“External Trade Policies of Myanmar in Historical Perspective”

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Abstract

This paper examines the foreign trade policies adopted by the respective governments of the period before independence until today and analyzes the foreign trade values and balance of trade as well. Method is the secondary data analysis and descriptive method. Before British colonization, Myanmar undertook seaborne trade with Europe and overland trade with Yunnan of China. In 1866, Myanmar came under colonial rule. Trade policy under British colonial rule did not work for the Burmese but for them. The national government since Myanmar’s independence in 1948 until 1962 had tried out a mixed-economy model. The terms-of-trade had been in favour of the period up to 1960. Later the trade balance was reversed and economic development had not been achieved effectively as thought. During in March 1962 let the Revolutionary Council came into took place in both same institutional changes in domestic and foreign trade. Because of the inward-looking strategy of self-reliance and Burmanization, Myanmar became no more the rice exporter in 1968/69. With an unfavorable terms-of-trade and due to the September 1987 demonetization worsted the situations. Thus, in 1987, the country was designated the least less-developed country. The SPDC government took over the power in September 1988 and embarked on a systematic series of economic reforms. The GDP growth rate was positive form previously negative. The percentage share of trade decreased yearly relative to fiscal year (1985/86). Because of less export earnings and incurred more input costs, an unfavorable terms of trade along with the deficit balance of payment were occurring along this period. The NLD government came to power in March 2015 and promoted trade liberalization outward looking policy with the market-oriented economic system. There are still trade deficits and Myanmar government is trying to get the national goals by implementing from all sides.

Keywords: balance of payment, foreign trade policies, foreign trade value, inward-looking strategy, outward looking policy, trade liberalization

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I. Introduction

Indeed, implies the fact of external sectors development that all the sectors relation to the external increase in their share and contribute percent of the GDP. The sectors are mainly grouped into the goods sector, services sector and the trade sector. Among these, the external trade is mainly expressed with the period of its government in this study. With respect to the trade, there are many questions. “Why do nations trade?” The answer is the world output of goods and services can be maximized only under conditions of free trade and international specialization. “What should a nation’s trade policy to project its nation against competition from other countries?” And “Who will benefit and who will lose from trade?” In this paper, therefore; let’s try to learn about Myanmar's trade policies in respective periods. By looking at throughout history, we can see that the Myanmar foreign trade policy has changed along with its respective period.

Figure (1) Trade Policies in Respective Periods

Source: Own Compilation

According to this framework, the external trade policies under respective government periods are divided into five main parts. The first part is the mercantilist philosophy of Burmese King and British ruling under free trade policy. The second part is the period of parliamentary government with a mixed-economy. The third part is inward-looking strategy of Self-reliance and Burmaniation of the Revolution Council. The fourth part is the era of State Peace and Development Council (SPDC) which prefers to a market-oriented economy. The fifth part is a multi-party democratic period adopting market-oriented economic system and outward looking policy.
II. Objective of the Study

The objectives of this study are:

1) To learn foreign trade policies practiced by the respective governments in Myanmar.
2) To examine the situations of export value, import value and balance of trade with the applicable trade policy in respective periods.

III. Scope and Method of Study

This paper mainly focuses on the foreign trade policies practicing the respective governments in Myanmar and the changing in export values, import values, and balance of trade, from the colonial period to the democracy period. Method is based on the secondary data analysis and descriptive method. The secondary data are collected from IMF Report, International Financial Statistics; World Bank, World Data Series; and Myanmar Statistical Year Book, CSO. The needed information and facts have been gathered from the published papers, and textbooks.

IV. External Trade Policies under Respective Periods

(a) Trade Policies under Colonial Period (or) Before Independence

Trade policy can be divided into mercantilist policy under Burmese Kings and Laissez-faire policy under colonial rule. First, before British colonization Myanmar was a feudal country controlled by the king and the court. By tradition, one of the kingly duties in Myanmar was to foster the development of trade and commerce within the country. Moreover, there was small amount of trade between its neighbors (Southeast Asian countries). At the beginning of the 16th century, rice was shipped from Pegu in lower Burma to Melaka and Sumatra. In the mid-1750, when Pegu was annexed by the Burmese Kingdom in Upper Burma, thus Burmese king forbade export of products (rice, teak, rubies and precious metals). Towards the end of the 18th century, the Dutch came to Myanmar for trade and had a factory at Bhamo.

