</i>	<i>82%</i>	n/a
Total merchandise imports	559	887	837	951	1,309	1,591	2,409	n/a
-- consumer and intermediate goods	397	600	594	743	979	1,146	1,830	n/a
-- <i>as a percent of total merch. imports</i>	<i>71 %</i>	<i>68%</i>	<i>71%</i>	<i>78%</i>	<i>75%</i>	<i>72%</i>	<i>76%</i>	n/a
-- capital goods	162	287	243	208	330	445	579	n/a
-- <i>as a percent of total merch. imports</i>	<i>29%</i>	<i>32%</i>	<i>29%</i>	<i>22%</i>	<i>25%</i>	<i>28%</i>	<i>24%</i>	n/a
Leading import commodity groups								
-- Vegetable and animal oils	9	55	49	68	76	116	211	n/a
-- Fabrics and textiles	76	59	69	80	81	93	152	n/a
-- Tobacco	24	30	24	35	112	127	142	n/a
--Beverages	9	7	7	10	25	49	66	n/a
-- Trucks and buses	19	29	23	28	56	38	58	n/a
-- Petroleum products (including crude oil)	18	43	40	50	64	61	53	n/a
-- Ships (non-war)	8	10	11	0	6	7	53	n/a
-- Organic chemicals (mostly fertilizers)	8	13	22	26	34	36	49	n/a
-- Aircraft and parts	1	28	8	17	2	150	48	n/a

Notes: *Different countries sometimes report identical commodities in different categories, and different sources of re-aggregated UNCTAD data aggregate categories differently. Consequently, disaggregation of UNCTAD trade data by commodity group is more problematic than disaggregation by country. The disaggregations in this table are estimates based on two different sources of re-aggregated UNCTAD data

** Includes allowance for omissions (from Table D.2.b[3], above).

Table D.3: Services trade, FY 89/90 - 96/97

(In millions of current U.S. dollars. Cash basis. Data for service imports may exclude substantial debt service payments related to prior military imports. Figures for FYs 95/96 and 96/97 are not final.)

GOB Fiscal year	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
Service export receipts	143	190	180	218	247	294	346	381
-- Non-factor service exports	130	164	170	212	242	286	336	375
-- Transportation and insurance	9	9	4	3	5	3	4	n/a
-- Travel*	18	24	35	60	118	144	164	n/a
-- Government services	10	12	13	13	16	14	14	n/a
-- Other**	94	118	118	137	104	125	155	n/a
-- Factor service exports ***	13	27	9	5	5	8	10	6
Service import payments disbursed	111	232	156	182	200	206	355	417
-- Non-factor service imports	52	213	100	151	125	130	254	342
-- Transportation and insurance	15	20	24	20	21	21	25	n/a
-- Travel	6	9	10	9	10	14	17	n/a
-- Government services	7	15	19	9	17	12	18	n/a
-- Other****	24	169	47	113	78	84	194	n/a
-- Factor service import payments *****	59	19	56	31	75	75	101	75
Services trade balance, disbursements basis	32	-41	24	36	47	88	-9	-36
-- Non-factor services trade balance	78	-49	70	61	117	155	82	33
-- Factor services trade balance	-46	8	-46	-25	-70	-67	-91	-69
Memorandum items:								
External interest payments due	102	88	95	101	81	110	115	119
Service import payments, obligations basis	154	301	195	252	206	240	369	461
Services trade balance, obligations basis	-11	-111	-15	-34	41	54	-23	-80

Notes: * Travel entry for FY 92/93 is Embassy estimate; G.O.B. figure of \$117 million implies unusually rapid growth of travel export receipts for FY 92/93, no growth for FY 93/94, and unusually high travel receipts per recorded foreign visits by sea and air.

** Includes "signature bonuses" paid to G.O.B. by foreign investors upon receiving approval to invest; such "bonuses" may account for most "other receipts," which grew from \$27 million in FY 88/89 to \$ 94 million in FY 89/90, when foreign investment was liberalized.

*** Income from foreign investment, chiefly interest on gross foreign reserves.

**** The causes of the large fluctuations in "other service payments" are unknown.

***** interest payments on external debt, gross of substantial debt relief from the Government of Japan (Table D.3). Unfortunately, the disaggregation of this debt relief into interest and principal is unknown, so no net interest payment figure can be calculated.

Table D.4 Recorded external medium- & long-term public debt & arrears, FY 89/90-96/97.

(In millions of U.S. dollars. Figures appear to exclude debt incurred to finance military imports, as well as related debt service obligations and payments. Figures for FY 95/96 and 96/97 are not final.)								
GOB FY	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
External debt outstanding (at end of period)	4,221	4,704	4,874	5,326	5,482	6,050	6,166	n/a
-- Bilateral official concessional loans	2,735	2,961	3,047	3,414	3,500	3,772	3,955	n/a
-- of which: Japan	n/a	n/a	n/a	2,442	2,735	2,933	3,100	n/a
Germany	n/a	n/a	n/a	516	473	539	551	n/a
China	n/a	n/a	n/a	91	73	n/a	n/a	n/a
-- Multilateral concessional loans	1,057	1,234	1,258	1,306	1,355	1,511	1,400	n/a
-- World Bank (IDA)	653	716	749	765	773	780	774	n/a
-- Asian Development Bank	290	357	368	355	360	481	346	n/a
-- Other	114	161	141	186	222	250	280	n/a
-- Nonconcessional loans	253	249	252	254	280	283	450	n/a
-- Accumulated interest arrears	162	231	270	341	347	346	221	n/a
-- Other short-term credits	14	29	47	11	0	0	0	n/a
-- Financial institutions (eximbanks, etc.)	0	0	0	0	0	138	140	n/a
Accumulated external arrears (end period)	365	587	809	1,103	1,344	1,600	1,676	1,860
-- bilateral official	257	440	613	880	1,050	1,198	1,250	n/a
-- private creditors	108	147	196	223	294	401	426	n/a
External debt service payments due	253	286	307	352	322	356	361	387
-- Amortization (principal repayment) due	151	198	212	251	241	246	246	268
-- Interest payments due	102	88	95	101	81	110	115	119
External debt service payments disbursed**	180	70	89	58	108	225	293	200
-- Amortization disbursed**	121	51	33	27	33	150	192	125
-- Interest payments disbursed**	59	19	56	31	75	75	101	75
Debt relief from Government of Japan	n/a	24	37	33	58	125	145	78
Ext. debt service payments net of debt relief	n/a	46	52	25	50	100	148	122
Memorandum items:								
Debt service disbursements/payments due	71 %	24%	29%	16%	33%	63%	81%	52%
-- net of debt relief	n/a	16%	17%	7%	15%	28%	41%	32%
Debt service payments due/UNCTAD exports*	46%	42%	39%	37%	29%	29%	23%	n/a
Net debt service disbursements/UNCTAD exports	n/a	7%	7%	3%	5%	8%	9%	n/a
Notes: (1) * Of goods and non-factor services. (2) **Includes payments to (gov't. of Japan that are given back as public sector import credits.								

Sources: Japan's ODA Annual Report 1996 and previous (Japanese debt relief); IMF/DOTS, ANU/IEDB, other (UNCTAD merchandise trade data); IMF/RED/97 and previous (all other data). Cf. World Bank's World Debt Tables 1996 and previous.

Table D.5: Cultivation and potential production and exports of opiates, 1987 -1996.(Units specified below. *Caveat:* opiates sector data is intrinsically less reliable than data about the legal economy.)

