

Towards a More Productive Agrarian Economy for Myanmar

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Myanmar at the Crossroads

- Myanmar's people have suffered from two events beyond their control – Cyclone Nargis and the global crisis
- These have posed particularly severe problems for agriculture
- In other respects Myanmar has been lucky
- Its endowment of natural resources provides the resource base to allow government to address effectively the challenges in agriculture

- Challenge is to confront the limitations of the past but using the new opportunities afforded
 - Building on Myanmar's existing strengths (rich land, good weather, hard working people, strong social capital)
 - To transform Myanmar's economy
 - In ways that promote sustainable development
 - Which benefit all of its citizens
 - Consistent with basic values

The Country Faces a Double Challenge

- Global economic crisis is affecting all countries
 - Remittances
 - Export prices
 - While global crisis is abating, the global economy is not likely to return to robust growth soon
 - Though Asia may be the exception
- Cyclone
- Effects of these events live on long after...

Cyclone

- Destruction of wealth
 - particularly hard on those with almost no wealth
 - a cycle of indebtedness
 - disrupting already weak and mostly informal rural credit markets
- Both on the demand side and on the supply side
 - Access through official institutions limited
 - Forcing dependence on high interest money lenders
- Making individuals especially vulnerable to a shock like the cyclone
- With no bankruptcy, difficult to provide “fresh start”

Why is Credit So Important?

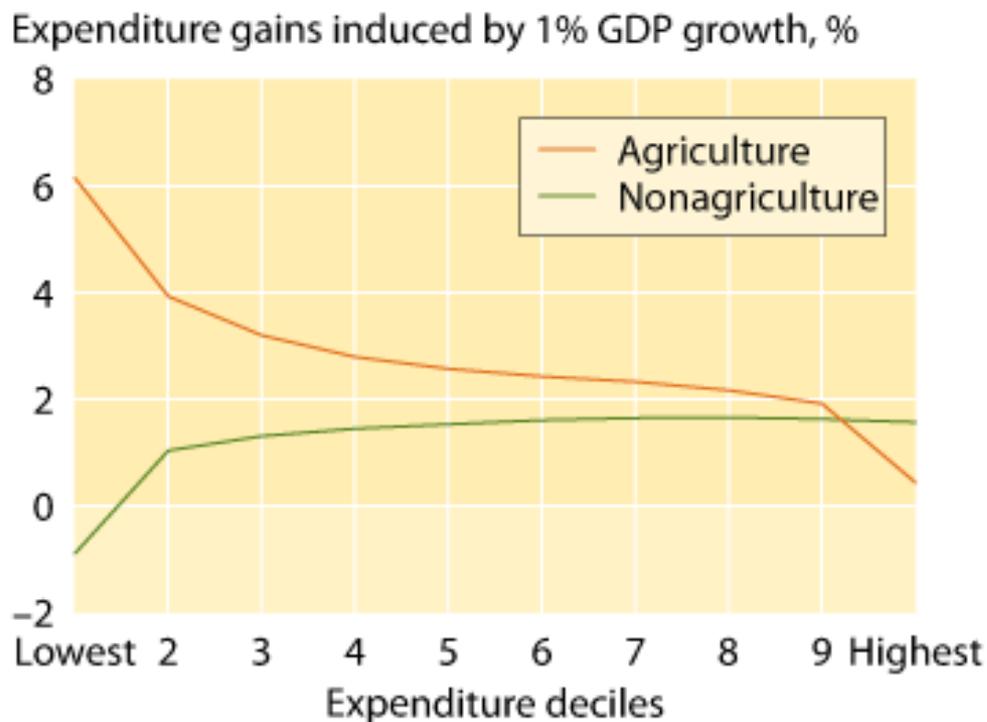
- Deficiencies in credit markets
 - May hamper access to “working capital”—seed and fertilizer
 - Implying likely decline in productivity
 - Fertilizer use already low
 - Lack of credit may contribute to Myanmar’s productivity being less than it should be *given its natural advantages*
 - Loss in position as one of world’s largest rice exporters
 - May create more casual laborers and lower their incomes
 - Lack of capital will mean that those with land will be less willing and able to hire casual laborers
 - Leading to less employment and lower wages
 - Increasing adverse consequences of landlessness

- Other countries in region have had remarkable successes in last four decades
- Showing that rapid development is possible
 - Beyond what anyone thought possible 40 years ago
 - With benefits in poverty reduction, incomes to average citizens, health, and other aspects of quality of life
- No magic formula, but a number of common characteristics