In the 18th century, both the English and the French were interested in Myanmar’s teak for shipbuilding. Thus, Burmese king permitted East India Company to build ships with teak in Rangoon and as an incentive by giving free tariffs in the first time of shipping. Gold and teak were prohibited by Burmese king, really, teak was export item which was imposed 6% ad-voloren tariff that for king by 5% and for local official by 1%. At that time, Myanmar had seaborne trade with Europe. The foreign trade had never flourished because of the mercantilist
philosophy (i.e., restriction of imports and accumulation of gold and precious metal), and the first Anglo-Burma War which occurred in 1824.

Moreover, Myanmar had overland trade with Yunnan of China. Myanmar’s main articles export to China were raw cotton, silk, feather and ivory and re-back imported from China: raw silk, paper, velvet and some utilities. In those days, Myanmar imported spices form India and exported rice to India. Nevertheless, before British annexation of lower Burma in 1852, the value of Myanmar’s exports to the British settlements India exceeded the value of imports into Rangoon from there.²

Nationalization Act of 1948 to nationalize all agricultural land and redistribute them to the landless cultivators, with the ceiling of 10 acres each. The government also took over the rice trade, the timber industry, Irrawaddy (Ayerwaddy) Flotilla Company, which were owned by foreigners and the reorganization of the Burma Corporation and the Burma Oil Company into joint ventures.

The Second Anglo-Burma War was in 1852, the British annexed Pegu and Martaban. From 1852 to 1885 Myanmar was divided into two parts: Upper Burma under Burmese rule still had the mercantilist policy in successful overland trade with China and the British ruling over Lower Burma was exposed to free trade (Laissez faire policy) in successful seaborne trade with European Countries. Merchandise exports of seaborne trade in Rangoon were more than the merchandise imports of seaborne at Rangoon in 1863-1864. When the Suez Canal was opened in 1869 there was the expansion of cultivation and export in Lower Burma. Thus, Myanmar became the top rice exporting country among Asian countries. Likely, the growth of the seaborne trade and the value of trade between Lower and Upper Burma were increased along the period of split economy (1852-1885).

The British annexed Upper Burma in 1866, for all wiped out and Myanmar came under colonial rule. At those times, during the hundred years (1750-1850), industrial revolution in England. Thus the philosophy of the West was used in including Myanmar and colonial countries for the advantages of their British industries. At the open market, they got the purchase of row material on one side and on the other side, got the market in colonial countries to sell their industrial product. Indeed, trade under the British colonial rule was good for them while not for

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² Estimated at trade surplus 4235 Sterling pounds, quoted in U Tun Wai 1961, P.21
Burmese. Taxes should be collected just to cover the expenses of administration. But foreign trade increased as economic forces were free play and there was specialization and division of labor. Myanmar began to export rice, oil, and timber and import textiles and other manufactured consumer goods. The total seaborne trade grew from 141.9 million Rs in 1928/29. After the Great Depression, it was 485.7 million Rs in 1940/41. Overland trade with China also increased, growing from 1.62 million Rs in 1890/91 to 8.97 million Rs in 1901/2 and to 26.14 million Rs in 1924/25. But between 1927 and 1937 trade with China decreased because of an adverse exchange rate and the prohibition of the export of coin or bullion from China by the Nanking Government. U Tun Wai 1961, p.123. These situations were external trade of Myanmar before World War II.

(b) Trade Policies under a Mixed-Economy of Parliamentary Period (1948-1962)

In the second period, the national government since Myanmar’s independence in 1948 until 1962 had tried out a mixed-economy model allowing the market force to play a leading role. After independence there was a land and tenancy reform, some industries and insurance companies were nationalized and nationals were encouraged to be more actively involved in trade and industry. Nationalization Act of 1948 nationalized all agricultural land and redistributed them to the landless cultivators with the ceiling of 10 acres each. The government also took over the rice trade, the timber industry, Irrawaddy (Ayerwaddy) Flotilla Company which were owned by foreigners and the reorganization of the Burma Corporation and the Burma Oil Company into joint ventures. During those period, an import substitution policy was implemented based on moderate nationalism. However, extremely closed policies such as banning foreign investments or expelling foreigners were not implemented and thus certain industrial development was achieved such as Joint Venture Corporation JVC, FDI such as the soup factory and Burma Pharmaceutical Industry BPI. Open general Licenses (OGL) in external trade were issued.