Calendar year	1987	1989	1990	1991	1992	1993	1994	1995	1996
<i>In thousands of hectares:</i>									
Poppy cultivation	92.3	142.7	150.1	161.0	154.9	166.4	149.9	154.1	163.1
Eradication	16.3	0.0	0.0	1.0	1.2	0.6	3.3	0.0	0.0
Harvestable cultivation	76.0	142.7	150.1	160.0	153.7	165.8	146.6	154.1	163.1
<i>In metric tons (MT):</i>									
Potential opium yield	836	2,430	2,255	2,350	2,280	2,575	2,030	2,340	2,560
loss factor	n/a	243	226	235	228	258	203	234	256
Seized	1	0	2	2	2	3	2	1	1
Consumed in country	300	150	150	150	150	150	150	500	750
Exported as opium	n/a	300	300	300	300	300	300	300	300
Available for refining	n/a	1,737	1,577	1,663	1,600	1,864	1,375	1,305	1,253
<i>In millions of U.S. dollars:</i>									
Potential heroin output	n/a	174	158	166	160	186	138	131	125
Seized in country	n/a	0	0.2	0.2	0.3	0.3	0.3	0.1	0.5
Consumed in country	n/a	4.5	4.5	4.5	4.5	4.5	10	10	10
Potential heroin exports	n/a	169	153	162	155	182	127	120	115
<i>Memorandum items, for next GOB fiscal year, in millions of US dollars:</i>									
Recorded exports of goods (UNCTAD) and NFS		559	701	802	958	1,102	1,243	1,569	n/a
Merchandise trade deficit (UNCTAD data)		143	376	215	211	454	642	1,186	n/a
B.O.P. errors/omissions (UNCTAD basis)		38	29	-228	-206	-113	-49	457	n/a
Adjusted recorded GDP (UNCTAD basis)		2,581	2,654	2,524	2,855	3,525	4,703	5,498	n/a

Sources: Cultivation, production and export volume data from the U.S. Department of State's annual *International Narcotics Control Strategy Report (INCSR)*, 3/90 through 3/97; 1997 figures embassy estimates based on 1997 INCSR data, using 1990-96 INCSR methodology.

Price data are Embassy estimates, based in part on DEA publications, *Worldwide Heroin Situation Report and SE Asian Heroin Prices*.

Table D.6: Foreign direct investment, FY 89/90 - 95/96

(In millions of current U.S. dollars. Figures for FY 95/96 are not final and may be overstated.)

GOB Fiscal year								Cum. total
	89/90	90/91	91/92	92/93	93/94	94/95	95/96	89/90-95/96
Total approved by the GOB under the 1988 Foreign Investment Law *	449.4	280.6	5.9	103.8	377.6	1,351.9	668.2	3,237.4
Total realized/disbursed, net (GOB BOP data)	19.7	219.0	248.6	137.5	95.1	138.1	324.4	1,182.6
-- Gross realizations/disbursements under the 1988 Foreign Investment Law *	56.0	225.1	235.1	149.0	90.0	135.0	322.9	1,213.1
-- Of which, by industry:								
-- Oil and gas	55.1	178.1	228.4	128.7	66.5	47.4	196.5	900.7
-- Hotels and tourism	0.0	7.7	2.7	9.4	18.4	56.6	70.7	165.5
- Real estate	0.0	0.0	0.0	0.0	0.0	0.0	60.3	60.3
-- Manufacturing	0.9	18.0	0.8	9.5	4.3	13.8	31.3	78.6
-- Mining	0.0	18.3	3.2	0.4	0.2	9.5	10.6	42.2
-- Fisheries	0.0	3.0	0.0	0.0	0.5	6.7	2.7	12.9
-- Transport	0.0	0.0	0.0	1.0	0.0	1.0	0.0	2.0
--Agriculture	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1
-- Of which, by country of investor's legal domicile								90/91-95/96
-- United Kingdom **	n/a	12.9	10.0	13.4	10.5	20.3	90.6	157.7
-- France ***	n/a	0.0	0.0	27.1	24.7	25.0	90.4	167.2
-- Singapore ****	n/a	2.2	3.5	1.2	6.1	42.0	53.3	108.3
-- Thailand	n/a	19.6	0.0	1.0	9.0	18.0	32.4	80.0
-- United States	n/a	60.7	87.3	52.2	33.4	16.4	30.8	280.8
-- Malaysia	n/a	0.0	0.0	1.4	1.8	1.2	6.5	10.9
-- Hong Kong	n/a	1.3	0.0	3.3	1.5	6.5	5.7	18.3
-- The Philippines	n/a	0.0	0.0	0.0	0.0	3.0	3.1	6.1
-- Australia	n/a	18.0	13.2	0.6	0.0	0.0	2.8	34.6
-- China	n/a	0.0	0.0	0.0	0.1	0.1	2.5	2.7
-- The Netherlands	n/a	26.0	40.2	25.0	0.0	0.3	2.0	93.5
-- Korea (South)	n/a	40.9	38.0	7.3	2.0	1.8	1.5	91.5
-- Canada	n/a	8.3	11.9	10.8	0.0	0.0	0.7	31.7
-- Japan	n/a	32.3	31.0	5.7	1.0	0.5	0.4	70.9
-- Other (Bangladesh, Sri Lanka)	n/a	2.9	0.0	0.0	0.0	0.0	0.2	3.1

Notes: * No disaggregations of foreign investment made under legal provisions other than the 1988 Foreign Investment Law are not available.

Industry disbursement subtotals for FY 95/96 sum to US 49 million more than total ** Includes oil and gas multinationals legally domiciled in British dependencies. *** Consists chiefly (exclusively, until FY 94/95) of Total's roughly 1/3 equity interest in the offshore

Yadana gas field and its commercialization by pipeline to Thailand. **** Includes Singaporean firms wholly owned by Japanese firms.

**Table E.1.a: Recorded monetary survey:
unadjusted recorded banking system balance sheet, FY 89/90 - 96/97**

(In billions of current kyat, unless otherwise indicated. All entries are as of the end of the GOB fiscal year (March 31). Foreign assets and foreign-currency-denominated liabilities are converted at the official exchange rate. Figures for FY 95/96 and 96/97 are not final.)

GOB FY	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
Net foreign assets at official exchange rate	2.7	1.5	1.5	1.6	1.4	1.8	1.8	1.5
Net domestic credit outstanding	49.2	64.5	81.1	102.5	118.5	151.8	195.7	n/a
-- to public sector	46.3	56.2	68.6	81.5	96.5	123.4	152.7	n/a
-- to private sector	2.8	8.3	12.5	21.0	22.0	28.5	43.0	n/a
-- cooperatives	2.1	4.4	5.9	7.9	6.2	5.8	5.6	n/a
-- rest of private sector	0.7	3.8	6.6	13.1	15.8	22.7	37.4	n/a
Domestic reserves	-16.8	-15.0	-15.8	-14.6	-9.9	2.4	4.3	n/a
-- Public sector reserves *	-25.8	-22.6	-23.5	-19.2	-21.1	-16.8	-21.4	n/a
-- Private sector reserves **	9.0	7.6	7.7	4.7	11.2	19.2	25.7	n/a
Unadjusted total assets of banking system	35.0	51.0	66.8	89.5	109.9	156.1	201.7	n/a
Unadjusted broad money supply (UM2)	35.0	51.0	66.8	89.5	109.9	156.1	201.7	n/a
-- Unadj. narrow money supply (UM1)	25.3	38.9	52.3	70.4	84.4	119.1	145.3	n/a
-- currency in circulation (excluding FECs)	23.2	35.1	46.6	63.9	76.7	108.4	133.0	n/a
-- no-interest kyat-denominated deposits	1.8	3.1	4.9	5.2	6.6	9.0	10.4	n/a
-- no-interest deposits denominated in foreign currencies (FCD deposits), at official exchange rate	0.3	0.7	0.8	1.3	1.0	1.7	1.9	n/a
-- Quasi-money (interest-paying deposits)	9.7	12.1	14.5	19.1	25.6	37.0	56.4	n/a
Memorandum items:								
FECs in circulation (in millions of kyat, at official rate)		0	0	2	16	38	53	n/a
Annual percentage growth of domestic credit	19.2%	31.2%	25.7%	26.4%	15.6%	28.2%	28.9%	n/a
Annual percentage growth of UM2	36.0%	45.6%	30.9%	34.1%	22.8%	42.0%	29.3%	n/a
Unadjusted velocity of money (URGDP/UM2)	3.6	3.0	2.8	2.8	3.3	3.0	3.0	n/a
Average annual percentage growth of UM2, 31/3/90 - 31/3/96: 33.9% -- of domestic credit: 25.8%								
Percentage growth of UM2, 30/9/95 - 30/9/96: 39.4% (to 240.0 billion kyat) -- of domestic credit: 41.0% (to 235.7 billion kyat).								
Notes: * Currency in circulation in excess of credit to public sector, minus net foreign assets at official rate.								
** Deposits in excess of domestic credit to the private sector; all recorded deposits are private.								

