

000010

Dr. Tin Win
(Ph.D.; Keio Univ.; Japan)
PROFESSOR
Department of Management Studies
Meiktila Institute of Economics
Meiktila, Myanmar.

Property Rights Reforms and Business Behaviour
in Myanmar

By

TIN WIN

PhD. Thesis

March, 2000

000010 B

**Property Rights Reforms and Business Behaviour in
Myanmar**

By

TIN WIN

Presented in

Partial Fulfilment of the Requirements for the Degree of Doctorate

In the Faculty of Business and Commerce

KeiO University

Tokyo, Japan

March, 2000

Acknowledgements

I would like to acknowledge my heartfelt thanks to Professor Watanabe Naoki, Professor of Organization and Decision Theory, Faculty of Business and Commerce, KeiO University, Tokyo, Japan, for allowing me his precious time, in spite of his very busy schedule, for the intellectual stimulation and guidance during the entire period of preparation of this thesis.

I would also like to express my special thanks to Professor Sogawa HiroKuni and Professor Uetake TeruHisa for their invaluable advice and their kind supports to complete this thesis. Without their supports it is believed that this thesis is hardly to be finished.

Contents

	Page
Acknowledgement	i
List of Figures	ii
List of Tables	iv
Abbreviations	vi
Abstract	vii
Introduction	1
Chapter (1). Conceptual Framework	7
1) Property Rights Approach	7
2) Analytical Framework	11
3) Concept of Property Rights	20
4) Agency Problems in The Firm	24
5) Ownership and Property Rights	26
a) Communal Ownership vs. Private Ownership	26
b) Private Ownership vs. State Ownership	28
6) Property Rights and Forms of Organization	31
7) Property Rights and Agency Problems in the Socialist Enterprises	34
8) Socialist Enterprises without Residual Claims	38
Chapter (2). A Brief Historical Analysis on Ownership Structure in Myanmar	41
1) Ownership Structure: From Burmese Kingdom Era to British Colonial Era	41
a) Annexation of Burma by the British	46
2) Ownership Structure: From Independence to the Socialist Era	54
Chapter (3). Property Rights and Agency Problems under Socialism	
1) Property Rights Structure in State Economic Enterprises	63
2) Property Rights Structure in Private Sector	79

a) Agriculture Sector	81
b) Private Businesses in Other Economic Sectors	90
3) Property Rights Structure in Co-operative Societies	93
a) The Rights of The Members and Formation of Management	96
b) Acquisition of Share Capital and Profit Distribution	99
Chapter (4). Property Rights and Agency Problems in the Transition Period	106
1) Reform of State Economic Enterprises (SEEs)	108
2) Privatization and Joint-Ventures: State-Owned Enterprises	116
3) Deregulation in the Private Sector	121
a) Agriculture Sector	121
b) Private Businesses in Other Economic Sectors	127
4) Foreign Direct Investment in Myanmar	129
a) Foreign Direct Investment by Sector	131
b) Foreign Direct Investment by Types of Organization	133
5) Restructuring of Co-operative Societies	139
Chapter (5). A Case Study on Private Business	148
1) Current Situation of Share-Trading in Myanmar	148
2) A Study on Public Companies	151
a) Forest Product Joint Venture Corporation (FPJVC)	152
b) Myanmar Citizen Bank Ltd. (MCB)	159
c) First Private Bank Ltd. (FPB)	163
d) First Myanmar Investment Company Ltd. (FMI)	166
3) A Study on Private Company Limited	173
Conclusion	182
Appendices	186
Reference List	193

List of Figures

	Page
Figure (1.1) Endogenous Development of Property Rights.	11
Figure (1.2) Exogenous Development of Property rights.	17
Figure (1.3) Simple Analytical Framework.	18
Figure (2.1) The Organization Structure of Burma Co-operative Societies.	59
Figure (3.1) GDP Growth Rate (1969/70 Constant Price) and State Sector Contribution to GDP.	78
Figure (3.2) Cultivable Land and Population.	88
Figure (3.3) Contribution of Agriculture to Private Sector.	89
Figure (3.4) The Contribution of the Private Sector to GDP.	93
Figure (3.5) The Organization Structure of Co-operatives in 1970.	96
Figure (3.6) The Contribution of Co-operatives to GDP.	105
Figure (4.1) SEEs' Total Expenditure.	113
Figure (4.2) SEEs' Total Deficit.	114
Figure (4.3) State Sector Contribution to GDP from 1989/90 to 1997/98.	115
Figure (4.4) Service Sector by Ownership.	116
Figure (4.5) Net Sown Acre, Fallow Land and Wasteland.	126
Figure (4.6) Total FDI by Country (Region).	133
Figure (4.7) FDI by Types of Organization as of March 31, 1998.	133
Figure (4.8) FDI by Types of Organization in Joint Ventures.	134
Figure (4.9) Contribution of Private Sector to GDP.	137
Figure (4.10) Structure of Private Sector.	139
Figure (4.11) Contribution of Co-operatives to GDP.	142
Figure (4.12) Structural Changes of GDP by Co-operatives.	143
Figure (5.1) Ownership Structure of FPJVC and its Subsidiary Companies.	153
Figure (5.2) Sales and Net Profit of FPJVC.	154

Figure (5.3) Ratio of Net Profit to Sales (FPJVC).	154
Figure (5.4) Return on Investment (FPJVC).	155
Figure (5.5) Net Equity and Liability (FPJVC).	156
Figure (5.6) Income and Net Profit of MCB.	159
Figure (5.7) Return on Investment and Ratio of Net Profit to Income (MCB).	160
Figure (5.8) Ratio of Dividend to Net Profit (MCB).	161
Figure (5.9) Net Equity and Liability (MCB).	162
Figure (5.10) Income and Net Profit of FPB.	164
Figure (5.11) Ratio of Profit to Income, Return on Investment and Ratio of Dividend to Profit (FPB).	165
Figure (5.12) Net Equity and Liability (FPB).	166
Figure (5.13) FMI's Shareholdings in its Subsidiaries.	167
Figure (5.14) Income and Net Profit of FMI.	168
Figure (5.15) Ratio of Net Profit to Income and Return on Investment (FMI).	169
Figure (5.16) Net Equity and Liability (FMI).	170
Figure (5.17) Total Assets of Sample Companies.	172

List of Tables

	Page
Table (2.1) Co-operative Societies between 1905 and 1915.	52
Table (3.1) Performance Indicators for the SEEs.	76
Table (3.2) State Contribution of GDP by Sector.	79
Table (3.3) Price of Paddy and Rice (in Kyat/Ton).	86
Table (3.4) Sown Acreage, Production, and Yield per Acre.	87
Table (3.5) Farm Size and Peasant Households.	88
Table (3.6) Structural changes of Private Sector.	89
Table (3.7) Factories and Establishments by No. of Workers.	91
Table (3.8) No. of Primary Co-operatives and its Members.	100
Table (3.9) Profit Allocation of Different Type of Co-operatives.	102
Table (4.1) Principal Economic Indicators from 1985/86 to 1988/89.	107
Table (4.2) Economic Performance of SEEs from 1989/90 to 1997/98.	114
Table (4.3) Sown Acreage, Production and Yield per Acre.	124
Table (4.4) Farm Size and Peasant Households.	124
Table (4.5) Number of Registered Exporters/Importers, Limited Companies, Partnership. Firms and Joint Venture Companies Ltd.	128
Table (4.6) Factories and Establishments by No. of Workers.	128
Table (4.7) FDI by Sector between 1989 to 1999.	131
Table (4.8) FDI by Types of Organization as of March 31, 1998.	136
Table (4.9) No. of Primary Co-operatives and its Members.	140
Table (4.10) Economic Indicators (1988/89-1996/97).	145
Table (4.11) Structural Changes of Growth Rate by Sector.	146
Table (5.1) Performance of Myanmar Timber Enterprise	157
Table (5.2) Performance of Trade Enterprises	163
Table (5.3) Average Rates of Return on Investment.	171

Table (5.4)	Type of Business Operations.	174
Table (5.5)	Managing Directors' Shareholdings.	175
Table (5.6)	No. of Shareholders in the Sample Companies.	176
Table (5.7)	Source of Capital and Employment of Professionals.	177
Table (5.8)	Ways of Recruitment.	178
Table (5.9)	Managing Directors by Race.	179
Table (5.10)	Scale of Business by No. of Employees.	180
Table (5.11)	No. of Employees in SEEs.	180

Abbreviations

BSPP	Burma Socialist Programming Party
FDI	Foreign Direct Investment
FIL	Foreign Investment Law
FMI	First Myanmar Investment
FPB	First Private Bank
FPJVC	Forest Product Joint Venture Corporation
MCB	Myanmar Citizens Bank
MSEC	Myanmar Securities Exchange Centre
MTE	Myanma Timber Enterprise
SEEs	State Economic Enterprises
SFA	State Fund Account
SLORC	State Law and Order Restoration Council
SPA	Serge Pun & Associates
UGCF	Union of Government Consolidated Fund

Property Rights Reforms and Business Behaviour in Myanmar

Abstract

This thesis explains the influence of Myanmar property rights reforms (changes in property rights and its structure) upon the behaviour of economic organizations and their performance from the viewpoint of property rights theory. The property rights theory argues that there is a strong relationship between property-rights structure and performance of economic actors. The theory also proposes that ambiguous property rights assigned to the economic actors create externalities – for example, free-riding, agency problems. In this thesis, different economic organizations under socialist economy and transitional economy are analysed to test the application of this proposition. Because of lack of enterprise level data and some macro-level data, the study has its limit. It is, however, believed that the explanations using the available data can prove the proposition—there is a strong relationship between the property-rights structure and the performance of economic organizations.

