

Central Intelligence Agency



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DIRECTORATE OF INTELLIGENCE

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Burma: Prospects for Reform of Ne Win's "No Win" Economic Policies" [redacted]

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Summary

Rising popular discontent with the Ne Win regime because of Burma's deteriorating economy is prodding Rangoon to experiment with market-oriented economic reforms, including decontrol of food marketing. Like the bulk of Rangoon's past economic policies, however, the reforms have been poorly planned and executed, and some have done more harm than good. In our view, Ne Win's government lacks both the will and the ability to institute changes that would markedly improve Burma's economic lot. We are not optimistic about the prospects for change after Ne Win either, because the reformers in the government that we can identify are not leading contenders to succeed him. [redacted]

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This memorandum was prepared by [redacted] Office of East Asian Analysis, with a contribution from [redacted] Office of Leadership Analysis. Information available as of 30 June 1988 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Indochina Thailand Malaysia, Southeast Asia Division, OEA, on [redacted]

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Growing Imperative for Reform

Burma's normally apathetic population is restive because of the government's abject mismanagement of the economy and pervasive intrusion into all economic activities. In June, antigovernment demonstrations by several thousand students and local citizens in Rangoon erupted into riots [REDACTED] Similar public outbursts in Rangoon in March killed as many as 100 people, according to press reports (see Box). [REDACTED]

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Burma: Chronology of Rising Discontent

- September 1987--Following demonetization of the currency, some 1,000 penniless students in Rangoon and 3,000 in Mandalay take to the streets in protest.
- March 1988--A local dispute between Rangoon students and merchants turns into a major riot and antigovernment protest. According to press reports, as many as 100 people are killed and up to 5,000 arrested in the ensuing government crackdown.
- May 1988--Former adviser to Ne Win, retired Brigadier General Aung Gyi circulates letters criticizing Ne Win's economic policies and proposing reform.
- June 1988--An estimated 200 people are killed in Rangoon and five other major cities during two weeks of student-led demonstrations and rioting, according to a variety of sources. [REDACTED]

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Heavyhanded economic policies have been the hallmark of Socialist Party Chairman Ne Win, Burma's authoritarian leader, who for the last 26 years has presided over the country's economic demise (see Graphic). Per capita GNP is only about \$190, according to World Bank estimates, one of the lowest in the world. The United Nations has designated the country that was once the "rice bowl of Southeast Asia" as a

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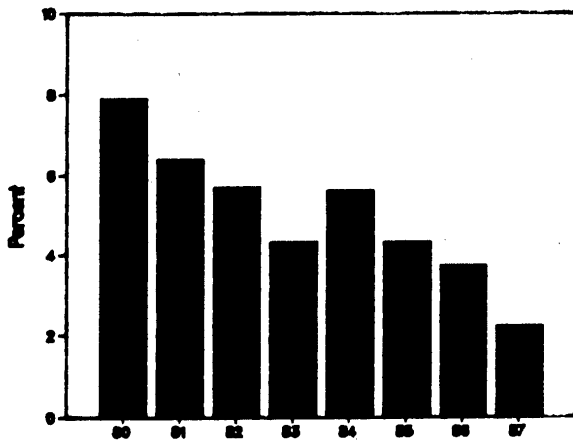
Ne Win: Still Calling the Shots*Working People's Daily ©*

Named Shu Maung at birth in 1911, Ne Win adopted his current name, which means "Brilliant as the Sun," in 1941. When Burma became independent from Britain in 1948, he was one of the country's senior generals. In 1949 he was named Supreme Commander; he held that post until 1958, when ethnic minority rebellions and interparty feuding forced then Prime Minister U Nu to ask him to lead a caretaker government to help restore stability. Although Ne Win voluntarily stepped aside in 1960, he took over permanently in 1962 after political parties again proved incapable of ruling. He retired as President in 1981 but has kept the top post in the Burma Socialist Program Party and remains the country's dominant political force.

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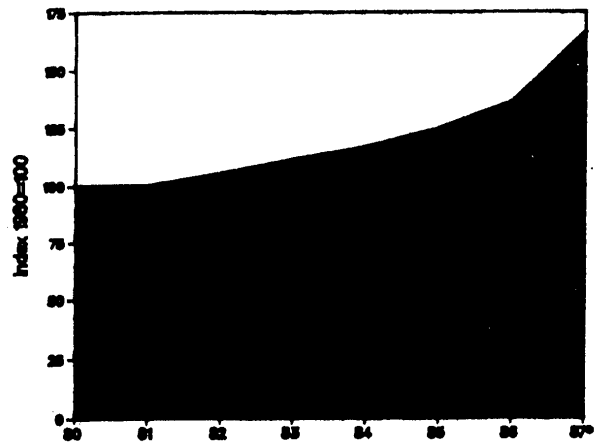
Burma: Selected Economic Statistics