Table E.1.b: Exchange-rate-adjusted recorded monetary survey, FY 89/90 - 96/97.

(In millions of current kyat, unless otherwise indicated. All entries are as of the end of the GOB fiscal year (March 31). Foreign assets and foreign-currency-denominated liabilities are converted at the market exchange rate. Figures for FYs 95/96 and 96/97 are not final.)

GOB FY	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
<i>Net foreign assets (NFA) at market rate</i>	23.6	19.0	21.4	27.3	24.0	34.0	37.8	41.3
Net domestic credit outstanding	49.2	64.5	81.1	102.5	118.5	151.8	195.7	n/a
-- to public sector	46.3	56.2	68.6	81.5	96.5	123.4	152.7	n/a
-- to private sector	2.8	8.3	12.5	21.0	22.0	28.5	43.0	n/a
Adjusted domestic reserves	-14.4	-14.2	-15.1	-14.3	-9.5	2.6	4.1	n/a
-- Public sector reserves	-23.1	-21.1	-22.0	-17.6	-19.7	-15.0	-19.7	n/a
-- Private sector reserves **	8.7	6.9	6.9	3.3	10.2	17.6	23.8	n/a
Adjusted total assets of the banking system	58.4	69.3	87.4	115.5	132.9	188.4	237.6	n/a
Adjusted broad money supply (AM2)	58.4	69.3	87.4	115.5	132.9	188.4	237.6	n/a
AM2 net of public sector NFA	37.3	58.9	77.6	111.0	126.4	186.4	242.8	n/a
--Adjusted narrow money supply (AM1)	27.5	46.8	63.1	91.9	100.8	149.3	186.4	n/a
--currency in circulation	23.2	35.1	46.6	63.9	77.0	109.1	134.2	n/a
-- FECs (at market rate)	0.0	0.0	0.0	0.0	0.3	0.7	1.1	n/a
-- kyat	23.2	35.1	46.6	63.9	76.7	108.4	133.0	n/a
-- non-interest-paying (private) deposits	4.3	11.7	16.6	28.0	23.8	40.2	52.2	n/a
-- FCD deposits (at market rate)	2.5	8.6	11.7	22.8	17.2	31.2	41.8	n/a
-- kyat	1.8	3.1	4.9	5.2	6.6	9.0	10.4	n/a
-- Quasi-money (interest-paying deposits)	9.7	12.1	14.5	19.1	25.6	37.0	56.4	n/a***
<i>Public sector's net foreign assets</i>	21.1	10.4	9.7	4.5	6.5	2.1	-5.1	n/a
<i>(net foreign assets in excess of FCD deposits in domestic banks and FECs in circulation)</i>								

Memorandum items:

Annual % growth of AM2	n/a	18.7%	26.0%	32.2%	15.0%	41.8%	26.1%	n/a
Adjusted velocity of money (ARGDP/AM2)	2.4	2.4	2.5	2.6	3.2	2.8	2.8	n/a
Official exchange rate, kyat/US\$ (per.-end)	6.414	5.902	6.120	6.201	6.136	5.71	5.83	6.14
Market exchange rate, kyat/US\$ (period-end)	57	73	87	105	105	107	126	165

Notes: * Kyat in circulation in excess of domestic credit to the public sector.

** Kyat-denominated deposits in excess of domestic credit to the private sector; all recorded deposits are private.

*** In July 1996, the GOB for the first time authorized Burmese banks to pay interest on foreign-currency-denominated deposits.

Table E.2: Adjusted money supply expansion and domestic financing, FY 90/91 - 95/96.

(In millions of current kyat, unless otherwise indicated. Figures derived from Table E.1.b.)

Foreign-currency-denominated entries converted at the market exchange rate. Figures for FY 95/96 not final.)

	GOB FY	90/91	91/92	92/93	93/94	94/95	95/96	Total
Increase in adjusted recorded broad money (AM2)		10.9	18.0	28.2	17.4	55.5	49.2	179.3
-- Increase in currency in circulation		11.9	11.4	17.3	13.1	32.1	25.1	111.0
-- Increase in domestic bank credit to public sector		9.9	12.4	12.9	15.0	26.9	29.4	106.4
-- Increase in adj. public sector domestic reserves		2.0	-0.9	4.4	-2.1	4.8	-4.7	3.5
-- Increase in (private) bank deposits		9.8	7.3	16.1	2.3	27.9	31.3	94.5
-- Increase in net domestic credit to private sector		5.4	4.2	8.5	1.0	6.5	14.5	40.2
-- Increase in adj. private sector domestic reserves		-1.8	0.0	-3.6	6.9	7.4	6.2	15.1
-- Increase in (private) FCD bank deposits		6.1	3.0	11.1	-5.6	14.0	10.6	39.3
-- Increase in public sector net foreign assets (NFA)		-10.7	-0.7	-5.2	2.0	-4.4	-7.2	-26.3
Apparent public sector domestic financing *		22.7	12.1	22.5	10.9	36.1	31.8	136.1
-- Increase in currency in circulation		11.9	11.4	17.3	13.1	32.1	25.1	111.0
-- Increase in kyat in circulation		11.9	11.4	17.3	12.9	31.6	24.6	109.8
-- Increase in FECs in circulation		0.0	0.0	0.0	0.2	0.4	0.4	1.1
-- Decrease in public sector net foreign assets		10.7	0.7	5.2	-2.0	4.4	7.2	26.3

Memorandum item:

Average annual rate of growth of adjusted recorded broad money supply (AM2) from 31/3/90 to 31/3/96: 26.4%

Note: * Excluding sales of government assets and bonds to the private sector.