Myanmar has, like other countries, experienced different political and economic systems throughout its history. Under different political and economic systems, different property-rights structures exist. The different structures lead to different economic behaviour of economic actors and influence their performance. In accordance with the property rights structure in the socialist era, the managers of the State Economic Enterprises [SEEs] – state-owned organizations – have no clear responsibility for their decisions and no effective compensation programs for their performance. This kind of property rights lowered the incentive and motivation of the managers and created agency

problems. Though Myanmar government has modified the legal and organizational bases of the SEEs to improve their performance, it is observed that this reform has been least successful in the state sector. The main reason is that the reforms of SEEs give emphasis on dealing with the allocation of decision process among agents rather than changes in property rights relations.

The ownership of private business was also complicated and ambiguous as the private ownership was strongly truncated by the state under socialism. In accordance with the property rights reforms, property rights are more widely assigned (by the state) to the individuals or the private businesses. As a result, the improvement of the performance of private businesses can obviously be observed during the transitional period. The wider scope of private property rights leads to increased participation of private sector in various economic sectors and results in a significant growth of private sector. It can be considered as one of the main factors for the recent economic growth. However, some private property rights are still constricted by the state and complicated property rights will continue to be the most important obstacles to the growth of private businesses until near future.

Introduction

All the world socialist countries, with the notable exception of Cuba and Democratic People's Republic of Korea (North Korea), have undertaken economic reforms aimed at replacing central planning with market mechanisms. The motives have come from the early success of reform in the People's Republic of China, the adoption of *perestroika* (Restructuring) in the former Soviet Union, and the increasingly apparent inefficiency of the planned economy model.

Myanmar followed suit after 1988. Its reform-program intends mainly to promote private business participation in the overall economic activities while restructuring the state-owned enterprises to improve their efficiency. Since then a series of reform measures have been initiated to lay down foundations for a market economic system. With the economic reform, the former vertical control of economy was considerably loosened, whereas the market mechanism was not adequately institutionalized. This created distorted resource allocation and unfair economic competition, liked in other transitional economies. This environment enabled various economic actors including bureaucrats to pursue irregular private gains. When the emphasis on material incentives rather than economic efficiency, occurs in connection with the state property and its management, it can theoretically be considered as an expropriation of state property by agents for their private benefits.

The main objective of this thesis is to analyse the impact of the Myanmar property rights reforms initiated in the late 1980s upon the behaviour of economic organizations

and the whole economy with the assumption that the changes of the property rights structure have a strong influence upon the performance of the economic organizations.

This thesis is also intended to contribute an alternative and empirical way for the study of Myanmar economy combining business organization study with economics. All the studies of Myanmar economy until now lay their emphasis upon the relationship between the economic policies of the different fields (such as monetary policy, industrial policy, tax policy, fiscal policy, and so on) and the performance of the economy. In other words, the researches are carried out which, along with designing the structure of the economy, try to search the proper and efficient designs for the economic development. The important role of decision-maker is constantly ignored in those studies. There is also another group of studies, which is better known as a business study. Its emphasis is given to the individual decision-maker of the economic organization and its considerations are mostly limited to and within the economic organization.

This thesis, however, primarily stands on the importance of individual decision-maker and makes an attempt to link the individual behaviour with the process of designing the economic system. To reach this objective, the property rights approach is assumed to be the most appropriate way as this approach can fulfil the necessity of the study ranging from the individuals to the whole economy.

First, the property rights structure under socialism is reviewed and the externalities¹ produced by this structure are analysed. And then, an attempt is made to check as to whether the changes of the property rights structure (the outcome of

¹ The externalities refer to the property rights and agency problems or the wide gap between private costs and benefits and social costs and benefits.

economic reforms) can spearhead a proper adjustment to these externalities. Finally, the degree of success of respective economic systems is theoretically and empirically evaluated in accordance with the externalities each system produces.

In the next chapter, we lay down the theoretical framework, which strongly argues that the level of performance of economic organizations (both in the socialist economy and transitional economy) is determined by its property² and opportunistic human behaviour of agents. Property refers to the coexistence of different forms of property in the state-owned organization (as well as in the agriculture business) over which individual property rights are attenuated to different degrees. The opportunistic human behaviour lies in the fact that bureaucrats, managers and workers are not necessarily reliable agents for the society but they are subject to opportunism. Opportunistic agents with different forms of property will have incentives:

- (a) to use the state property less efficiently than their private property,
- (b) to transform the state property to their own private property over which they have complete control, and
- (c) to enjoy the high rate of shirking and on-the-job consumption.

Reforms of the SEEs have been one of the important aspects of Myanmar's economic reform. However, it is observed that Myanmar's economic reform has been least successful in the state sector, even Myanmar government has modified the legal and organizational bases of the SEEs to improve their performance.

² Basically, property refers to any things tangible (land, building, etc.) and intangible (trade mark, patent, etc.).

In the private sector, private property-rights are restricted in different degrees under different economic systems in Myanmar. Attenuation of property rights (restriction of private property-rights) leads to different behaviours of private firms and affects the performance of those firms in a predictable way. It is a very serious issue both in the socialist economy and transitional economy in Myanmar.

This study focuses on property-rights relations and agency problems to analyse the problems of State Economic Enterprises (SEEs) reform as well as of private business organizations. The underlying idea is that fundamental problems of both property-rights relations within the firms and property rights relations between the state and economic actors have accounted for the economic performance in the SEEs as well as in the private firms. In other words, the ambiguous property-rights relations between the state and SEEs, and the agents' opportunistic behaviour are responsible for the inefficient performance of SEEs. For the private business organizations, a serious practice of the truncation of private-ownership³ by the state generates the ambiguous property-rights relations between the state and the private business. Consequently the ambiguous property-rights relations result in property rights and agency problems which have a strong influence upon the economic performance of private businesses.

In competitive market economies, higher economic efficiency assures survival of particular forms of economic organizations (Fama and Jenson 1983b, 327). However, survival of the SEE is often not closely related to their efficiency both in the socialist

³ It deals with the consequences of restricting the bundle of rights that defines ownership (Demsetz 1988, 17).

economy and in the present transitional economy. An important factor in the survival of organizational forms is control of agency problems.

This study is carried out in the form of comparative analysis of economic performances of SEEs, private enterprises and the whole economy under different economic systems so as to bring out the effects of the changes in the property rights structure more clear and more empirical.

Accordingly, chapter two reviews a brief history of Myanmar with special emphasis on the ownership structure of the economy. Land ownership and other businesses from Burmese Kingdom (mainly Koneboun Period) to British colonial period are discussed to give a clear view of transformation of land ownership by changes in its commercial value, changes in politics, and changes in laws. The problems of unbalanced ownership of the means of production between foreigners and Myanmar people under colonial period are also explored. For Myanmar people, it is the main factor, which generates an unequal income distribution. In the last section of this chapter, the problems of foreign ownership of the means of production and the land reforms from 1948 (when Myanmar gained her independence) to 1962 (when the military took over power from civil government and began Burmese Way to Socialism) are discussed.

Chapter three is an analysis of property rights and agency problems in the socialist economic organizations (both SEEs and private businesses) from the property rights approach. In addition to the perception of public sector inefficiency, some problems still exist in the SEEs, mostly the weakness lays in control mechanism or complicated property relations and allocation of decision making processes to the decision-making agents.

Economic reforms are discussed in Chapter four. Economic reforms lead to several changes in the structure of property rights, the contents of property rights, and the decision processes under transitional period. The emphasis is given to the relationship between the performance of economic organizations (as well as the whole economy) and agency problems emerging from the changes in the property rights relations.

In conclusion, the previous sections are summarized and some perspectives on the future reforms of property rights are presented.

Chapter (1)

Conceptual Framework

1) Property Rights Approach

This study is primarily based on the theory of economic property rights that has been pioneered by Coase (1937,1959,1960) and extended by Alchian , Demsetz and others¹.

The contributions to this stream are quite diverse in style and content but emphasise certain ideas concerning ownership rights, incentives, control and economic behaviour. These studies argue that the property rights assignment affects the allocation of resources in a specific and predictable way and the creation and specification of property rights over scarce resources is endogenously determined. It means that, it takes place in response to the desire of the interacting persons for more utility (Pejovich: 1972,310). The possession of various property rights affects the allocation of resources, composition of output, income distribution, price, etc.. To quote Professor Alchian: "In essence, economics is the study of property rights over resources. The allocation of scarce resources in a society is the assignment of rights to uses of resources. For the question of economics, or of how prices should be determined, is the question of how property rights should be defined and exchanged and in what terms (Alchian: 1967,2-3)".

The fundamental postulates of the property rights approach are as follows:

¹ Alchian (1965,1968),Alchian and Kessel (1962), Demsetz (1967),Alchian (1972), Monsen and downs (1965),Silver and Auster (1969), and McManus (1975).

- 1) The concept of wealth or profit maximization is replaced by utility maximization.
- 2) Individuals or economic actors are seeking to maximize the value of rights (utility maximization). However, it is impossible to maximize the value of rights because people will never find it worthwhile to gain the entire potential of their properties.
- 3) It is impossible to assign or transfer a perfectly delineated right to any body because the relevant costs of any transaction are positive.
- 4) Every transaction has harmful or beneficial effect. A harmful or beneficial effect becomes an externality only when the cost of bringing the effect to bear on the decision of one or more of the interacting persons (internalization)² must exceed the gains of internalization.
- 5) The gains of internalization would be larger than the cost of internalization only when the property rights are clearly assigned to someone (individual, state, etc.)³.
- 6) There is market failure to the exchange of goods and services or property rights within an organization.

² Internalization of such effects refers to a process, usually a change in property rights, that enables these effects to bear on all interacting persons (Demsetz:1967,348).