Some Characteristics of Successful Economies

- High savings and investment
 - Including in infrastructure
 - Especially important to connect farmers/fishermen to markets
- Heavy investments in education and technology
- Shared benefits of growth
 - Land reforms and, in early stages of development, increasing agricultural productivity
 - Educational opportunities
- Stable macro-economics
- Balanced role between market and state
 - Market-oriented economies
 - With governments playing a central role in promoting development
- Pragmatic
 - Gradualism rather than shock therapy
 - But gradualism doesn't mean paralysis
 - And change (like China's rural reforms) happened *very* rapidly
- Comprehensive approaches to development

GDP growth originating in agriculture benefits the poorest half of the population substantially more



Source: Ligon and Sadoulet 2007.

Note: Based on data from 42 countries during the period 1981–2003.

Gains are significantly different for the lower half of expenditure deciles.

Towards A Comprehensive Agenda for Increasing Rural Livelihoods and Reducing Poverty

- A successful agenda needs to be comprehensive
 - Marketing
 - Issues of land
 - Credit
 - Technology
 - Infrastructure
 - Health and Education
 - Non-agricultural employment

Focus of Comprehensive Agenda

- Physical infrastructure, particularly connecting rural areas to cities/townships
 - Roads, irrigation, electricity
- Institutional and human infrastructure
 - Education and health
 - Markets
 - And especially financial markets
 - Legal structures
 - Security of property rights
 - Social safety nets
 - Protecting the vulnerable
 - Especially important in countries with large numbers living at or near poverty and/or already suffering from food insecurity and malnutrition

Marketing

- Key dilemma—high rice price hurts (or is perceived to hurt) net buyers of rice, but low price hurts farmers
 - Incidence more complicated because of possible wage impact
 - Adverse negative supply response with macro-economic consequences
- Adverse effects could be even larger in long run
- Large supply response for pulses shows potential benefits of increasing producer prices
 - Especially if other issues (e.g. credit) are effectively addressed
- Key response—to lower consumer price/raise producer price
 - Reduce margins—more efficient intermediation, lower port costs, better rural roads and communication systems, etc

Land Reform

- Basis of most successful development
 - Korea, Taiwan
- Lack of access to land major problem and increasingly so
 - Likely to lead to increase in inequality, poverty
 - Variety of social and economic pressures
 - Contributes to lower productivity
 - Small farms have highest productivity, provided they can get access to inputs and technology
- Successful land reform needs to be accompanied by other reforms (access to credit, technology)
- Can be done in a variety of ways
 - If done right, can increase productivity, reduce poverty and vulnerability
 - This might be a good time for such a reform

Small Scale Farming

- If there is access to credit and technology, small scale farming is generally more productive than large scale farming
 - Better incentives
 - Avoids “agency” costs—need to supervise and monitor
- Small scale farming also likely to be more successful in promoting better livelihoods, sense of well-being, of most of those in rural sector

Improving Credit Markets

- Essential for purchase of seeds (especially high quality seeds) and fertilizer
 - Especially important with loss of wealth following cyclone
 - But cyclone weakened already stretched rural credit markets
 - Some lenders lost their capital
 - Loss of wealth by borrowers impairs creditworthiness
- Reforming government provision and expanding private provision
 - Important to reduce reliance on exploitive money lenders
 - Key reform: access to greater quantities
 - Efficiency: slightly positive interest rates
 - Opening door for a regulated competitive financial sector
 - Both private and cooperative
 - Cooperatives have played a central role in many economies
 - Building on Myanmar's strong social capital
 - Would lower cost of funds and improve supply of funds compared to the reality of today's market

Improving Credit Markets

- Strengthening micro credit/more scope for NGOs
 - Have proven effective mechanisms for providing limited credit elsewhere
 - Ability to monitor
 - In most successful cases, have provided complementary inputs (like technology and seeds)
 - Have provided capital and know-how for other sources of income (raising chickens)

Restructuring Debts

- One-time debt forgiveness may be the best way to handle the aftermath of the cyclone
 - May require recapitalization of lending institutions
 - Partial compensation for write-off of loans
 - Necessary to stem dynamics of landlessness and declining productivity

Improved Technology

- In conjunction with provision of higher quality seeds and fertilizer (and accompanying infrastructure) is key to large increases in productivity
- Myanmar did gain from Green Revolution and can invest again
 - Maintaining productivity growth requires continual changes/improvements in seed stock
 - Extracting full benefit requires increased inputs of fertilizer
 - And in some places improved irrigation
- Needs to be brought to farmers through extension services
- NGOs, government, aid donors can all play key role in support