Sources: *IMF/RED/97* and *95*, and Embassy observations of market exchange rate. This table derives entirely from Tables E.1.a and E.1.b

**Table F.1: Unadjusted flow of funds,
in kyat, FY 90/91-95/96.**

GOB FY	90/91	91/92	92/93	93/94	94/95	95/96	Total
(In billions of current kyat, disbursements [cash] basis. Foreign- and domestic-currency-denominated entries equated at the official exchange rate. Figures for FY 95/96 are not final .)							
Decrease in net foreign assets *	1.0	0.1	-0.1	0.2	-0.5	0.1	0.7
Net recorded foreign financial inflows **	2.3	2.3	2.1	2.7	2.9	3.8	16.2
-- net unrequited private transfers	0.5	0.5	0.7	1.7	1.9	2.0	7.3
-- foreign grants	0.2	0.4	0.4	0.6	1.0	1.0	3.6
-- foreign direct investment	1.4	1.6	0.8	0.6	0.8	1.8	7.0
-- new loans (gross)	0.8	0.4	0.5	0.5	0.6	0.7	3.4
- other capital, net	0.0	0.0	0.0	0.0	0.0	0.0	-0.1
-- external debt service payments	-0.4	-0.6	-0.4	-0.7	-1.3	-1.6	-5.0
Investment in excess of savings (I-S)	3.3	2.4	2.0	2.9	2.4	3.9	16.9
-- as equivalent percentage of URGDP (GOB trade basis)	2.1%	1.3%	0.8%	0.8%	0.5%	0.7%	--
<i>Based on GOB merchandise trade data (Tables B.1.a and D.1 a):</i>							
GOB-recorded merchandise and NFS trade balance (X-M)**	-3.4	-2.1	-2.2	-3.0	-2.4	-4.6	-17.7
Net errors and omissions (= [I-S] + [X-M])	-0.1	0.2	-0.1	-0.1	0.0	-0.6	--
-- as equivalent percentage of URGDP	-0.1%	0.1%	-0.1%	0.0%	0.0%	-0.1%	
BOP net errors and omissions (Table D11.a)	-0.1	-0.3	0.1	0.0	0.0	0.6	--
Statistical discrepancy	-0.2	-0.1	0.0	0.0	0.0	-0.1	--
<i>Based on UNCTAD merchandise trade data (Tables B.1.c and D.1.b):</i>							
Implied merchandise and NFS trade balance (X-M)**	-2.6	-0.9	-0.9	-2.1	-2.9	-6.2	-15.6
Net errors and omissions (= [I-S] + [X-M])	0.6	1.5	1.1	0.9	-0.5	-2.2	
-- as equivalent percentage of URGDP	0.4%	0.8%	0.5%	0.2%	-0.1%	-0.4%	
BOP net errors and omissions (Table D.1.b)	-0.8	-1.5	-1.2	-0.9	0.4	2.2	
Statistical discrepancy	-0.2	-0.1	0.0	0.0	0.0	-0.1	--
Notes: *From Table E. 1 .a. **From balance of payments accounts, Table D.1.a or D.1.byFY 92/93 travel receipts corrected.							

**Table F.2.a: Exchange-rate-adjusted Flow of funds,
in kyat, FY 90/91- 95/96**

(In billions of current kyat, disbursements [cash] basis. Foreign- and domestic-currency-denominated entries equated at the market exchange rate. Figures for FY 95/96 are not final)							
GOB FY	90/91	91/92	92/93	93/94	94/95	95/96	Total
Decrease in net foreign assets *	9.6	1.3	-1.5	3.8	-10.2	2.1	5.2
Net recorded foreign financial inflows **	23.0	32.0	37.0	53.2	56.2	82.2	283.6
-- net unrequited private transfers	4.8	7.3	12.9	32.6	36.3	42.4	136.2
-- foreign grants	1.8	5.7	7.5	11.7	18.6	22.0	67.4
-- foreign direct investment	13.6	21.9	14.5	11.3	15.6	39.1	116.0
-- new loans (gross)	7.6	5.4	8.5	10.7	11.4	14.4	58.0
-- other capital, net	-0.4	-0.4	-0.4	-0.3	-0.3	-0.4	-2.3
-- external debt service payments	-4.4	-7.8	-6.1	-12.9	-25.5	-35.3	-91.8
Investment in excess of savings (I-S)	32.6	33.3	35.4	57.0	46.0	84.3	288.8
-- as equivalent percentage of ARGDP (GOB trade basis)	20.2%	16.2%	12.5%	14.2%	8.7%	12.9%	--
- as equiv. percentage of ARGDP (UNCTAD trade basis)	19.7%	15.0%	11.8%	13.6%	8.7%	12.7%	--
<i>Based on GOB merchandise trade data (Tables B.1.b and D.1.a):</i>							
GOB-recorded merchandise and NFS trade balance (X-M)**	-33.7	-30.1	-37.8	-58.3	-47.0	-98.1	-305.0
Net errors and omissions (= [I-S] + [X-M])	-1.1	3.3	-2.4	-1.3	-0.9	-13.8	--
- as equivalent percentage of ARGDP	-0.7%	1.6%	-0.8%	-0.3%	-0.2%	-2.1%	--
BOP net errors and omissions (Table D.1.a)	-0.6	-4.1	1.8	0.7	0.0	12.6	--
Statistical discrepancy	-1.7	-0.8	-0.6	-0.5	-0.9	-1.2	--
<i>Based on UNCTAD merchandise trade data (Tables B.1.c and D.1.b):</i>							
Implied merchandise and NFS trade balance (X-M)**	-26.5	-12.8	-15.8	-40.2	-55.0	-132.4	-282.7
Net errors and omissions (= [I-S] + [X-M])	6.2	20.6	19.6	16.8	-9.0	-48.1	--
-- as equivalent percentage of ARGDP	3.7%	9.3%	6.5%	4.0%	-1.7%	-7.3%	--
BOP net errors and omissions (Table D.1.b)	-7.8	-21.4	-20.2	-17.4	8.0	46.9	--
Statistical discrepancy	-1.7	-0.8	-0.6	-0.5	-0.9	-1.2	--
Notes: *From monetary accounts, Table E.2. **From balance of payments accounts, Table D.1.a or D.1.b; FY 92/93 travel receipts corrected.							

Sources: GOB/RFESC/97 and previous (foreign investment, loans disbursed); Embassy observations (market rate); IMF/RED/97 and previous (all other data).

**Table F.2.b: Exchange-rate-adjusted flow of funds
in dollars, FY 90/91 - 95/96**

(In millions of current dollars, disbursements [cash] basis. Foreign- and domestic-currency-denominated entries equated at the market exchange rate. Figures for FY 95/96 are not final.)								
	GOB FY	90/91	91/92	92/93	93/94	94/95	95/96	Total
Decrease in net foreign assets *		154	15	-14	32	-90	18	115
Net recorded foreign financial inflows **		369	364	350	446	497	683	2,710
-- net unrequited private transfers		77	83	122	273	322	352	1,228
-- foreign grants		29	64	71	98	165	183	611
-- foreign direct investment		219	249	138	95	138	324	1,163
-- new loans (gross)		122	61	81	89	101	120	574
-- other capital, net		-7	-4	-4	-3	-3	-4	-25
-- external debt service payments		-70	-89	-58	-108	-225	-293	-843
Investment in excess of savings (I-S)		524	379	336	478	407	700	2,824
-- as equivalent percentage of ARGDP (GOB trade basis)		20.2%	16.2%	12.5%	14.2%	8.7%	12.9%	--
-- as equiv. percentage of ARGDP (UNCTAD trade basis)		19.7%	15.0%	11.8%	13.6%	8.7%	12.7%	--
<i>Based on GOB merchandise trade data (Tables B.1.b and D.1.a):</i>								
GOB-recorded merchandise and NFS trade balance (X-M)**		-541	-342	-358	-489	-416	-815	-2,961
Net errors and omissions (= [I-S] + [X-M])		-17	37	-22	-11	-8	-115	--
- as equivalent percentage of ARGDP		-0.7%	1.6%	-0.8%	-0.3%	-0.2%	-2.1%	--
BOP net errors and omissions (Table D.1.a)		-9	-46	17	6	0	105	--
Statistical discrepancy		-27	-9	-5	-4	-8	-10	--
<i>Based on UNCTAD merchandise trade data (Tables B.1.c and D.1.b):</i>								
Implied merchandise and NFS trade balance (X-M)**		-425	-145	-150	-337	-487	-1,100	-2,644
Net errors and omissions (= [I-S] + [X-M])		99	234	186	141	-79	-400	--
-- as equivalent percentage of ARGDP		3.7%	9.3%	6.5%	4.0%	-1.7%	-7.3%	--
BOP net errors and omissions (Table D.1.b)		-125	-243	-191	-145	71	390	--
Statistical discrepancy		-27	-9	-5	-5	-8	-10	--
Notes: *From monetary accounts, Table E.2. **From balance of payments accounts, Table D.1.a or D.1.b; FY 92/93 travel receipts corrected.								