³ Postulates from number three to four also imply that the effects of various property rights assignments over scarce resources on the penalty-reward system replace the classic constraint of private property rights with zero transaction costs.

Demsetz (1967), for example, historically explains the reason of why the land ownership (private ownership) existed among the Indians of the Northeast and why not in the Southwest of America.

Before 18th century, Indians both in the Northeast and Southwest had only communal land ownership⁴. But in the Northeast, the fur-bearing animals of the forest came to have commercial value⁵ through trade with the Europeans. The extensive hunting to get more income resulted in great externalities because the costs of one's action are borne by others. The inefficient use of resources (extensive hunting) resulted from communal ownership. To internalize the externalities (or to narrow down the gap between the private costs and benefits and social costs and benefits), private property rights to the beaver house, hunting territory, and land for husbandry developed and were recognized among the Indian of Northeast.

In Southwestern plains however, there were no plain animals of commercial value as compared to the fur-bearing animals of the Northeast. Moreover, the plain animals were primarily species whose habit was to wander over wide tracts of land. Therefore, the value of establishing boundaries to private hunting territory was reduced by the relatively high cost of preventing the animals from moving to adjacent parcels. The externality was just not worth taking into account. As a result, there was no private land ownership in the southwestern plains.

⁴ "Everybody owns" also means "nobody owns".

⁵ Changes in commercial value of fur were not accustomed to the society and to which the existing property rights were poorly attuned.

Demsetz's study is a historical analysis of the development of property rights for the efficient allocation of natural resources. It is apparent that the efficiency of an economic system is greatly related to the externalities emerging from the problems of what kind of property rights to be assigned to whom and the cost of internalizing the externalities (mostly opportunity cost). To analyse the succession of each kind of economic system, it is more appropriate to compare the property rights structures among different economic systems rather than the statistical analysis of an economic system itself.

Though Myanmar has experienced industrial reforms and business system reforms, available data are very limited in practice, especially enterprise-level data (including SEEs) such as profit and productivity related data. Under such situation, it is proper to assume that property rights approach is the most appropriate approach for the study of individual behaviour and the performance of economy. The considerations of the efficiency of economic system in the property rights theory can be carried out along with the externality and the effects of internalization.

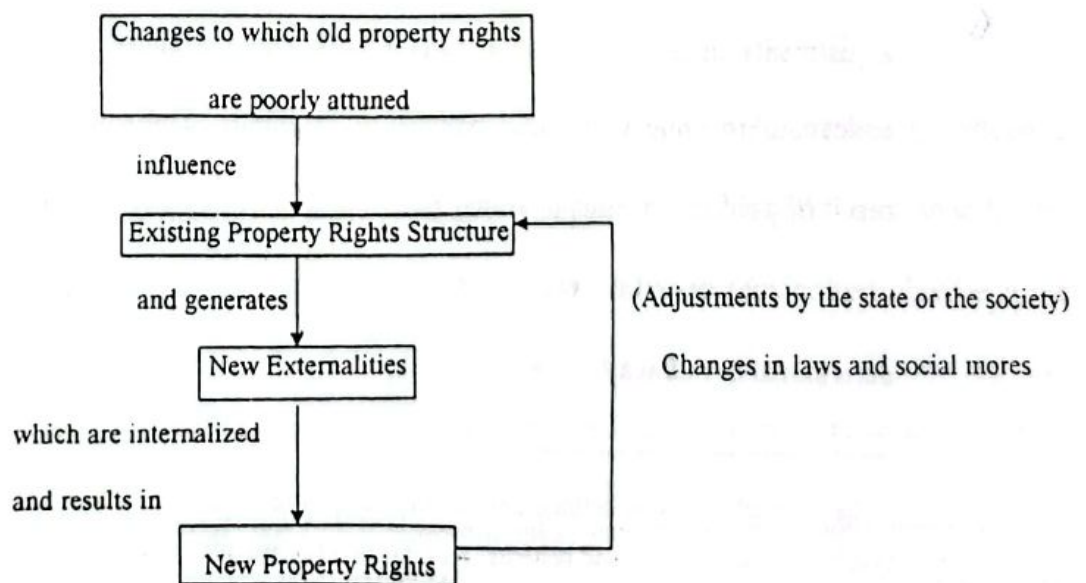
With the property rights approach, (1) the changes in property rights assignment before and after economic reforms, (2) the externalities emerging from that changes, and (3) the differences of the efficiency of the different systems or the succession of the systems can be explained. Moreover, this approach enables us to use the indirect indicators (such as total deficit of SEEs, the changes in scale of business and forms of business, etc.) instead of using direct indicators (such as labour productivity or return on investment, etc.) to point out the differences of efficiency of the systems.

2) Analytical Framework

This study tries to provide a new view to construct a framework for studying economic history bridging between the two research streams _ (1) spontaneous order for efficient allocation of resources and (2) the theory of the state which is as old as that of human society.

The first research stream is better known as a theory of economic property rights. This study strongly argues that the efficient allocation of resources is due to the spontaneous process to allocate the costs and benefits of a transaction among interacting people who seek to maximize their utilities, rather than the design set up by the authority. In contradiction with this stream of thought, the main emphasis of the theory of the state lays upon the design for the allocation of scarce resources and the designing process must be carried out by the state.

Figure (1.1). Endogenous Development of Property Rights.



As mentioned above, the main approach used in this study is to bridge these two research streams emphasizing the spontaneous process. The conceptual process for Demsetz's study (spontaneous process) is shown in Figure (1.1).

As may be seen in Figure (1.1), changes to which old property rights are poorly attuned _ such as changes in economic values, changes which stem from the development of new technology and the opening of new markets, etc., influence the existing property rights structure. Such changes generate new beneficial and harmful effects (externalities) to which society has not been accustomed. The intensity of externality induces a wide gap between privately perceived costs and benefits and social costs and benefits. For the adjustment of new externalities with new benefit-cost possibilities, the emergence of new property rights takes place in response to the desires of interacting persons for more utility and in turn, leads towards a more efficient allocation of resources⁶(Pejovich: 1972,316).

The adjustment mechanism would be in the form of internalization process where the benefit of the internalization of externality is larger than the cost incurred. The adjustments in property rights, which take place to need be the result of conscious, endeavour to cope with new externality problems. These adjustments have arisen as a result of gradual changes in social mores and in law precedents (Demsetz: 1967,350). The creation and specifications of property rights over scarce resources is endogenously determined in this way.

⁶ The term efficiency is defined here as the narrowing of the gap between privately perceived costs and benefits and social costs and benefits. As long as these are different, not all costs and benefits of a contract

This stream of thought gives the emphasis upon the role of individual decision makers within the productive organization instead of treating the firm as the unit of analysis and assuming that the owners' interests are given exclusive attention via the process of profit maximization. Individuals are assumed to seek their own interests and try to get more utilities subject to the existing organizational structure. Detailed analysis of interrelations between institutional arrangements and economic behaviour is feasible by considering the effects of various possible property rights assignments on the penalty-reward system. Shifting from the traditional profit-maximization as the fundamental behaviour postulate to utility optimization⁷ opens up new possibilities for studying different patterns of managerial behaviour, and permits greater insight into the operation of business firms. This is so because the goals established by an individual decision-maker can always be conceived as arguments in some types of utility function. The utility function can be optimized subject to appropriate constraints. Each decision-maker is assumed to be motivated by self-interest and to move more efficiently toward the most preferred operation position.

It is not difficult to accept the basic idea that "property rights" tend to influence incentive and behaviour (Coleman:1966,35). Property rights assignments specify the norms of behaviour with respects to things that each and every person must observe in his

are borne by contractual parties, which leads towards an inefficient allocation of resources. It calls for better specification of property rights.

⁷ Such a shift from traditional profit-maximization to utility-optimization may mainly depend upon the existing management philosophy, organization culture, top leaders' (managers') traits and personalities, and environmental factors.

interactions with other persons, or bear the cost for non-observance. The prevailing system of property rights in the community can be described as the set of economic and social relations defining the position of each individual with respect to the utilization of scarce resources.

There should be no confusion about the fact that both trade and production involve contractual arrangements; these activities exist not to accomplish the exchange of goods and services but to permit the exchange of bundles of property rights. The value of any good exchanged depends, *ceteris paribus*, on the bundle of property rights that is conveyed in the transaction. For example, the worth of a house to an individual will be relatively greater if the bundle of rights acquired contains the right to exclude gasoline stations, chemical plants, etc. from the immediate vicinity of the house. It follows that the set of various rights held over resources enters into the utility function of the decision-maker. Consequently, a change in general system of property rights in the community must affect the way people behave. Through this effect on behaviour, property rights assignments affect the allocation of resources, composition of output, distribution of income, etc.

Although the definition of property right suggests that the right of ownership is an exclusive right, ownership is not and can hardly be expected to be an unrestricted right. The right of ownership is an exclusive right in the sense that it is limited only by those restrictions that are explicitly stated in the law as it is interpreted from time to time. Such restrictions may range from the substantial to the minor.