GDP Growth Rate*



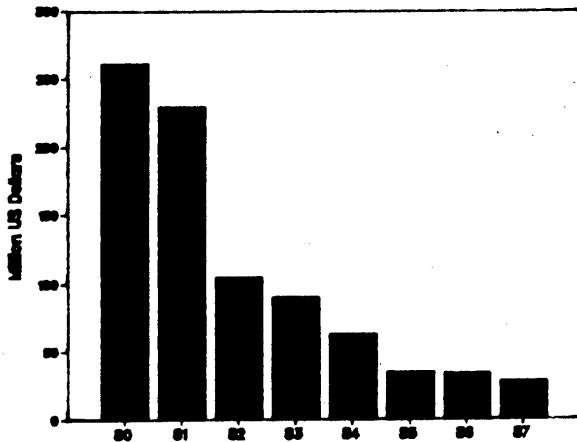
*Flood years, beginning 1 April

Consumer Prices

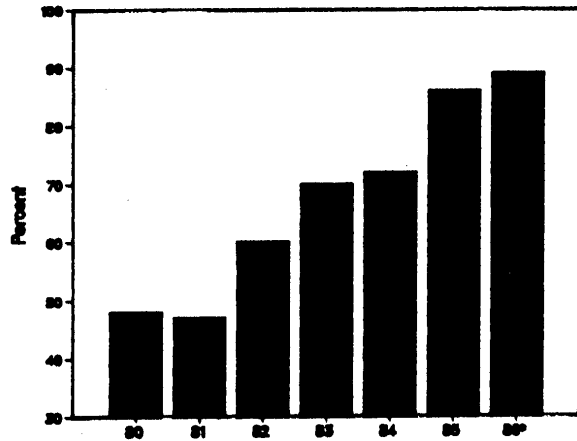


*Estimate

International Reserves



Debt Service Ratio



*Latest data available.

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"Least Developed Developing Country," a step below a "Less Developed Country" and in the company of Bangladesh and Nepal. Indeed, Rangoon expects to export only 300,000 tons of rice this year, a 60-percent drop from 1983. Export earnings fell by a half between 1984 and 1987, and Burma's debt-service ratio has risen to over 90 percent,

[redacted] Steadily declining crude oil output at 14,000 barrels per day--down more than 50 percent from the peak in 1979--has forced Burma to begin importing oil after being self-sufficient in petroleum for most of this century.

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Dissatisfaction is not confined to the Burmese. Pressure for change is also mounting from Burma's creditors. The Japanese, who are Burma's largest aid donor, providing \$70 million in grants annually, have warned Rangoon that they will not continue to pump money into the inefficient economy unless major changes are forthcoming,

[redacted] A cut in Japanese aid would be a blow to the government, which depends heavily on foreign aid to finance its operations. [redacted]

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International organizations providing critical assistance also are urging Rangoon to open up its economy and rely more heavily on market signals. In May, the World Bank pressured Rangoon into increasing the price of gasoline to reflect the cost of production as a condition for using Bank funds to import oil [redacted]

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The Chaos of Reform

Last year brought the first signs that Rangoon may be aware of the degree of Burma's economic deterioration and might attempt to halt the slide. Ne Win shocked an emergency meeting of the senior leadership in August 1987 by acknowledging the possibility of flaws in his economic policies, [redacted]

He reproached his advisers for not providing him with accurate information. If, however, his advisers have insulated him, it may be Ne Win's own fault. [redacted]

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Less than a month after Ne Win's call for reform, Rangoon began implementing policies to revitalize the agricultural sector and the distribution system, as well as to strike out against black marketeers. Between September 1987 and June 1988, reforms were announced that included:

- A lifting of the 21-year ban on private trading in rice, maize, and other major food crops.
- Demonetization of 25-, 35-, and 75-kyat notes. The move sharply reduced the money supply by making 80 percent of the country's currency worthless.
- Introduction of in-kind agricultural land taxes, effectively doubling or tripling previous tax rates.
- National Assembly passage of the private enterprise law enabling citizens to register as private traders, but making them, once registered, liable for a 10-percent transactions tax.
- Granting cooperatives responsibility for procuring rice for export; formerly done by the state Agriculture and Farm Produce Trade Corporation.
- Allowing private traders and cooperatives to export rice.
- Giving private shippers access to coastal shipping to transport decontrolled goods. [REDACTED]

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Like most of Burma's economic policies, however, the reforms were poorly planned and implemented. The changes were introduced piecemeal, each intended to attack one or more economic problems, but with apparently little thought to the impact of later policies on earlier ones. As a result, reforms often ran at cross purposes. [REDACTED]