Sources: GOB/RFESC/97 and previous (foreign investment, loans disbursed); Embassy observations (market exchange rate); IMF/RED/97 and previous (all other data).

**Table G.1.a: Unadjusted consolidated public sector budget,
in current kyat, FY 89/90 - 96/97**

GOB FY	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
(In billions of current kyat. Operating expenditures on disbursements [cash] basis. Includes accounts of the state-owned enterprises [SEEs]. Excludes the accounts of local governments, of which the larger have been financially autonomous since FY 92/93. Foreign-currency-denominated receipts, expenditures and financing are recorded at the official exchange rate. Figures for FYs 95/96 and 96/97 are not final.)								
Unadjusted receipts	36.6	44.7	51.5	62.7	78.6	104.0	125.0	140.8
-- Central government	10.7	13.3	15.6	19.6	26.2	31.5	37.8	45.7
-- Tax revenue	5.3	9.1	10.5	12.6	17.0	20.1	22.6	28.7
-- SEEs' contributions	2.1	3.3	3.3	5.0	6.6	8.2	10.5	11.3
-- Other non-tax revenue (IMF)	3.2	0.9	1.6	1.8	2.3	3.0	4.4	5.5
-- Foreign grants (excluding debt relief)	0.1	0.0	0.2	0.2	0.2	0.2	0.2	0.2
-- SEEs	25.9	31.3	35.9	43.1	52.4	72.5	87.2	95.1
Unadjusted operating expenditures	44.1	56.2	65.0	73.5	92.9	131.2	158.9	185.5
-- Central government	15.5	20.3	25.8	26.7	33.6	45.4	59.9	71.8
-- Current exp. (incl. defense cap. exp.)	13.3	17.4	19.2	20.1	27.3	33.6	42.6	37.8
-- Capital exp. (excl. defense cap. exp.)	2.2	2.9	6.6	6.5	6.3	11.8	17.3	34.0
-- SEEs	28.6	36.0	39.2	46.9	59.3	85.8	99.0	113.7
-- Current exp. (net of fin. inst. surplus)	25.6	32.2	36.1	43.6	56.2	80.4	90.0	100.7
-- Capital exp. (non-financial SEEs only)	3.0	3.7	3.1	3.3	3.1	5.4	9.0	13.0
-- Gov't. lending less repayments	0.2	0.4	0.4	0.1	-0.1	0.1	0.1	0.1
Errors and omissions	-1.0	-0.3	-0.7	3.3	2.1	1.0	-2.6	-0.9
Operating deficit, cash basis	6.5	11.2	12.8	14.2	16.4	28.1	31.3	43.7
Recorded external debt service due	1.7	1.8	1.9	2.1	2.0	2.1	2.0	2.3
Overall deficit, obligations basis	8.2	13.0	14.7	16.3	18.4	30.2	33.3	46.0
Unadjusted recorded financing	8.2	13.0	14.7	16.3	18.4	30.2	33.3	46.0
-- Recorded external financing at off. rate	1.5	2.3	2.0	2.5	2.2	2.7	2.0	2.5
-- Foreign loan disbursements (gross)	0.9	0.8	0.4	0.5	0.5	0.6	0.7	0.9
-- Increase in external arrears, BOP basis	0.5	1.3	1.4	1.8	1.3	0.8	0.4	1.1
-- Other arrears (IMF/97) and debt relief	0.1	0.1	0.2	0.2	0.4	1.4	0.9	0.5
-- Recorded domestic financing, net	6.7	10.8	12.7	13.8	16.2	27.5	31.3	43.5
-- Bank	6.7	9.9	12.4	12.9	15.0	26.9	29.4	41.5
-- Non-bank	0.0	0.9	0.3	0.9	1.2	0.6	1.9	2.0
-- Treasury bond sales to priv. sector	0.0	0.0	0.0	0.0	0.0	0.0	0.8	2.0
-- Asset sales	0.0	0.9	0.3	0.9	1.2	0.6	1.1	0.0

Sources: GOB/RFESC/97 (foreign loan disbursements, some FY 96/97 receipts, expenditures); GOB/SMEI/96.11-12 (bonds); GOB/SY/95 and WB/PSER (data before FY 93/94); Japan's ODA Annual Reports (debt relief); IMF/RED/97 and previous (all other data).

**Table G.1.b: Unadjusted consolidated public sector budget,
in percent of unadjusted recorded GDP, FY 89/90 - 96/97**

GOB FY	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
(As percentages of URGDP. Operating expenditures on disbursements [cash] basis. Includes accounts of the state-owned enterprises [SEEs]. Excludes the accounts of local governments, of which the larger have been financially autonomous since FY 92/93. Foreign-currency-denominated receipts, expenditures and financing are recorded at the official exchange rate. Figures for FYs 95/96 and 96/97 are not final.)								
Unadjusted receipts	29.4%	29.4%	27.6%	25.1%	21.8%	22.0%	20.7%	19.7%
-- Central government	8.6%	8.8%	8.4%	7.9%	7.3%	6.7%	6.3%	6.4%
--Tax revenue	4.3%	6.0%	5.6%	5.0%	4.7%	4.3%	3.8%	4.0%
-- SEEs' contributions	1.7%	2.2%	1.8%	2.0%	1.8%	1.7%	1.7%	1.6%
--Other non-tax revenue (IMF)	2.5%	0.6%	0.8%	0.7%	0.6%	0.6%	0.7%	0.8%
-- Foreign grants (excluding debt relief)	0.0%	0.0%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%
-- SEEs	20.8%	20.6%	19.2%	17.3%	14.5%	15.3%	14.5%	13.3%
Unadjusted operating expenditures	35.4%	37.0%	34.8%	29.5%	25.8%	27.7%	26.3%	25.9%
-- Central government	12.4%	13.3%	13.8%	10.7%	9.3%	9.6%	9.9%	10.0%
-- Current exp. (incl. defense cap. exp.)	10.7%	11.5%	10.3%	8.1%	7.6%	7.1%	7.1%	5.3%
-- Capital exp. (excl. defense cap. exp.)	1.8%	1.9%	3.5%	2.6%	1.7%	2.5%	2.9%	4.8%
-- SEEs	22.9%	23.7%	21.0%	18.8%	16.5%	18.1%	16.4%	15.9%
-- Current exp. (net of fin. inst. surplus)	20.5%	21.2%	19.3%	17.5%	15.6%	17.0%	14.9%	14.1%
-- Capital exp. (non-financial SEEs only)	2.4%	2.5%	1.7%	1.3%	0.9%	1.1%	1.5%	1.8%
-- Gov't. lending less repayments	0.1%	0.3%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%
Errors and omissions	-0.8%	-0.2%	-0.4%	1.3%	0.6%	0.2%	-0.4%	-0.8%
Operating deficit, cash basis	5.2%	7.4%	6.8%	5.7%	4.6%	5.9%	5.2%	5.2%
Recorded external debt service due	1.3%	1.2%	1.0%	0.9%	0.5%	0.4%	0.3%	1.3%
Overall deficit, obligations basis	6.6%	8.6%	7.9%	6.5%	5.1%	6.4%	5.5%	6.6%
Unadjusted recorded financing	6.6%	8.6%	7.9%	6.5%	5.1%	6.4%	5.5%	6.6%
-- Recorded external financing at off. rate	1.2%	1.5%	1.1%	1.0%	0.6%	0.6%	0.3%	1.2%
--Foreign loan disbursements (gross)	0.7%	0.5%	0.2%	0.2%	0.2%	0.1%	0.1%	0.7%
-- Increase in external arrears, BOP basis	0.4%	0.9%	0.7%	0.7%	0.4%	0.2%	0.1%	0.4%
-- Other arrears (IMF/97) and debt relief	0.1%	0.1%	0.1%	0.1%	0.1%	0.3%	0.2%	0.1%
-- Recorded domestic financing, net	5.3%	7.1%	6.8%	5.5%	4.5%	5.8%	5.2%	5.3%
-- Bank	5.3%	6.5%	6.6%	5.2%	4.2%	5.7%	4.9%	5.3%
-- Non-bank	0.0%	0.6%	0.2%	0.4%	0.3%	0.1%	0.3%	0.0%
-- Treasury bond sales to priv. sector	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%
-- Asset sales	0.0%	0.6%	0.2%	0.4%	0.3%	0.1%	0.2%	0.0%

Sources: GOB/RFESC/97 (foreign loan disbursements, some FY 96/97 receipts, expenditures); GOB/SMEI/96.11-12 (bonds); GOB/SY/95 and WB/PSER (data before FY 93/94); Japan's ODA Annual Reports (debt relief); IMF/RED/97 and previous (all other data).