It is important to recognize that attenuation of private or state property rights in an asset, through the imposition of restrictive measures, affects the owner's expectations

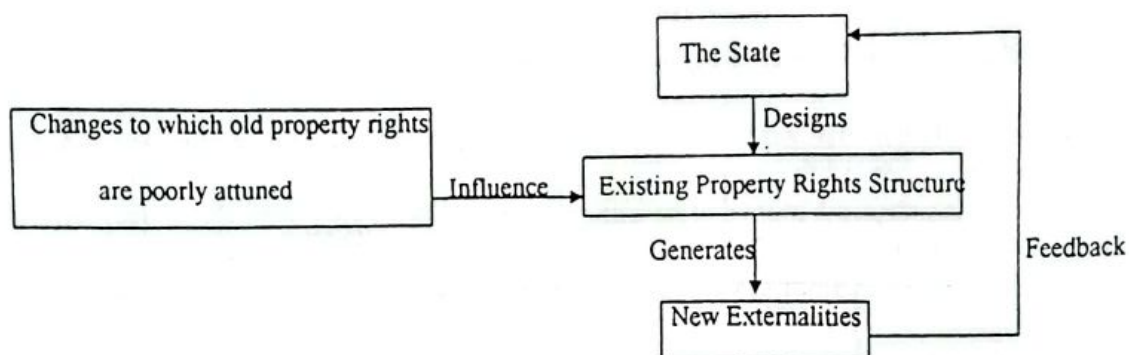
about the uses to which he can put the asset, the value of the asset to the owner and to others, and consequently, the terms of trade. The restrictions here are those imposed by the state. To argue for a change in the content of the right of ownership is, therefore, to argue for a change in the allocation of resources to which legal support is given. Samuels (1971,101) has noted that “ if income distribution and risk allocation is a partial function of law (of property) then the law is an object of control for economic or other gain whether the instances be tariff protection, oil subsidies, real estate agents’ attempts to ban “for sale” signs on private homes or any other type of property rights. It follows that the explanation of the development of property rights is obviously incomplete without an economic theory of the state (North: 1972,86, Buchanan: 1962,24, Tullock: 1971,115). A political organization can be regarded as the firm that produces and sells protection and justice in exchange for revenue(tax)(Pejovich: 1972,315). This theory argues that the authority defines the property rights over resources via customs and/or laws. The authority enforces those rights against both insiders (police, courts) and outsiders (military). The source of the payment for this service is the rent that makes better specification of property rights possible. For example, Kings granted various property rights to merchants. This led to an expansion of trade and higher incomes. The authority and tradesmen shared these gains. Similar events frequently occur in modern times. The states are known to close markets to all potential competitors by granting licences to a selected few. This , in turn, is expected to raise the average return in the industry, a part of which goes to the state treasury as licence fees.

It can be argued that changes in the content of property rights depend on the relationship between the benefits to the authority from granting new or modifying the

existing property rights assignments and the cost of protecting them. In other words, changes in the content of property rights depend on the relationship between an *ex ante* estimate of benefits to the ruling elite from changing the existing property rights assignments and the *ex ante* or even *ex post* estimates of costs to be incurred in policing and enforcing the changed structure of rights (Furubotn and Pejovich: 1972,1140). Each state therefore endeavours to price its services (i.e., taxes) in such a way as to maximize present value. The degree of monopoly power of the state in its contractual relationship with constituents reflected the degree to which other contenders appeared likely to be able to provide the same set of services. In short, opportunity costs of the constituents lay behind the contractual relationships and changes in opportunity costs lead to efforts to alter the contract.

It could be asserted that the ruling group can use its monopoly power to (exogenously) change property rights assignments over scarce resources and alter both the allocation of resources and income distribution. It is also very helpful for understanding of bureaucracy and the state can be developed from consideration of individual utility optimization behaviour. A simple process of development of property rights is shown in Figure (1.2). In this process, the role of individual decision maker is significantly downplayed by the state in a form that the internalization process or adjustment process of externalities is obtained by designing or redesigning the property rights structure.

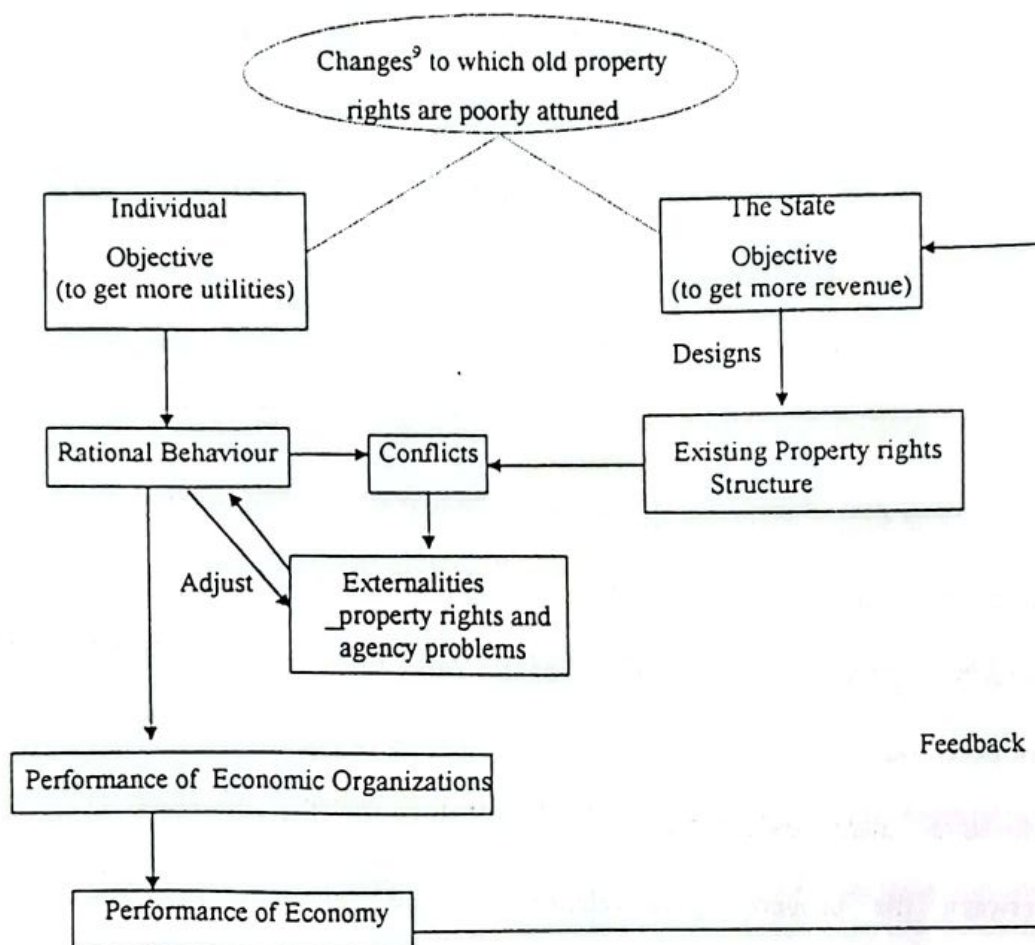
Figure (1.2). Exogenous Development of Property Rights



The simple analytical framework for this thesis is elaborated in Figure (1.3). It also attempts to connect these two different views (i.e., endogenous and exogenous process) in order to approve their applicability. For this study to be more empirical, it is necessary to lay down our emphasis upon the economic actors rather than the whole economy alone. Moreover, many researchers have already approved that there is a strong relationship between the property-rights relations in the economic organizations and their performance. The chief purpose of this study, based upon the economic theory of property rights, is to deal with the efficiency of the economic system⁸ as its main theme. However, the analysis of this study will, at the same time, be carried out by accepting the importance of the state's role as the designer of property rights structure or the mechanism of property rights adjustment.

⁸ The efficiency of the economic system, here, refers to the extent of the reduction of externalities by the economic system.

Figure (1.3) Simple Analytical Framework.



New externalities to the society or the existing property rights structure [as seen in Figure (1.1)] emerge from the changes to which existing (old) property rights are poorly attuned. The adjustment of new externalities with new benefit-cost possibilities becomes necessary for a more efficient allocation of resources. The adjustment of new externalities

⁹ The scope of this thesis excludes the effects of the changes in the international or global and regional environments as well as changes of technology, which are not directly related to the laws and regulations that change the property rights and its structure in Myanmar.

means the internalization of externalities by defining new and clearer property rights¹⁰. However, it is not sure that all new or preferable property rights will be recognized by the state, even though the development of the new property rights is theoretically assumed to lead towards an efficient allocation of resources. In other words, we cannot always expect that the property rights structure designed by the state would be harmonious with the internalization process, which tends to get the efficient allocation of resources. This is so because the objectives of the individual and the state are different and there are always conflicts between them. The conflicts are the root cause of property rights and agency problems, which greatly influence the individual behaviour. The individual behaviour is also required to make some adjustments compatible or flexible to the structure designed by the state.

The behavioural adjustments of individuals (for example, free-riding, on-the-job-consumption, corruption, etc.) have a strong influence upon the performance of economic organizations. Thus, the outcome of the behavioural adjustments reflects the performance of the economic organization. These adjustments would continue as long as the state is forced to refine or redesign the structure by a serious crisis within the whole economy or some major sectors. The process of redesigning the existing property rights structure could be in the form of revolutionary or evolutionary reform.

¹⁰ The trading of land, for example, was not in practice until the time when the British occupied the lower Myanmar. The annexation of lower Myanmar roughly coincided with the introduction of steam navigation on a wide scale and the opening of the Suez Canal. With the expansion of overseas trade, the value of rice became to be a commercial importance and the private rights of land ownership became a community's preferences. A critical change in the nature of the agriculture could obviously be observed as a change from shift-farming-based agriculture to non-shifting agriculture.

Evolutionary reform is a process of gradual changes in the property rights structure. This process is to lower the degree of the conflicts between the rational behaviour of individual decision-makers and the property rights structure designed by the state. In other words, the process of designing the structure is interactive and continuous to the conflicts rather than an accumulative nature. This kind of reform is very close and similar to the spontaneous order.

Revolutionary reform is a designing process, which takes place to solve a vast amount of accumulated conflicts. Mostly this kind of reform becomes necessary where the state is not responsive or sensitive to the conflicts at the time when they emerge.