New Seeds and Fertilizer

- Can have large impact on productivity
- High return on expenditures
- But in spite of high return, without access to credit and land security, there will not be these investments
 - Reductions in livestock from cyclone may reduce supply of organic fertilizer
 - Another example of how effects can be long lasting
- The result will be lower productivity than should be the case given Myanmar's rich land and favorable climate

Education

- Essential for success in every program (agricultural, non-agricultural employment, civil service, extension services)
 - For translating advances in technology into practice
 - For running an effective financial system
 - Even for managing the “business” of running a modern farm

Non-Agricultural Rural Employment

- Will be increasingly important to absorb casual laborers and young generation
 - Key to reducing poverty and increasing equality
- Need to foster entrepreneurship
- But if entrepreneurs are to invest their funds, they must have some security of property rights
- And barriers to entry need to be removed
 - Change from “licensing system” to “registration system”
 - Will increase competition, enhance incentives, lower prices, promote growth
 - Enhance entrepreneurship, creating a positive dynamic
 - Transparent rules and regulations, level playing fields
- There have been several successful examples of rural based development

Foreign Investment and Aid

- Could contribute to Myanmar's agriculture/rural development in numerous ways
 - Technology
 - Investment
 - Access to markets
 - Strengthening human capital
 - Creating jobs and raising incomes
- Level of aid low compared to other countries at same level of GDP
 - Important in meeting both development and humanitarian needs
- Level of FDI low and narrowly focused on natural resources extraction

- To induce more investment and aid, certain pre-conditions are likely to have to be met
 - aid received is someone else's tax money
 - allocation is thus decided through parliamentary processes
 - Greater security of property right
 - Transparency in monitoring budget and aid flows
 - Some political advances
 - Politics and economics cannot be fully separated in any country
- If there were commitments of some of natural resource wealth to agriculture development, there might be partnerships entailing matching grants
 - Leveraging Myanmar's resources

Myanmar's Good Fortune

- Endowment of natural wealth (oil & gas, fertile land, forest, access to sea)
- High social capital
- Location in Asia—likely to be the most prosperous region in the world in the next decade

Managing Natural Resource Wealth

- Many countries, however, have not done a good job of managing their natural resource wealth
 - So much so that it has come to be called the “Natural Resource curse”
 - Problems posed by price volatility, exchange rate appreciation, misspending of money
 - The result is that on average, countries with large resource endowments often grow more slowly
 - And are marked by high levels of inequality
 - But all of these can be managed—a few successful countries have succeeded in high growth and low inequality and poverty

Managing Natural Resource Wealth

- Key is to avoid “Dutch Disease”
 - The fact that there are not upward pressures on exchange rate suggests that funds are not being sufficiently used to promote development
 - As more of funds are used to promote development, there may need to be interventions to manage exchange rate, as China and other East Asian countries have done
 - Can best be done through a unified exchange rate system
 - Lack of a unified exchange rate impairs transparency and effective budgeting
 - Lack of effective budgetary controls contributes to inflation
 - Myanmar shouldn't have inflation given that there would be budgetary surplus at unified exchange rate
 - Taxes and other interventions can be used to promote stability and to advance other social goals in a transparent way

- If a country doesn't reinvest wealth below ground above ground, country is poorer, growth is not sustainable
- Myanmar has especially good opportunities for using some of these resources in the agricultural sector
 - Promoting agricultural development along the agenda described above
 - Finance for rural credit
 - For health and education
 - For extension services
 - For infrastructure
 - Ensuring that all those working in private and public sector get a living wage in return for their services
 - Supporting cooperative actions of NGOs, civil society, private sector, aid donors
 - Important if Myanmar is to be restored as a major rice exporter

A New Global Order

- Globalization affords unprecedented new opportunities—access to capital, technology, markets
 - Globalization needs to be/can be managed
 - Other Asian countries have shown that it can be managed
 - In ways that benefit all citizens
 - And preserve national cultures and stability
- Emergence in the aftermath of global financial crisis of a new global order
 - Redressing some of the imbalances and inequities of the age of colonialism/oppression

Resurgence of Asia

- Myanmar can participate in/benefit from this new Asian growth
 - If it does, there can be benefits all around
 - Participatory policymaking—people decide best what is most adapted to their local circumstances
 - Meaningful dialogue requires trust and confidence
 - Voice is important in its own right
 - Most likely to yield projects and programs that work and from which all will benefit
 - Must include participation from all segments of society, all groups
 - Inclusive participation is likely to yield better decisions
 - Including decisions that lead to more inclusive growth