**Table G.2: Exchange-rate-adjusted public sector budget,
including only recorded financing, in kyat, FY 89/90 - 96/97.**

GOB FY	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
Adjusted total receipts	53.2	65.0	80.8	96.0	125.3	173.9	174.6	n/a
-- Domestic currency receipts	34.3	42.4	49.3	60.7	76.1	100.2	122.6	n/a
-- unadjusted total receipts	36.6	44.7	51.5	62.7	78.6	104.0	125.0	140.8
-- less FCR at official rate	-2.3	-2.3	-2.3	-2.0	-2.5	-3.8	-2.4	n/a
-- Foreign currency receipts (FCR)* at mkt. rate	18.9	22.6	31.6	35.3	49.2	73.7	52.0	n/a
-- public sector merchandise exports	14.6	15.9	20.4	29.1	41.6	66.0	43.2	52.5
-- as share of GOB-recorded merch. exp.	63%	54%	50%	47%	54%	64%	40%	38%
-- gov't. service exports, incl. investmt income	1.2	2.1	2.0	1.9	2.4	2.5	2.9	n/a
-- foreign grants (excluding debt relief)	0.5	0.3	2.4	4.1	4.8	4.5	4.6	6.7
-- tax on foreign remittances**	2.6	4.3	6.8	0.3	0.5	0.7	1.3	3.3
Adjusted total operating expenditures	59.2	86.1	98.0	114.2	148.3	186.9	229.3	n/a
-- Domestic currency operating expenditure	42.0	52.9	62.4	71.1	89.9	128.1	155.4	n/a
-- Unadjusted operating expenditures	44.1	56.2	65.0	73.5	92.9	131.2	158.9	185.5
-- less FCE at official rate	-2.1	-3.3	-2.5	-2.5	-3.0	-3.1	-3.5	n/a
-- For'n cur. op. expend. (FCE)*** at mkt. rate	17.2	33.2	35.6	43.1	58.4	58.9	73.9	n/a
-- public sector merchandise imports	16.8	32.2	33.8	42.2	56.4	57.5	71.8	106.6
-- as share of GOB-recorded merch. imp.	61%	58%	45%	45%	36%	36%	33%	37%
-- government service imports	0.4	0.9	1.7	1.0	2.0	1.3	2.1	n/a
Adjusted total receipts minus op. expend.	-6.0	-21.1	-17.2	-18.2	-23.0	-13.0	-54.8	n/a
Errors and omissions, net	-0.2	4.3	0.8	-4.4	-3.7	-38.4	10.1	n/a
Adj. operating deficit, cash basis (from next page)	6.2	16.8	16.3	22.6	26.7	51.4	44.6	48.9

Notes: (1) *Excludes public sector share of non-gov't. nonfactor service export receipts, as well as receipts from foreign-currency denominated taxes on foreign income (10%), on some exports (5%) and foreign-currency-denominated bank withdrawals (10%). **Estimated as 10% of net unrequired private transfers (NUPT) from BOP accounts since FY 92/93, as NUPT (1 - [off. rate/mkt. rate]) before FY 92/93. ***Excludes public sector share of non-government service import payments, as well as off-BOP payments for defense imports. (2) Unadjusted total receipts, and unadjusted operating expenditures, are from Table G.1.a.

Table G.2.a (financing and GDP share equivalents) continues on following page.

<i>Continuation of</i>								
Table G.2: Exchange-rate-adjusted public sector budget,								
including only recorded financing, in kyat, FY 89/90 - 96/97.								
(In billions of current kyat. Operating expenditures on disbursements [cash] basis. Includes accounts of the state-owned enterprises [SEEs].								
Excludes the accounts of local governments, of which the larger have been financially autonomous since FY 92/93. Most foreign-currency-								
denominated entries at market exchange rate, but some spending on military imports at official rate. Figures for FYs 95/96 and 96/97 not final.)								
GOB FY	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
Adjusted operating deficit, cash basis	6.2	16.8	16.3	22.6	26.7	51.4	44.6	59.2
Recorded external debt service payments*	8.6	2.9	4.5	2.6	5.9	11.3	17.8	19.4
Adjusted overall deficit, cash basis	14.8	19.6	20.9	25.2	32.6	62.7	62.4	78.7
Recorded ext. debt service arrears and relief	4.1	13.7	19.7	31.6	26.7	17.1	11.3	31.8
Adjusted overall deficit, obligations basis	18.9	33.3	40.6	56.9	59.3	79.8	73.8	110.5
Adjusted recorded financing	18.9	33.3	40.6	56.9	59.3	79.8	73.8	110.5
-- External financing at market rate	12.3	22.6	27.9	43.0	43.1	52.4	42.4	67.0
-- Foreign loan disbursements (gross)	7.3	7.6	5.4	8.5	10.7	11.4	14.4	24.8
-- Increase in external arrears, BOP basis	3.9	13.5	19.2	31.0	25.6	14.7	8.2	29.7
-- Other ext. arrears (IMF/97) and debt relief	1.2	1.7	3.8	4.1	8.1	28.7	22.9	14.5
-- Domestic financing, net	6.7	10.8	12.7	13.8	16.2	27.5	31.3	43.5
-- Bank	6.7	9.9	12.4	12.9	15.0	26.9	29.4	41.5
-- Non-bank	0.0	0.9	0.3	0.9	1.2	0.6	1.9	2.0
-- Treasury bond sales to priv. sector	0.0	0.0	0.0	0.0	0.0	0.0	0.8	2.0
-- Asset sales	0.0	0.9	0.3	0.9	1.2	0.6	1.1	0.0
Memorandum items, as percentages of ARGDP (based on GOB trade data, Table B. 1. b):								
Adjusted total receipts	38.1%	40.3%	39.4%	33.9%	31.2%	32.7%	26.7%	n/a
Adjusted total operating expenditures	42.4%	53.3%	47.8%	40.3%	36.9%	35.1%;	35.1%	n/a
Adjusted total receipts minus op. expend.	-4.3%	-13.1%	-8.4%	-6.4%	-5.7%	-2.4%	-8.4%	n/a
Adjusted operating deficit, cash basis	4.5%	10.4%	8.0%	8.0%	6.6%	9.7%	6.8%	7.6%
Adjusted overall deficit, cash basis	10.6%	12.2%	10.2%	8.9%	8.1%	11.8%	9.6%	10.1%
Adjusted overall deficit, obligations basis	13.6%	20.7%	19.8%	20.1%	14.8%	15.0%	11.3%	14.2%
Adjusted recorded financing	13.6%	20.7%	19.8%	20.1%	14.8%	15.0%	11.3%	14.2%
-- External financing at market rate	8.8%	14.0%	13.6%	15.2%	10.7%	9.8%	6.5%	8.6%
-- Domestic financing, net	4.8%	6.7%	6.2%	4.9%	4.0%	5.2%	4.8%	5.6%

Note: *Excludes payments to Government of Japan given back as public sector import credits.