First, this study tries to explore the property rights and agency problems (externality) which emerge from the conflicts between the individual interest for more utility and the property rights structure designed by the state for more revenue. Second, the influence of these problems upon the individual behaviour is analysed. In other words it deals with the issues of how the individuals respond to these problems. Then, the effects of the adjusted behaviour of individuals upon the performance of economic organizations and performance of the economy are explained. As shown in Figure (1.3), the process or cycle is completed by the feedback loop.

3) Concept of Property Rights

The primary function of property rights is that of guiding incentives to achieve a greater internalization of externalities. Demsetz (1967) gives an example of slave labour and military draft in his paper, "Toward A Theory of Property Rights". He explains that the user of resources does not take some costs and benefits into account whenever

externalities exist. Internalization takes place only when transactions between interacting persons are allowed. In the example of slave labour, a firm that uses slave labour will not recognize all the costs of its activities, since it can have its slave labour by paying subsistence wages only. If the slaves are permitted to offer to the firm a payment for their freedom, the cost of slavery can thus be internalized in the calculations of the firm. A law that establishes the right of a person (a slave) to his freedom would necessitate a payment on the part of the firm sufficient to cover the cost of using that person's labour if his services are obtained.

This example carries two distinct implications; first, there is a law which establishes the right of a person, that means the right is enforceable by the law, and second, the efficient use of labour through internalization to adjust the cost-benefit possibilities. In brief, one deals with the legal concern of using labour (property) while another deals with the economic concern of using labour.

In order to make clear vision of property rights, it is defined simply as the ability to enjoy a piece of property or what the state assigns to a person. The first one is called economic property rights developed from within the interacting persons for more utility (endogenous development of property rights)¹¹. The latter, legal property rights, is assigned by the state (exogenous development of property rights). Economic rights are the end (that is what the people ultimately seek) whereas legal rights are the means to achieve the end. Legal rights, which play primarily supportive role, are easier to observe than economic rights. Barzel (1997,3) defines economic property rights an individual has

¹¹ Demsetz (1967) states that property rights develop from internalization of externality for more utility.

over a commodity (or asset) to be the individual's ability, in expected terms, to consume the goods (or the services) of the asset directly or to consume it indirectly through exchange.

The issue of property rights includes not only legal property rights but also the concept of possession, which means control and use of the property. Property-rights relations, the ownership of means of production, are regarded as organizing principle, which determines both the relations of production and the relations of distribution. The changes in forms of property rights, therefore, characterize succession of socio-economic formations.

Property rights are not simply the owner's rights over things, but are more importantly relations among people. Behavioural approaches to property rights emphasize that property rights tend to influence incentives and economic behaviour. They say that property rights do not refer to relations between men and things but, rather, to the sanctioned behavioural relations between men that arise from the existence of things and pertain to their use (Furubotn and Pejovich: 1972,1138).

Pryor(1973) defines property as bundle of rights or a set of relations between people with regard to some goods, services, or things; such rights must have economic value and must be enforced in some societally recognized manner. He also defines two different sets of property rights: income rights and control rights.

Income rights are the right to use particular goods or services to obtain income, either monetary or in the form of goods or services, other than by means of labour¹². The

¹² Such income rights are sometimes called "ownership", although the latter has certain broader connotations (Pryor: 1973,7).

income derived from the holding of these rights can be obtained through a particular type of levies (e.g., taxes and rents) or by using the goods or services to produce something that can be exchanged for money. Income rights often include the responsibility of holding risks associated with exercise of the rights. The owner bears the value consequences of exogenous events, as well as of his own decisions associated with his property.

Control rights are the right of use and disposition of goods or services with regard to production and exchanges, which is sometime called a decision-making right. Control rights may be directly used by the owner or delegated to others by the owner. Control rights include a voluntary transfer or disposition right, which means that the owner can sell voluntarily his property rights to somebody else.

For the suitability and practical use of this study, I divide property rights into three folds;

- (1) control rights which are the right to use and disposition of goods or services with regard to production and exchanges,
- (2) residual claim rights which are the right to claim the residual value,
- (3) disposable rights which are the rights to dispose or transfer the property to somebody else.

The property rights theory strongly argues that a combination of risk-bearing income rights and transferable control rights is necessary to allocate the resources to their highest valued uses, regardless of initial assignment (Lee: 1997,20).

To the property rights approach, attenuation of property rights is a very important concept. It implies the existence of some degree of restriction on the owner's right¹³ to change the form, place, or substance of property, and transfer all rights to a property to others at a mutually agreed upon terms of trade (Furubotn and Pejovich: 1972,1140). The attenuation of property rights, as already mentioned, affects the owner's expectations about the uses to which he can put the asset, the value of the asset to the owner and to others , and consequently terms of trade.

4) Agency Problems in the Firm

In the property rights literature, firms (organizations) are seen as the nexus of contracts among owners of factors of production and customers (Fama and Jensen: 1983a,302). These contracts specify the rights of each agent in the organization, performance criteria on which agents are evaluated, and the payoff functions they face.

It is very obvious that multiple production factors (inputs) are employed for production in a firm. When production uses multiple input, owners of each factor input only when they think their income rights are fully recognized by rewards for participation in production. Otherwise, they have alternative incentives to relocate their inputs to other uses or to adjust their level of inputs in line with the compensation to their inputs. If participation in production is less rewarding than other uses, agents (who are not properly

¹³ It is the same concept with what Demsetz refers to truncation of ownership previously mentioned.

monitored), also have incentive to shirk, namely to lower their inputs even below the compensation level.

Alchian and Demsetz(1972) observe that non-separability of the total product of several different inputs imposes on firms the crucial problems of metering inputs and metering rewards. The firm faces the cost of detecting the managerial productivity of co-operating input. Accurate assessment must be made because the relative efficiency of team production depends on the firm's ability to bring changes in rewards to bear on those responsible for changes in output. In absence of a sensitive reward scheme, the productivity levels of inputs will tend to be less than those that are potentially possible (Furubotn and Pejovich: 1972,1149). The nature of production (which needs to use several inputs to produce outputs) generates the agency problems and the necessity to have a proper monitoring mechanism in the firm.

When a firm is seen as the nexus of contracts, agency problems arise because contracts are not costlessly written and enforced. Agency costs include the costs of structuring, monitoring, and bonding a set of contracts among agents with conflicting interests. Agency costs also include the value of output loss because the costs of full enforcement of contracts exceed the benefits (Fama and Jensen: 1983a,304).

Control of agency problems become very important when decision-making agents are not major residual claimants and they do not bear a major share of the wealth effects of their decisions. Residual claimants or residual-risk bearers are those who have the rights to net income flow and bear the residual risk _ the risk of the differences between stochastic inflows of resources and promised payments to agents. Without effective control procedures, such decision agents are more likely to take actions that deviate from the

interests of residual claimants. The concept of residual claims is, thus, critical in enterprise behaviour.

5) Ownership and Property Rights

Since ownership always exists in one form or another, an enquiry into the development and content of ownership really seeks to examine the sources of change in the bundle of rights that defines ownership. From this perspective, ownership itself is viewed as responsive to underlying benefits and costs. A positive theory of ownership requires a systematic treatment of these determinants of the structure of ownership rights. It means that the structure of ownership rights has consequences. In the real world of changing and evolving rights, in which information and transaction cannot be zero, the identity of owners, the content of the bundle of ownership rights, and the structure of ownership all have consequences. This is why some bundles of rights are more appropriate to one set of underlying conditions than to another.

(a) Communal Ownership vs. Private Ownership

As mentioned previously, the property rights arise only when the gains from internalization of externality is larger than the cost incurred. Several forms of rights ownership exist in the real world. These are communal ownership, private ownership, and state ownership, depending upon who exercises the rights.

By communal ownership, all members of the community can exercise a right. The community denies to the state or to individual citizens the right to interfere with any person's exercise of communally-owned rights. Private ownership implies that the

community recognizes the right of the owner to exclude others from exercising the owner's private rights. The state ownership implies that the state may exclude anyone from the use of a right as long as the state follows accepted political procedures for determining who may not use state-owned property (Demsetz: 1967,354).

Different types of ownership generate different behaviours of men _ the owners of factor input. With the communal ownership in which every person has the right to use resources (for example, the right to hunt, till, or mine the land), a person will seek to maximize the value of communal rights. If a person seeks to maximize his value of communal rights, he will overuse the resources because the costs of his action are borne by others. As a result, the stock of resources will be diminished too quickly. It implies that his action imposes external cost on others. Communal ownership has its disadvantage as it results in great externalities.

Under the communal ownership, the effects of a person's activities on his neighbours and on subsequent generations will not be taken into account fully. Therefore, the state, the courts, or the leaders of the community could attempt to internalize the external costs resulting from communal property by allowing private parcels owned by small groups of persons with similar interests (Demsetz: 1967,355)¹⁴.

If a person is allowed to exercise exclusive rights on the property, many of the external costs associated with communal rights can be internalized because he can exclude others. He can generally count on realizing the reward associating with enhancing the quality of property. This concentration of benefits and costs on owners creates incentives

¹⁴ This is what we call "property rights assignment" by the state.

to utilize resources more efficiently. The development of the private property rights permits the owner to economize the use of those resources on which he has the right to exclude others.

Under the communal property system, the maximization of the value of communal property rights will take place without regard to many costs. It is because the owner of a communal right cannot exclude others from enjoying the fruits of his effort and because negotiation costs are too high for all to agree jointly on optimal behaviour. Like communal ownership, private property rights create externalities. However, it is present to a lesser degree because these externalities do not affect all owners; it is necessary for only a few to reach an agreement that takes these effects into account. The cost of negotiating an internalization of these effects is thereby reduced considerably. The reduction in negotiation cost that accompanies the private right to exclude others allows most externalities to be internalized at rather low cost. It implies that the private property system is superior to the communal property system.