The balance of foreign trade in 1947/48, Myanmar’s import price index was generally greater than the export price index. This may be less the quantity of import and be more the quantity of export. Thus the terms-of-trade have been in favour of the period up to 1960. Soon after 1960/61, the trade balance was reversed because of the increased import price and an unfavorable terms-of-trade. Despite the socialist aims of the eight-year Pyidawtha Plan, market economic system was significant prevalence. On the other hand, it made little to redress the right
of the Burma to ownership of most economic concerns, foreign ownership being still largely the order of the day. As a result, until 1962 Myanmar had a mildly socialist, somewhat inward looking but basically market economy. So economic of development did not have effectively as thought. These situations were import-substitution policy during the Parliamentary period (1948-1962).

Eight-Year Plan in 1952 based on the report of the American consultants belonging to Knappen Tippetts Abbett Engineering Co., or (KTA in short) the Pyidawtha Plan. After the Pyidawtha conference, the two year plan announced in April 1948 was the country’s first attempt at planning. Apart from that, the plan was never implemented as countrywide. The Eight-Year plan, formulated by a group of American engineers and economists, had the object of roughly doubling the GDP in real terms between 1950/51 and 1959/60.

The Eight-Year Plan was abandoned mainly because foreign exchange earnings from the export of rice fell short of expectations due to the decline in the world price of rice. According to the KTA, the failure of the Eight-Year Plan was mainly to three factors: (1) internal insecurity (b) shortage of skills technical, managerial and administrative (c) the organization and personnel policy of the government. Eight-Year Plan was over-ambitious regarding the requirements for trained manpower.

**Figure 1 External Trade Values and Balance of Trade (1938-1962)**

![Graph showing External Trade Values and Balance of Trade (1938-1962)]

**Base Year = 1980.**

As can be seen from Figure 1, Myanmar had fairly comfortable trade surplus up to 1956. Between 1948/49 and 1956/57, Myanmar enjoyed an annual average trade surplus of over US$50 million. Since then, however, the trade surplus had disappeared or become minimal chiefly due to the considerable decline in the unit value of exports. Those are the main point on trade under a mixed-economy of parliamentary period.

(c) Trade Policies under Socialist Military Period (1962-1988)

In the third period, due to the political instability during March 1962 let the Revolutionary Council came into took place in both some institutional changes in domestic and foreign trade. In order to carry out its socialist objective, as mentioned in it’s the “Burmese Way to Socialism” which was a mixture of socialism inward-looking strategy of self-reliance and Burmanization. Thus, the government started to adopt inward looking policy and favour industrialization through import substitute strategy. Foreign trade was the monopoly of the state. In 1964, all major economic activities except agriculture small businesses, retail trade and some road and river transport had been nationalized. Acceptance of foreign aids was also limited. Thus, before 1965, the Revolution Council announced that Myanmar wasn’t the rice exporter. Thus, in 1968/69, it became no more the rice exporter.

Since 1974/75 the terms-of-trade have not been in favour of the country and export earnings were insufficient to finance import requirement. At those days, there was merely the exported of ordinary rice to Bingladish and India. This may deteriorate the country’s terms-of-trade and a gradual decline in export earnings, the trade balance resulting in an all time deficit in the balance of payments. And then this led to decrease international reserves. In order to counteract these, in the mid-1970 the government implemented various economic reforms and accepted foreign aids. Thus, the economy recovered in the late 1970 and early 1980. Later, growth was since the mid-1980-1.1% in (1986/87) and -4.0 % in (1987/88) relative to fiscal year (1985/86) positive growth of 2.9 %. Due to the September 1987 demonetization worsened the situations and thus in 1987 the country was designated the least less-developed country, LDC.\(^3\)

As shown in Figure 2, the value of exports declined dramatically from US$ 222 million in 1961/62 to US$ 111 million in 1968/69, largely due to the decline in export volume (trade indices: 179 to 73 ), especially from the mid-1960s onwards. As noted earlier, these were the years when the GDP remained, increasing from US$132 million to US$ 188 million in 1974/75.

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\(^3\) Two round demonetizations in 1985, and 1987
This time around it was almost entirely due to favorable terms of trade as the volume was still very much below the 1962 level. At any rate it pulled the economy up and provided some breathing space to the authorities. Unfortunately, this did not last. From 1983-84 onwards it began to nosedive again in a free fall. Both the fall in export volume and unit of exports was responsible for the decline.

**Figure 2 External Trade Values and Balance of Trade (1961-1988)**

Base Year = 1980.

Sources: World Bank, World Data Series (1995)


In the fourth period, after abolishing the Burma Socialist Programme Party (BSPP), in 1988/89 the aftermath of domestic turmoil, the new government the State Law and Order Restoration Council (SLORC) now State Peace and Development Council (SPDC) embarked on a systematic series of essential economic reforms. Myanmar’s GDP growth rate again fell to -11.4% as the political upheavals in 1988/89. Since 1988, SLORC adopted the Market-oriented economic policy. As a result, Myanmar’s economy revived in 1989/90 with its GDP growth rate reaching 3.7% in that year.