We believe subsequent efforts by Rangoon to alter newly established policies questioned the government's commitment to liberalization. For example, the lifting of the ban on private trading in agricultural products was intended to boost production by enabling farmers to sell at higher free-market prices. Apparently fearful that higher grain prices would spark inflation and intending to penalize black marketeers, however, the government almost immediately demonetized the currency, leaving would-be private traders short of the cash to move agricultural output. In the countryside, financially strapped farmers looted government and private rice supplies. Subsequent rumors of further withdrawals of currency have shaken business confidence, [REDACTED] and sparked rising prices as consumers spent potentially worthless cash on goods such as gold and jade. [REDACTED]

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We believe the incentive of allowing farmers access to free markets has been damaged by the imposition of in-kind taxes on agricultural output. The government apparently had not calculated that deregulation would leave it without the means to acquire grain for its own use. Moreover, the new transactions tax discouraged middlemen, [redacted] making it more difficult for farmers to market their produce and further reduced production incentives. In addition, private traders maintain that a devaluation of over 2.5 times the official rate of 6 to 7 kyats per US dollar would be required before they could profitably export rice [redacted]

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[redacted] So far, Rangoon has given no indication that it is prepared to devalue in order to encourage rice and other exports. [redacted]

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A Crack in the Closed Door

Although reforms have focused on the domestic economy, Rangoon also has begun reevaluating its foreign investment policy and considering measures to attract much needed Western equipment and technology. [redacted]

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[redacted]

[redacted] preliminary negotiations that Rangoon began with 14 major oil companies last December have stalled. In our view, the signing of contracts with Western firms to develop Burma's potentially large onshore oil reserves would be a key indicator of Ne Win's resolve to reform, because such contracts would require significant concessions by Rangoon. [redacted]

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Like the foreign investment code, a move to establish Free Trade Zones (FTZs) apparently has not gone beyond the talking stage. The Trade Ministry has indicated some interest in establishing FTZs, [redacted] probably to attract Western firms willing to produce goods exclusively for export. FTZs could offer tax holidays, tariff-free imports, inexpensive labor, and the supporting infrastructure to ensure profitability for foreign firms. Rangoon has made progress, however, in attracting Western involvement in the textile and aviation industries. Under buy-back arrangements concluded last fall with South Korean and Hong Kong firms, Burma's state-owned Textile Industries Corporation will acquire imported machinery in return for profits from exported garments [redacted] The buy-back concept may expand to include the pharmaceutical and pulp and paper industries. In January 1988, Rangoon also agreed to enter a cooperative safety program with the US Federal Aviation Authority, which has paved the way for reciprocal visits of aviation officials. [redacted]

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Prospects Dim Under Ne Win...

It is clear, though, that reforms, if properly implemented, could pay off for Rangoon. With the economy, and especially the agricultural sector, so far from its capacity, any policy that improves the incentive system even slightly is likely to bring positive returns. For example, [REDACTED] even last year's mismanaged reforms raised agricultural prices to farmers. If Rangoon can avoid instituting policies that negate the price benefits to farmers, farm income should show a modest improvement this year and rice output could exceed 13 million tons, compared with 12.4 million tons in 1987, according to the USDA. [REDACTED]

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Ne Win's record on economic policymaking, however, leaves little room for optimism concerning Burma's reforms. [REDACTED]

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[REDACTED] Nor do we see a leadership transition--such as those that preceded serious reform in China and the Soviet Union--as likely in Burma soon. Ne Win has not actively groomed anyone to succeed him and, indeed, over the years he has pushed aside any potential rivals. Although [REDACTED] tensions within the leadership and the military are greater now than at any time since an aborted coup in 1976, there is no evidence that Ne Win believes his grip on the government is threatened. He began his annual extended vacation in Europe less than a month after the March rioting in Rangoon. His response to the rioting in June was to declare martial law and close the universities. [REDACTED]

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We also doubt that Ne Win has the managerial resources necessary to devise a sound program for economic change. Rangoon has not seriously studied other socialist experiments with reform or established think tanks that might presage an attempt to formulate sound economic policies. In fact, many of Ne Win's top advisers lack advanced training, and probably do not have the expertise to devise a workable reform program. Although the government contains some Western-trained technocrats--mainly in their 40s and 50s--the next generation is much less able, having been deprived of education and exposure to the outside world. [REDACTED]

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That said, the problems that forced experimentation with reform remain, and we believe these are likely to worsen. Thus, the potential for further unrest remains high, in our view. Recurrent tension on Rangoon's university campuses shows no signs of abating. A possible spark could come with the death of the ailing Khin Kyi, who is the widow of Burma's founding father, General Aung San. [REDACTED] some Burmese already think Ne Win has slighted the memory of Aung San by omitting his portrait from recently issued kyat notes. He may likewise neglect to give Khin Kyi the official funeral that many Burmese think she warrants. Such a slight by the government in making funeral arrangements for Burmese elder statesman U Thant caused major rioting in 1974. [REDACTED]

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