(b) Private Ownership vs. State Ownership

The state ownership may be interpreted as violent reorganizations of ownership rights, constituting huge redistribution in wealth, in which the state takes entitlement away from previous private owners¹⁵. Once this forced taking of entitlements has been accomplished, and the old distribution of wealth has been altered, it becomes imperative for the state to relinquish control again to private individuals through some more preferred

¹⁵ In deed, the widespread tendency of states to produce inefficient property rights leads to economic change and ultimately to economic decline (North: 1980,29).

redistribution of wealth. If a large society is to succeed in raising living standards, the state cannot persist in owning the wealth of a nation. Effective and well-directed control of resources cannot be obtained through bureaucratic incentives in a large society. Self-interest must be harnessed to the task. The economy of control requires decentralization, and effective decentralization requires considerable privatization if self-interest is to be marshalled in wealth-enhancing ways.

The larger the size of a society, the more likely it is that underlying conditions favour private ownership. The attempt to run a society on a centralized, state-controlled basis is more difficult in a larger society. The bureaucratic costs of obtaining desired cooperative action surely rise once a society breaches rather modest size limits. As societies grow in size, so must their dependency on private ownership. Effective decentralization cannot be achieved without *de facto* movement toward private ownership because privatization means that controllers of resources (their owners) bear more of the consequences of their actions than do the controllers (the bureaucracy) when the state is owner. Hence, the larger the society becomes, the more it will institute private ownership arrangements or it will isolate itself from international competition and social interaction (Demsetz: 1988,24).

The state ownership implies that the state may exclude anyone from the use of a right. It may be the same like private property that it has superiority over communal ownership because it can internalize the externality associated with the communal property. But the state's use of what it owns is not necessarily the same as those that govern private use. Private owners as producers, for example, largely follow the dictates of profit maximization but the state is motivated by political considerations. The private

owners are , therefore, very sensitive to the cost-benefit function associated with the internalization where the state is not necessarily to be. The economic theory of democracy has not developed sufficiently to allow us to understand enough about the behaviour of the state, or its members, to draw conclusion about the consequences of alternative owners(Demsetz: 1988,19).

The property rights theory of the firm suggests that public enterprises should perform less efficiently and less profitably than private enterprises because the private ownership has a broader menu of monitoring devices and the cost-reward systems impinging on the employees and the owners of the organization are different (Alchian: 1965, Fama: 1980).

Most of the studies point out concretely to the attenuation of ownership or transferability of ownership. Most of the researchers believe that the privately owned resources will always tend to be allocated to the highest values. As Cheung has put:

Competition for and transferability of ownership right in the market place perform two main functions for contracting. First, competition conglomerates knowledge from all potential owners - the knowledge of alternative contractual arrangements and uses of the resource; and transferability of property rights ensures (via flexible relative prices) that the most valuable will be utilized. Second, competition among potential contract participants and a resource owner's ability to transfer the right to use his resource reduce the cost of enforcing the stipulated terms in a contract because competing parties will stand by to offer or accept similar terms (1970, 64).

The existing empirical studies actually provide support for this hypothesis. They have compared the performance of matched public and private firms in the competitive environment (Funkhouser and MacAvoy [1979], Kim [1981], Boardman and Vining [1989]) and under the regulated environment _ a natural monopoly or a regulated duopoly

(Shepherd[1966], Moore[1970], Peltzman[1971], De Alessi[1971,1974,1977], Davies[1971,1977], Clarkson[1972], Frech[1976,1980], Savas[1977], Morgan[1977], Stevens[1978], and Bays[1979]).

There are also some researchers who argue that there is no significant difference in performance between public and private firms or public firm is more efficient than private firm (Mann[1970], Junker[1975], Spann[1977], Collins and Downes[1977], Jordon[1982], Lewin[1982], Becker and Sloan[1985], and Kole and Mulherin[1997]). Most of them explain the importance of regulation and competition. They, however, strongly argued that the public firms should be privatized at last. It indirectly implies that the state ownership is desirable only for the short period of time that needs temporary state-control and in the long run it should be transferred to the private hands.

The main concern of this thesis is not the analysis of efficiency differentials between the state-owned and privately-owned economic organizations but rather it is an analysis of the relationship between the performance of economic organizations and the effects emerging from the changes in the property rights structure, the alternation in the content of the bundle of ownership rights and identity of owners under different economic systems.

6) Property Rights and Forms of Organization

The formation of different types of control of allocation of resources also persist in societies because:

- (1) the desires of owners must be translated into cooperative action by employees
(the agency problem),

- (2) the optimum size of firm sometimes requires a commitment of equity capital, to establish effective control, that exceeds the capabilities of a single individual private owner (the diffuse ownership problem), and
- (3) private interests sometimes diverge from social interests (the monopoly and social costs).

The different forms of mechanism to control the resource allocation are well understandable from the point of view of its contract structures. The contract structures limit the risks undertaken by most agents by specifying either fixed pay-off or incentive pay-off to specific measure of performance. The residual risk is borne by those who contract for the rights to net cash flow. In other words, the residual risk is borne by those who have the right to claim the residual value generating from the team production of factor inputs. We call these agents the residual claimants or residual risk bearers.

The characteristics of the residual claims distinguish organizations from one another and explain the survival of forms in specific activities. Depending on the characteristics of the residual claims forms of organization should simply be divided into:

- (1) an organization characterized with the restricted residual claims – such as proprietorship and partnership;
- (2) an organization with the unrestricted residual claims, for example, modern corporations;
- (3) an organization with no residual claims - nonprofit organization.

A classical entrepreneurial firm is defined by the combination of risk-bearing and decision making. Property rights of its owners include the right to terminate or revise the membership of agents participating in contracts, and the right to sell those rights. In other

words, the owner is the residual claimant and bears the risk of value consequences of his management decision making.

A modern corporate organization is characterized by the separation of ownership rights (income rights) and decision making rights (control right) and by unrestricted residual claims. The common stock residual claims of such organizations are unrestricted in the sense that:

- (1) shareholders are not required to have any other roles in the organization,
- (2) their residual claims are freely alienable, and
- (3) the residual claims are rights in net cash flows for the life of the organization.

Because of the unrestricted nature of the residual claims of corporations, there is generally almost complete separation and specification of decision functions and residual risk bearing. Shareholders are the residual claimants and bear the value consequences of their agents' (managers') decision making. Since managers do not bear the value consequences of their decision making, shareholders have to develop a control mechanism to meet the agency problem (generally shirking). This is done by separating decision management from decision control. Decision management consists of the initiation (generation of proposals for resource allocation and structuring of contracts) and implementation of decisions (execution of ratified decisions) and decision control involves the combination of ratification (choice of the decision initiatives to be implemented) and monitoring decisions (measurement of the performance of decision agents and implementation of rewards) (Fama and Jensen: 1983a,303).

A nonprofit organization is one that does not allow any alienable residual claims, even for donors. Donors' sole interests are to see that their donations are effectively used

to increase outputs of the organization. A nonprofit organization does not necessarily mean that the organization has no interest in profit. It implies that the profits have to be reinvested to increase the future outputs. If the organization allows residual claims, the donors cannot be sure that their resources are protected from expropriation by residual claimants. Thus, non-profit organizations check the possible agency problem between the donor and residual claimant by excluding any alienable residual claims and by contracting with the owner that all net cash flows are to be reinvested.

A nonprofit organization does not mean that they do not bear the risk of value consequences. If the organization performs inefficiently, the risk of net cash flows is borne by the consumer and partly by input factor contributors. Thus, the risk of net cash flow is allocated. The nonprofit organization has, however, similar agency problem like the case in the for-profit-organization – namely the relationship between donors and the top management. They seek to check this problem by separating decision control (the board of directors) from decision management (the top managers).

7) Property Rights and Agency Problems in the Socialist Enterprises

The root of the development of the socialism came from the unfair income distribution of the capitalism, resulted from the private ownership of the means of production. The state control of resources, which took over forcefully the individual control of resources, was well set up by the revolutions in Russia and China (and by the post-World War II realignment of control over East Europe) under the banner of socialism or communism.

The capitalist mode of production, for example, rests on the fact that the material conditions of production are in the hands of non-workers in the form of property in capital and land, while the masses are only owners of the personal condition of production or labour power. If the elements of production are so distributed, then the present day distribution of the means of consumption results automatically (Marx: 1968,325).

As the ownership of the means of production determine the distribution of means of consumption, the means of production should be the common property of the workers. Marx argues that if the material conditions of production are the co-operative property of workers themselves, then there likewise results a distribution of the means of consumption different from the present one (ibid).

However, the determination by property rights relations of production and distribution relations may not be expected to be automatic. Once the private property is abolished, there still remain the real problems of how to reorganize the actual production and distribution relations, that is the problems of how to restructure the contracts among agents. This problem arises because the issues of property rights include not only the juridical ownership but also the exercise of ownership rights in control and use of property. The main problem is not who should keep the juridical ownership but who exercises ownership rights in economic activities and who bears the risk of value consequences.

As mentioned in the previous sections, the exercise of the rights by the state is different from the exercise of the rights by the individuals or the whole society. Even under the same banner of socialism, there are different systems depending who exercise the ownership rights. In Russia, for example, professional apparatus had the rights to use

and control the state property while in Yugoslavia the exercise of the rights was carried out by the enterprise collectives. With different forms of the property rights relations of the production and distribution, there exist different externalities (agency problems).

Different forms of enterprise result in different externalities even though they are under the same banner of socialism as the enterprise has different structure of property rights relations. But in this section, we would like to discuss in general about the property-rights relations or the contract structure which define the exercise of the ownership rights and risk-bearing mechanism, and the agency problems in the socialist enterprises. The discussion of the different agency problems resulted from the different property rights relations and different complicated structure of decision process will be discussed later when we deal with Myanmar state-owned enterprises.