Myanmar external trade continues to be mainly with Asian countries. In this, it has not changed. Within Asia, however, there have been some changes in the destination of exports and sources of imports. Myanmar’s exports to ASEAN member countries, which has increased from less than 20% in 1987/88 to slightly over 40% by 1990/91 and whose share maintained up to
the Asian crisis, fell significantly after the Asian crisis\(^4\) in spite of the fact that some border trade was included in it. Its share was replaced by the rest of Asia and especially China. Myanmar’s exports to China increased from about 4% in the mid-1990s to around 10% by 1990/2000.

The most significant change in the source of imports was the declining importance of industrial countries including Japan, and the increasing importance of ASEAN and China, which from about 24% of exports, imports from ASEAN continue to increase even after the crisis. This is because after the rapid industrialization of the original ASEAN member countries Myanmar’s trade with ASEAN come to be characterized less by competition\(^5\) than by complementarities\(^6\) (Myat Thein 1997,p.4). Export and imports grew rapidly after these initial reforms were introduced in the early 1990s.

**Figure 3 External Trade Values and Balance of Trade (1988-2015)**

![Graph showing external trade values and balance of trade from 1988 to 2015.]

Source: Myanmar Statistical Year Book (2018), Central Statistical Organization (CSO), Naypyitaw, Myanmar

According to data provided by Myanmar Statistical Year Book, export of Myanmar in U.S dollars increased 2.9 times from $3,062.84 million in 2002 to $8,861.01 million in 2010. Likewise, import increased 2.8 times from $2,299.64 million to $6,412.73 million in the same

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\(^4\) The crisis began in Thailand in July 1997 when the value of the Thai baht plummeted following the abandonment of the country’s pegged (fixed) exchange rate system. (spread to Indonesia, Malaysia, Republic of South Korea and Philippines)

\(^5\) Countries export the same commodity especially agricultural product.

\(^6\) Countries export different products such as agricultural products and industrial products.
years. Thus, the periods from 2002 to 2010 were the years of trade surpluses (positive balance of trade). Except those years, there were trade deficits (negative balance of trade) from 1988 to 2001 and from 2011 to 2015. This can be seen in Figure 3. As result, trade deficit has persisted by $ - 629.64 million on average per year within 1987/88 and 2000/2001. In fact, the increase in persistent trade deficits since 1996/97 has led the government to impose restrictive import policy and take desperate ad hoc measures\(^7\). But, these measures in turn have led to the slowdown in the growth of exports. At that time, therefore; the Myanmar government sought ways to make the customs valuation rate closer to the market rate in order to increase revenues from customs duties because the difference between the customs valuation rate and the market rate was still huge.

In 1999-2000, Myanmar mainly exported pulse and other oily crops and the import of consumer goods were increased. Thus, Myanmar received less export earnings and incurred more import costs. This may lead to decrease the purchasing power of Myanmar. At last, an unfavorable terms-of-trade along with the deficit balance of payment were occurred along these periods. Nevertheless the state Peace and Development Council (SPDC) had been implemented the basic four economic objectives and the reforms to reach the target of the goal. The civilian government took over in March 2011 and the administration was under the Union Solidarity and Development Party (USDP). Economic growth accelerated in the first three years of democracy period, but the remaining two years have stagnated.

(e) **External Trade Policies under Democracy Period (2015 - )**

The National League for Democracy (NLD) government came to power in March 2015 and promoted trade liberalization outward looking policy and encouraged the market-oriented economic system. During the current democratization period, the government makes more investments in the pipeline and focuses more on the development of trade, increasing the value of trade and gradually reducing the trade deficits in recent years. Especially in 2017-2018, the export of over 30 million tons of rice is the highest export record in over 70 years. In Myanmar, natural gas accounts for more than half of Myanmar’s exports for many years and the apparel industry seems to serve as an export-oriented industry. Now, efforts are being made to produce high-quality, cost-effective, and value added product and to penetrate the world market by using

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\(^7\) To grant protection to its declining domestic industry(i.e., one of trade policy instruments to protect domestic industry)
domestic natural resources and human resources as well as by inviting foreign investment. As an import policy, Myanmar has not yet been able to produce some products and commodities in its own country because of high production cost and not enough raw materials. Thus, Myanmar still purchases these commodities from abroad.