**Table G.3: Exchange-rate-adjusted public sector budget,
including apparent as well as recorded financing, in kyat, FY 90/91 - 96/97.**

(In billions of current kyat. Operating expenditures on disbursements [cash] basis. Includes accounts of the state-owned enterprises [SEEs]. Excludes the accounts of local governments, of which the larger have been financially autonomous since FY 92/93. Most foreign-currency-denominated entries at market exchange rate, but some spending on military imports at official rate. Figures for FYs 95/96 and 96/97 not final.)

GOB FY	90/91	91/92	92/93	93/94	94/95	95/96	96/97
Adjusted total receipts (from Table G.2)*	65.0	80.8	96.0	125.3	173.9	174.6	n/a
Adjusted total operating expenditures (from Tab. G.2)*	86.1	98.0	114.2	148.3	186.9	229.3	n/a
Adjusted total receipts minus operating expenditures	-21.1	-17.2	-18.2	-23.0	-13.0	-54.8	n/a
Errors and omissions, net	-8.5	1.1	-14.0	0.4	-47.6	7.7	n/a
Adjusted operating deficit, cash basis	29.5	16.0	32.2	22.6	60.6	47.1	n/a
External debt service payments**	2.9	4.5	2.6	5.9	11.3	17.8	19.4
Adjusted overall deficit, cash basis	32.4	20.6	34.8	28.6	71.9	64.9	n/a
External debt service arrears and debt relief	13.7	19.7	31.6	26.7	17.1	11.3	31.8
Adjusted overall deficit, obligations basis	46.1	40.3	66.4	55.2	89.0	76.2	n/a
Adjusted recorded and apparent financing	46.1	40.3	66.4	55.2	89.0	76.2	n/a
- Recorded external financing (from Table G.2)***	22.6	27.9	43.0	43.1	52.4	42.4	67.0
-- Domestic financing	23.6	12.4	23.4	12.1	36.7	33.8	n/a
-- Recorded domestic financing (from Table G.2)	10.8	12.7	13.8	16.2	27.5	31.3	43.5
-- Apparent domestic financing (From Table E.2)	12.8	-0.3	9.6	-4.1	9.2	2.5	n/a
-- Increase in adjusted public sector domestic reserves	2.0	-0.9	4.4	-2.1	4.8	-4.7	n/a
- Decrease in public sector net foreign assets	10.7	0.7	5.2	-2.0	4.4	7.2	n/a
As equivalent percentages of ARGDP based on UNCTAD merchandise trade data (Table B.1. c):							
Adjusted total receipts (from Table G.2)	39.3%	36.4%	31.9%	29.8%	32.7%	26.4%	n/a
Adjusted total operating expenditures (from Table G.2)	52.1%	44.1%	37.9%	35.3%	35.2%	34.6%	n/a
Adjusted operating deficit, cash basis	17.9%	7.2%	10.7%	5.4%	11.4%	7.1%	n/a
Adjusted overall deficit, cash basis	19.6%	9.3%	11.6%	6.8%	13.5%	9.8%	n/a
Adjusted overall deficit, obligations basis	27.9%	18.1%	22.1%	13.1%	16.7%	11.5%	n/a
-- Recorded external financing (from Table G.2)**	13.6%	12.5%	14.3%	10.3%	9.9%	6.4%	n/a
- Domestic financing	14.3%	5.6%	7.8%	2.9%	6.9%	5.1%	n/a
- Recorded domestic financing (from Table G.2)	6.5%	5.7%	4.6%	3.8%	5.2%	4.7%	n/a
-- Apparent domestic financing (From Table E.2)	7.7%	-0.1%	3.2%	-1.0%	1.7%	0.4%	n/a

Notes: *Incomplete: see notes to Table G.2. **Excludes payments to Government of Japan given back as public sector import credits.

***Incomplete: appears to exclude loan disbursements and arrears accumulated in connection with military imports.

Sources: Table E.1, above (apparent domestic financing); Table G.2., above (all other data). Cf. Table G.5., below, which may help to correct incompleteness of expenditure data.

Table G.4: Unadjusted central government operating expenditures, FY89/90-96/97.

(In billions of current kyat, unless otherwise indicated. Foreign-currency-denominated [import-related] expenditures recorded at the official exchange rate. Appears to exclude large off-budget subsidies, like the Defense Ministry electricity subsidy, and fuel and rice subsidies.

Entries include both current and capital expenditures, and are on a disbursements [cash] basis. Figures for FYs 95/96 and 96/97 are not final.)

GOB FY	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
General services	2.2	2.5	3.0	2.9	2.8	3.1	3.4	n/a
Defense*	4.3	6.9	7.4	9.1	13.9	17.7	23.8	n/a
Economic services	3.4	4.0	5.3	5.8	6.5	12.3	18.7	n/a
--Agriculture and forestry	1.4	1.5	1.5	2.0	2.7	4.9	9.6	n/a
-- Public works and housing	1.2	1.7	2.8	2.8	2.3	5.8	6.3	n/a
-- Other	0.8	0.8	1.0	1.1	1.2	1.6	2.8	n/a
Social services	4.9	5.0	7.9	8.0	8.6	9.0	10.9	n/a
-- Education	2.9	3.4	4.8	4.7	5.5	5.6	6.6	n/a
-- Health	0.8	1.1	1.9	2.1	1.7	1.8	2.3	n/a
-- Pensions, labor, welfare	1.2	0.6	1.2	1.2	1.4	1.6	2.0	n/a
Other	0.6	1.9	2.3	0.8	1.8	3.3	3.1	n/a
Total operating expenditures (disbursements)	15.5	20.3	25.8	26.6	33.6	45.4	59.9	71.8

Memorandum items:

Unadjusted defense operating expenditures*	4.3	6.9	7.4	9.1	13.9	17.7	23.8	n/a
-- as a percentage of total operating expend.	27.9%	33.9%	28.5%	34.1%	41.3%	38.9%	39.7%	n/a
-- as percent, of unadjusted recorded GDP	3.5%	4.5%	3.9%	3.6%	3.8%	3.7%	3.9%	n/a
-- as multiple of education expenditures	1.5	2.0	1.5	1.9	2.5	3.2	3.6	n/a
-- as multiple of health expenditures	3.6	4.3	3.9	6.2	19.2	20.2	18.4	n/a
-- nominal year-to-year percentage change	246%	59%	7%	24%	52%	27%	35%	n/a

Note: * Defense operating expenditure figures for FYs 94/95 and 95/96 are embassy estimates. As IMF/RED/97 (page 18, note 5) observes, some defense operating expenditures appear to have been off-budget in recent years.

Sources: IMF/RED/97; IMF/RED/95; WB/PSER/95, based on data provided by GOB authorities. Cf GOB/SA/95, GOB/SY/96.

Table G.5: Exchange-rate-adjusted defense operating expenditures, FY 91/92-95/96

(In billions of current kyat, unless otherwise indicated. Disbursements [cash] basis. Foreign-currency-denominated [import] expenditures recorded at market exchange rate. Excludes off-budget defense electricity, fuel and rice subsidies and defense-related financial expenditures, such as external debt service related to prior defense imports. Boldface figures are embassy estimates; figures for FY 95/96 not final.)