We will discuss about the factors (property relations and human opportunistic behaviour) which have strong relationship with the efficiency of socialist enterprises. Property relations refer to coexistence of different forms of property in socialist enterprise over which individuals' property rights are attenuated in different degrees. The essence of socialism is that the means of production (enterprises) are common property, and the means of consumption are private property. Marx states that nothing can pass to the ownership of individuals except individual means of consumption (Marx: 1968,324).

Each worker has only a partake of property rights in enterprise while the worker has almost complete control over his wages and bonus. This property-relation leads different incentives to the workers. It means that the workers have strong incentives to transform the enterprise property into their private property over which they have complete control. In other words, different systems of property rights present the

decision-maker with different structure of incentives, resulting in a different alignment of resources.

The human opportunism is human instinct embodied in human agents but it becomes valid while the agents have a greater degree of stewardship without proper control mechanisms. In socialism, medium and lower-level bureaucrats and managers are not permanently reliable stewards servicing the whole society, but they are subject to opportunism. The stewards are motivated by their own commitment, while the agents need to be externally motivated by payoff incentives _ pecuniary and/or non-pecuniary. Agents will make their best efforts, only when they think that the compensations they received are appropriate to their level of factor inputs, or only when they bear the value consequences of their own decisions. The allocation decision and control processes among enterprise members and adequate incentive provisions are, thus, very important tasks in the socialist enterprises as like in capitalist firms.

The coalescence of these two factors generates serious agency problems, which may result in low efficiency in socialist enterprise in general. Opportunistic agents with different forms of property will have incentives:

- (a) to use the state property less efficiently than their private property,
- (b) to transform the state property into their own private property over which they have complete control, and
- (c) to enjoy the high rate of shirking and on-the-job consumption.

The low organizational efficiency existed in both Soviet-style state enterprise and Yugoslav-type enterprise collectives, though it was slightly different in contexts. The common reason lies upon the risk bearing function. Nobody along with the decision

processes bore personal risk for their decisions both in the Yugoslav type or Soviet type enterprise. This situation is also relevant for capitalist firms. Employees in capitalist firms may have incentives to shirk (agency problems) or to expropriate enterprise property for their private benefits, which actually often happens. But there are fundamental differences from socialist enterprises in various aspects. The most apparent aspect is related with the property relations. In the capitalist firms (private firms), shareholders are residual claimants and willing to monitor the agents (managers) because the value consequences of decisions they made are borne by the shareholders. It implies that the decision agents' activities are greatly related with the shareholders' private property. However, every body in socialist enterprises is an agent with the possible exception of central government who might be self-motivated by the political risk bearing.

In the state enterprises system, the contract structure is centralization of property rights by the state apparatus. The enterprises function as part of the state apparatus. All the decision processes are allocated to the state apparatus. But nobody along with the decision processes bears the risk of value consequences of the decision they made. Only the central government bears political risk, and economic risk is borne by the whole society.

8) Socialist Enterprises without Residual Claims

Under the socialism, the state is the owner of means of production (enterprises). The state provides the necessary capital to enterprises without capital cost and it becomes assets rather than debts. As the owner is the state and enterprise profits remitted to the state are therefore a combination of income taxes and dividends. But the dividends of

socialist enterprises are different from the dividends in private enterprises. The dividends in the private enterprise are alienable residual claims of shareholders – the rights to claim net cash flows while bearing the residual risk. The dividends of the socialist enterprise are not completely alienable to the enterprise since the profits are first to be remitted to the state and reinvested at the state's discretion. The enterprise cannot expect that the remitted profits will fully return back to the enterprise in the form of reinvestment. However, the remitted profits are fully reinvested in the state sector to increase its output. Distributions of the profits in socialism are carried out in this way.

The socialist enterprises, therefore, are the same as the nonprofit organizations in which no alienable residual claims are allowed. If there are residual claims, the donors (the state in socialist enterprises) are not sure that their resources are protected from expropriation by the residual claimants (Fama and Jensen: 1983a,318). As there are no residual claims, the enterprise's interest in profit is mainly for the purpose of reinvestment to increase output. In this sense, the socialist enterprises are less sensitive to profit as long as the state can provide necessary capital steadily and sufficiently (better known as soft budget constraint) or minimum profits necessary for survival are guaranteed.

The socialist enterprise also faces the agency problems, the relation between the state and agents, because the state (donor) has to check whether its property is efficiently used or not. It is the same for nonprofit organizations in the capitalist economy. But the nonprofit organizations seek to check these problems by separating decision management from decision control.

Separation of decision management from decision control is, however, not enough for the socialist enterprises because the state is not a person but an abstract donor. The

lower-level bureaucrats and managers are supposed to work on behalf of the state or the whole society. Therefore, everybody in socialist enterprise is an agent who needs to be properly monitored. It implies indirectly that there is nobody who takes the role of monitor for lack of the natural incentive to control. Alternative control mechanisms, labour markets, for example, that can discipline managers indirectly with the expectation of future income are not available in socialism. There is always a possibility that the agents seeking irregular private benefits because of fewer control mechanisms will expropriate the state property.

Chapter (2)

Dr. Tin Win
(Ph.D.; Keio Univ.; Japan)
PROFESSOR
Department of Economics
Institute of Economics
Mekong, Myanmar

A Brief Historical Analysis on Ownership Structure in Myanmar

This chapter briefly describes the development of land ownership and changes in the ownership structures from the period of the Burmese Kingdom until the beginning of the socialist era in Myanmar. Considering the stages of major changes in the ownership structure of the economy, and for simplification, historical analysis is divided into two periods - from Burmese Kingdom to the end of British Colony and from the independence to the beginning of socialist era in 1962.

1) Ownership Structure: From Burmese Kingdom Era to British Colonial Era

The history of Burma¹ is one long series of internecine warfare. There were independent kingdoms at Arakan, Pegu, Tavoy, Prome, Toungoo and Ava. The dominant kingdom varied from time to time. Pagan was the first known center of Burmese civilization. It was founded in 849 A.D, although Burmese legend dates its history from the second century (Steinberg: 1982, 18).

The first unification of Burma occurred under King Anawrahta of the Pagan Dynasty (1044-1077 AD). The second unification (the Toungoo Dynasty) established by King Tabinshwehti in 1531 lasted until 1550. The third unification or the last dynasty called the Konbaung Dynasty (1752-1885) was founded by King Alaung Paya.

¹To indicate the past events and for the purpose of convenience, the old name "Burma" is used in stead of Myanmar.

Throughout the Burmese history, Burma has been a food surplus or food producing country. Under the Burmese kings, individual families held and tilled their own plots of land. There were no large landowners or feudal lords. Most people owned land as customary rights of first settlers and they also inherited.

Furnivall (1938, 41-43) describes land ownership as follows:

There was no idea of common property. So long as the space set apart for threshing floors sufficed for all who wished to use it, all the cultivators of the village could thresh their crops there; but it did not belong to them in common. Usually the same people occupied the same corner year after year; if the pressure on the space increased each family was recognized as enjoying a prescriptive right over the plot that it had been accustomed to occupy. Similarly, vacant land within the village would be available for anyone to build on, but once he occupied it, the site became his private property, and still belonged to him even if, as often happened, the whole village was abandoned. On much revenue maps there are such little groups of tiny holdings which represent a former village site.

A landless man could settle on occupied but uncultivated land, provided the owner made no objection and the land would then become the private property of settler. Villagers, however, might object to a stranger settling on their land and it has been suggested in connection with the *athi*² land of Magwe District that the people regarded the village lands as common property, but this view is undoubtedly mistaken.

² According to the first historical record of social system related to the Revenue Inquest of King Tha Lun Min in 1637, the system was based on the various "regiments" or elements of the royal army — some villages being known as cavalry villages, while some others were musketeer villages, etc., and everyone was presumed to belong to such regiment or *athin*. the two main divisions were the *ahmudan*, or people

Estates commonly remained undivided for several generations, during which a large number of people would come to own them as their joint property. Irrigated rice lands were usually the joint property of several families and in such cases various customs with regard to water rights and the maintenance of water ways were devised so to equalize as far as possible the benefits and obligations of those sharing the water.

The types of land under Burmese kingdom, could generally be categorized into four groups: (1) Crown Lands, (2) Lands held under various kinds of service tenures, (3) Waste Lands and (4) Lands held under allodial title (Tun Wai: 1961, 7-8).

- (1) Crown Lands. There were the lands belonging to the king. They constitute a small percentage of cultivable lands for the Burmese kings were not the absolute lords of the soil like the sovereigns of ancient India.
- (2) Lands held under various kinds of service tenures. These forms of land tenures were the direct outcome of the feudal system and resembled the land tenure of feudal Europe with the concept of overlord. The majority of these lands were grants from the king to the head of regiment or order, to be given out to his men for subsistence and cultivation.
- (3) Waste Lands. On account of the sparseness of the population, there was vast amount of waste but cultivable land.

liable for public service, and the *athi*, served in the army only in times of emergency, ordinarily getting off with the payment of taxes. The former was assigned land, on which they paid to their superior officers. Ordinarily, when they moved from place to place they did not lose their status as member of the *athin*, and were considered to be under the jurisdiction of their own captains — not to the rulers of the villages in which they happened to reside. The *athi* class, considered inferior socially to the *ahmudan*, consisted of cultivators, paying regular rent to the king (Andrus: 1948, 11).