Table 1 GDP at 2010-2011 Constant Prices by Sector (in Millions of Kyat)

<table>
<thead>
<tr>
<th>Sectors</th>
<th>2015-2016</th>
<th>%</th>
<th>2016-2017</th>
<th>%</th>
<th>2017-2018</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture sector</td>
<td>6,306,178</td>
<td>11</td>
<td>16,230,932</td>
<td>23</td>
<td>6,439,257</td>
<td>10</td>
</tr>
<tr>
<td>Industry sector</td>
<td>16,962,757</td>
<td>30</td>
<td>18,476,752</td>
<td>26</td>
<td>20,216,364</td>
<td>31</td>
</tr>
<tr>
<td>Services sector</td>
<td>23,207,290</td>
<td>41</td>
<td>25,079,444</td>
<td>35</td>
<td>27,172,297</td>
<td>41</td>
</tr>
<tr>
<td>Trade sector</td>
<td>10,286,249</td>
<td>18</td>
<td>11,001,867</td>
<td>16</td>
<td>11,826,741</td>
<td>18</td>
</tr>
<tr>
<td>Gross Domestic Product</td>
<td>56,762,474</td>
<td>100</td>
<td>70,788,995</td>
<td>100</td>
<td>65,654,659</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Myanmar Statistical Year Book (2018), Central Statistical Organization (CSO), Naypyitaw, Myanmar

According to Table 1, the contribution of trade sector in GDP has increased from K 10, 286,249 million in 2015-2016 to K 11,001,867 million in 2016-2017, and to K 11,826,741 million in 2017-2018, respectively. The percentage share in GDP of each sector is also described in this table. This is illustrated in Figure 4.

Figure 4 Percentage Share in GDP by Sector (2015/2016-2017/2018)
Figure 5 External Trade Values and Balance of Trade (2015/2016-2017/2018)

Source: Myanmar Statistical Year Book (2018), Central Statistical Organization (CSO), Naypyitaw, Myanmar

Figure 5 shows external trade values and balance of trade of Myanmar from 2015/2016 to 2017/2018. There is a continuous negative trade balance because export values are greater than imports values from 2015-2016 to 2017-2018. At present, Myanmar has had a trade deficit every year since 2011.

V. Conclusion

In conclusion, retrospectively above the all, the foreign trade under the Burmese kings had small amount between Burma and other countries. At those days, the value of Myanmar’s exports exceeded the value of imports. Foreign trade after the British annexation of Lower Burma from 1852 to 1885, its seaborne trade grew and Myanmar had overland trade with China. Trade during the colonial period, the foreign trade increased as laissez faired policy and Myanmar had become a large exporter of rice. The total seaborne trade as well as overland trade also increased. After independence (1948-62), due to the import-substitution policy during the parliamentary period, there was ambivalent of the government as regard the role the state vis-à-vis the private sector in promotion economic development. Thus, until 1962, Myanmar used inward looking strategy based market economy and had a trade surplus during the prewar and post-war period up to 1960. Later, the trade balance was reversed. Under the period of “Burmese Way to Socialism,” 1962-88, due to the self-reliant policy resulted in the balance of payment deterioration, and negative growth rate of the total output. After abolishing Burma Socialist
Programme party (BSBP), the period of SPDC government, falling GDP due to the political upheavals was revived in 1991. Later years, the contribution of the trade sector, goods sector, decreased and services sector increased even the total GDP increased in 1999-00. Until 2000, export items were declined while imports of consumer goods were increased. As a result, there is a continuous deficit of payments. Similar to previous governments, there are still trade deficits during the NLD administration. But, Myanmar government is trying to get the national goals by implementing from all sides.

To address such trade deficits, as the first policy recommendation; the value of imported goods, service and capital should be checked whether the value is greater than the export value. Trade deficit itself has unbalance between production and consumption and Myanmar spends more money annual on imports than it receives from its exports. As the second policy recommendation, therefore; more savings should be taken into account than the consumption of unnecessary household and government expenditure. Consumption taxes could help reduce the deficit, by discouraging consumption, increasing saving, and reducing the government deficit. The third policy recommendation is exchange rate depreciation because it makes imports more expensive and exports cheaper and improves the balance of trade. According to economic theory, a persistent trade deficit would hurt the country's economy but free market mechanism may correct that any negative effects of trade over time. The fourth policy recommendation is using the tariff and non- tariff measures to reduce the negative trade balance but using tariff or non- tariff policy distorts consumption and diverts trade to other countries and may have tariff retaliation. In addition, higher tariffs may decrease imports, exports, trade and income though the government has the tax revenues from these policy measures.

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