GOB FY	91/92	92/93	93/94	94/95	95/96
Exchange-rate-adjusted defense operating expenditures	13.5	20.6	31.5	35.9	54.7
-- Kyat-denominated defense operating expenditures	6.9	8.4	12.9	16.7	22.3
-- Unadjusted defense operating expenditures (from Table G.4)	7.4	9.1	13.9	17.7	23.8
-- Foreign currency denom. defense op. exp. at official rate	0.5	0.7	1.0	1.0	1.5
-- Foreign currency denominated defense op. exp. at market rate	6.6	12.2	18.6	19.2	32.4
-- imports of inputs into domestic defense production	1.7	4.0	4.7	3.8	11.0
-- imports of finished goods and services	4.6	7.7	13.1	14.6	20.4
Adjusted public sector operating expenditures (from Table G.2)	98.0	114.2	148.3	186.9	229.3
FCD defense operating expenditure (market rate - official rate)	6.1	11.3	17.6	18.2	30.9
Comprehensively adjusted public sector operating expenditures	104.1	125.7	165.9	205.1	260.2
-- Equivalent percentage of ARGDP (UNCTAD basis, Table B.1.c)	46.9%	41.7%	39.5%	38.6%	39.3%
Exchange-rate-adjusted defense operating expenditures as a percentage of:					
-- Adjusted recorded GDP (UNCTAD merchandise trade basis)	6.1%	6.8%	7.5%	6.7%	8.3%
-- Adjusted total public sector operating expenditures (Table G.2)	13.0%	16.4%	19.0%	17.5%	21.0%
-- Adj. public sector cash op. deficit (recorded financing only, Tab. G.2)	83%	91%	118%	70%	123%
-- Adj. public sector cash op. deficit (all apparent financing, Table G.3)	84%	64%	139%	59%	116%
Foreign-currency-denominated defense operating expenditures as a percentage of:					
-- UNCTAD-reported merch. and NFS imports (Table D.1.b)	16%	18%	18%	18%	17%
-- UNCTAD-reported merchandise and NFS trade deficit	106%	130%	78%	65%	41%
-- ARGDP (UNCTAD merchandise trade basis, Table B.2.c)	3.0%	4.1%	4.4%	3.6%	4.9%
In millions of current U.S. dollars:					
Exchange-rate-adjusted defense operating expenditures	153	195	264	317	454
-- Kyat-denominated defense operating expenditures, at mkt. rate	78	80	108	147	185
-- Foreign-currency-denominated defense operating expenditures	75	116	156	170	269
-- imports of inputs into domestic defense production	19	38	39	34	91
-- imports of finished goods and services	56	77	116	136	178

Note: Above figures for kyat-denominated defense operating expenditure excludes subsidies to Defense Ministry from the SEEs, including, as (FY 95/96: about MKWH of electricity from MEPE, worth 2.5 billion kyat at local industrial prices; at least 12 million gallons of fuel from MPPE at one-tenth the market price, a subsidy worth 3 billion kyat; and unknown quantities of rice at one-third the market price, from MAPT

Tables G.6: Public investment and uncompensated contributions thereto.

(In millions of current kyat, unless otherwise specified. Figures for FYs 95/96 and 96/97 are not final.)

Table G.6.a: Local projects to FY 96/97.

Expenditures on rural development works, disaggregated into (a) state expenditures, and (b) "people's contributions," including "public donations in cash, kind and services" evaluated at shadow prices, chiefly labor apparently evaluated at a government day labor day contract wage, assigned by the GOB, equal to about 1/3 the market wage in FY 94/95. 1/4 in FY 95/96. Figures are in millions of current kyat.

GOB FY	1962/63 - 92/93 cumulative /			1994/95			1995/96		
	state	people	total	state	people	total	state	people	total
Road & bridges	75.0%	25.0%	486.5	44.3%	55.7%	217.6	44.7%	55.3%	239.4
Agricultural works (irrigation)	61.2%	38.3%	126.7	48.4%	51.6%	54.7	74.4%	25.6%	154.5
Education (schools)	66.9%	33.1%	151.4	59.8%	40.2%	12.7	54.3%	45.7% [^]	16.4
Other	69.1% [^]	30.9%	78.0	53.9%	46.1%	11.8	61.5%	38 [^] 5%	19.2
Total	71.0%	29.0%	842.6	46.1%	53.9%	296.8	56.5%	43.5%	429.5
GOB Fiscal year	87/88	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
State's expenditure	10.0	20.0	70.2	156.6	99.5	160.0	178.2	242.6	175.7
People's contributions	5.5	8.9	10.9	67.9	18.8	163.2	157.4	186.9	146.9
Total	15.5	28.9	81.1	224.5	118.3	323.2	335.6	429.5	322.6

Note: The official government contract day labor wage was 10 kyat per day until 1988, 15 kyat per day from 1988 to 1993, 20 kyat per day since 1993; it has fallen steadily relative to market wages, causing "people's contributions" to be increasingly undervalued by the figures above.

Source: GOB's *Review of the Financial, Economic and Social Conditions* 1995, 1996 and 1997, Tables 35 and 36.

Tables G.6: Public investment and uncompensated contributions thereto, continued.**Table G.6.b: Regional and national projects by sector, FY 89/90 - 96/97.**

The GOB does not publish a value for "people's contributions" to its regional and national public investment projects, which it calls "construction works," and which, it says, "are being carried out solely by the State and also in cooperation with the public." However, the GOB does publish the volume of public works, which disaggregates by sector the regional and national physical infrastructure construction and maintenance spending of the central government and the state-owned economic enterprises. The following table describes compensated expenditures and outputs in state construction sectors in which involuntary contributions are widely alleged to have been substantial and to have increased during the early 1990s. Increases in output per constant kyat spent by the state are consistent with these allegations. Figures for FY 95/96 & 96/97 not final.

GOB Fiscal year	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
Total state expenditure on construction and renovation works (millions of current kyat)	4,105	7,794	11,087	11,945	13,972	23,470	36,495	44,021
State expenditure on new construction of								
" roads & bridges (millions of current kyat)	875	1,748	2,263	1,907	1,912	3,839	4,397	5,458
-- at constant 85/86 prices *	520	784	851	683	662	1,035	894	997
Roads extant at year-end, in miles	14,910	14,969	15,060	15,118	16,523	16,770	17,301	18,695
Increase in road mileage	299	59	91	58	1,405	247	531	1,394
-- per million constant kyat spent	0.58	0.08	0.11	0.08	2.12	0.24	0.59	1.40
State expenditure on new construction of								
irrigation & embankments (m. current kyat)	261	239	232	369	899	1,074	5,800	5,726
-- at constant 85/86 prices *	155	107	87	132	311	290	1,179	1,046
Irrigated area at year-end, in thousand acres	2,483	2,479	2,467	2,743	3,303	3,843	4,341	4,784
Increase in irrigated area	-33	-4	-12	276	560	540	498	443
-- per million constant kyat spent	-0.21	-0.04	-0.14	2.09	1.80	1.86	0.42	0.42
State expenditure on new construction of								
railtracks, airstrips, jetties etc.	95	175	299	725	735	2,163	3,885	5,570
-- at constant 85/86 prices	56	79	112	260	255	583	790	1,017
Extant railroad track at year-end, in miles	2,801	2,892	2,909	3,047	3,106	3,172	3,305	3,388
Increase in railroad, track mileage	10	91	17	138	59	66	133	83
--- per million constant kyat spent	0.18	1.15	0.15	0.53	0.23	0.11	0.17	0.08
State expenditure on renovation & improvement of roads and bridges **	478	654	984	1,005	1,022	1,389	1,887	1,893

Notes: * Calculated using the GOB's construction sector price deflator, as implied by GOB-published constant- and current-kyat sector products.

** State expenditures on renovation and improvement of irrigation works and of railroads, airstrips, jetties, etc., are not available

Source: GOB's *Review of the Financial, Economic and Social Conditions*, 1997, Tables 84 (construction), 85 (roads), 14 (irrigation), 91 (railroads), and prior years' corresponding tables.