(4) Lands held under allodial title. As a result of the vast amount of available wasteland and as the Burmese kings were not supreme lords of the soil, any one could get a clear title to that part of the wasteland, which he cleared. He had to pay a share of the produce to the king. This right by first clearance was known as *Dama-U-Gya*. Even he did not cultivate the land, it was his for 10 to 12 years and he could reject any new comer. It should be noted that in this form of land there was no holding from an overlord. The Burmese agriculturists were peasant proprietors.

In the Pagan period, various professions roughly fell into five categories:

- (1) Agriculturists;
- (2) Food suppliers;
- (3) Musician;
- (4) Craftsmen; and
- (5) Miscellaneous.

The agriculturists included farmers, planters, livestock keepers and elephant keepers. The food suppliers included cooks and butchers, workers and milkmen. The musicians were well versed in their musical instruments. Among the craftsmen, mention must be made of carpenters, masons, wood-carvers, blacksmiths, image-makers, umbrella-makers, goldsmiths, potters, jug-makers, toy-makers, spinners, loin-cloth-makers, and weavers. Beside these, there were also professionals of various types which included midwife, launders, boat-men, oil-producers, water-carriers, wood-cutters, canal diggers, cart-men, salted-fish makers, barbers, manuscriptists, steward, armourers, keepers of granary. These wide range of professions shows the town community was self-sufficient (Murari: 1985,114-115).

The craftsmen of Burma, however, catered to a considerable area, i.e., not to one village only. One village would specialize in pottery, for instance, more or less monopolizing the market for several villages around. Exchange often took place through a system of "five-day-bazaars," still common to this day in the Shan State.

In 1385, Razadarit, the greatest ruler of the Mon, became king in Pegu. With its access to sea, the additional ports at Martaban and Basein in the Irrawaddy Delta were constructed. Pegu exported rice to India and to Malacca after Portugese seized the city in 1511. The year 1511 is considered a landmark in Southeast Asian history (Steinberg: 1982, 20). The commercial value of land came into existence but until the Konbaung period, the sale of land was not customary. In these period, therefore, there was less inequity as the ownership of the most important instrument of production, the land, was fairly distributed.

Industry under the Burmese kingdom comprised of shipping industry, salt industry, fishing and fish preservation industry, textile industry, oil industry, mining industry, processing of agricultural products, handicrafts industry, and other miscellaneous industry. Among these industries only the mining industry was owned by the king and leased out to licensed miners.

In oil industry, the wells were the private property of twenty-three families whose ancestors discovered and worked the wells. Although the wells were the private property, the wells could not be disposed at will, as the owners were organized into a corporation for the purpose of concentration. The remaining industries were all owned by the private families.

We can summarise that Burma at that time was, to a great extent, a village economy, not only because most of the people lived in villages, but also from the facts like trade being carried on by barter system. Talking about the nature of villages Crawford (1829, 419) says that it is an arrangement dictated only by the necessity of congregating for convenience and security, for there is no community of property among them, each individual being the exclusive proprietor of his own fields, and tilling them at his own risk and cost.

Although information is not available to make a proper comparison of the relative importance of agriculture and industry (for example by number of persons engaged or value of output), yet one has the distinct impression that the country was not primarily agricultural. The salt boiling and shipbuilding industries were flourishing in Lower Burma and there were oil and mining industries in the Upper Burma beside minor industries. Burma then was more or less self-sufficient economy like most backward economies.

a) Annexation of Burma by the British

Whatever the causes of the first and second Anglo-Burmese Wars were, the fact remains that in 1826 the British annexed Arakan and Tenasserim and in 1852 Pegu and Martaban. Thus between 1852 and 1885, we had the British ruling over Lower Burma whilst Upper Burma was still ruled by the Burmese kings.

The addition of Lower Burma to the possession of East India company (1852-53) brought in a large area of potentially rich but uncultivated land. The few farmers then tilling the land in this area would abandon a field, after a few crops, for another plot with unimpaired fertility. Land was more plentiful than cultivators, and was to be had free of

charge. The living standards were low, and practically the whole of a family's food supply was produced by the exertions of the various members of the family; for rice, plantains and other fruits, vegetables, jungle roots, and herbs, fish, and sometimes salt could all be had by a sufficient exertion.

Even before the opening of the Suez Canal in 1869 which made European markets more accessible, Burma was exporting 400,000 tons of rice to India. To take advantage of this new economic growth, Indian traders and Chettyars (moneylenders) came to Burma and engaged in agriculture credit and related trades, which were essential in order to open the vast and potentially rich lands of the Irrawady Delta. Burmese people also moved to the south from upper Burma to take advantage of the expanded opportunities for the new cultivable lands or for the sole purpose of growing rice, chiefly for export.

The annexation of Lower Burma roughly coincided with the introduction of steam navigation on a wide scale, the opening of the Suez Canal, and a great era of expansion in British overseas trade. The British connection thus drew Burmese economy rather suddenly into intimate relationship with world economy. The old Burmese economy had been chiefly feudal, based upon custom and the use of little money, but the economy under the British was individualistic, exalting freedom of contract and freedom of enterprise or the practice of *laissez-faire* policy.

These changes resulted in the clarification of the concept of private property in Lower Burma, with division of each estate after death of the customary procedure. When immigrants from Upper Burma found it necessary to borrow funds for land clearance and preparatory work for cultivation, they soon found it possible to secure all necessary funds from the Chettyars. Burmese were quite unaccustomed to Western legal process, or to

calculations of interest in connection with the productivity of their land, so they readily signed agreement with the interest rate of 15 to 36 percent per annum for the loan or sale-in-advance³ which cost round about 100 to 150 percent per annum (Aung Than Tun: 1971, 41).

The immigration of Indians was for a time encouraged by the British government, but voluntary immigration from the Upper Burma, both before and after the annexation in 1886, eventually filled up most of the better land in Lower Burma. The land often passed from the original owners in a fairly brief period, but when Chettyars became the new owners they were normally eager to sell it, because they preferred money lending to agriculture. The agriculture, therefore, promptly became commercial though it had previously been only for family sufficiency.

By the time of British occupation of Upper Burma in 1886, the distinction between the four classes of land — (1) Crown Lands, (2) Lands held under various kinds of service tenures, (3) Waste Lands and (4) Lands held under allodial title — were not very clear.

Owing largely to the Buddhist inheritance law — equal division of land and property among all children — large estates were the exception in Upper Burma, only 32 percent of the land in Upper Burma in 1939 being let to tenants against 59 percent in Lower Burma.

British and Indian firms and merchants developed practically all the export trade of Burma, and a large share of the internal trade. This situation did not change much right up

³ Sale-in-advance was a kind of loan, farmers borrowed from the Chettyars at any time before harvest and had to pay back by crops not in cash.

to the time of the Japanese invasion although one or two Burmese firms began to take a modest part in wholesale and export trade.

The required labour, both skilled and unskilled, for all economic and administrative institutions, was met by a rapid increase of Indian immigrants who arrived in Rangoon (Yangon) under contract. They were already in debt from the ship passage. Under such contract system, the contractor recruited, shipped, and paid the labourer at the behest of some industrial plants. Certain occupations, such as the port and shipping fields, come to be occupied only by Indians. There was no possibility for Burmese nationals to adjust these economic conditions or to acquire entrepreneurial talents.

However, Burmese farmers, with their ignorance of the economic and legal system involved in the agricultural credit, gradually they lost their lands, as they could not pay back the debt. Indians who were working at appreciably low rates, became tenants on much of the rice land. Thus, when their country was beginning to develop, Burmese people were effectively excluded from most aspects of the growth. They remained largely as farmers, especially on the marginal land; a few were in traditional extraction industries; some continued to be petty traders.

With the advent of the great depression (1930) and the resulting fall in the world price of rice, the situation deteriorated. Most of the Burmese farmers lost their lands as debts went unpaid and the lands passed to Chettyars. They controlled most of the best agricultural lands as a result.

Their holding ownership of lands grew from 6 percent in 1930 to 25 percent in 1936. They owned 2.5 million acres out of 10 million in the lower Burma rice producing

areas. Less than 15 percent of lower Burma land in 1941 was owned by Burmese farmers and was unmortgaged⁴.

Co-operative Societies: The co-operative movement in Burma was not a spontaneous growth from among the people but it was government-inspired and government-led. In 1904, the Co-operative Societies Act was passed and the Government of Burma appointed a registrar (Mr. H. Fielding Hall) to supervise and direct the co-operative movement and set up Department of Co-operative Societies to help him. The main objective of this Act was for cultivators to obtain agricultural loans with low interest rate for the expansion of the agricultural sector (BSPP: 1974-a, 178-179).

The first nine co-operative societies were established in 1905 with 568 members and total capital 17518 Kyats (BSPP: 1974-a, 189). The initial capital for the societies was collected only from the members of the societies without any contribution from government. But it was still difficult for the poor member cultivators to contribute the shares at the initial price of 100 Kyats. In addition, there was no limitation of maximum number of shareholding to the member. But the 100 Kyats per share was so high for cultivators who had not enough money even for their farming and were seeking to get agricultural loans. Therefore par value of share was changed to one Kyat from 100 Kyats in order to get more members. However, the collected share capital was still far short of the necessary amount. Due to the insufficient capital, the Co-operative Societies had to get government loans at low interest rate and lent to the cultivators at the rate, which could generate some marginal profits. The profits were retained as reserved funds for

⁴ This figure is the estimation by most of the researchers of Myanmar, such as Andrus and Steinberg.

further loans and not for the distribution of dividends to the members. The organizations without dividends for their contributed shares encountered difficulties to get enough share-capital.

As 1904-Act was aiming only to the cultivators for the agricultural loans, it was very narrow in scope. It was also found that the Co-operative Societies were difficult to run their operations under this Act. Moreover, the Co-operative Societies increased gradually and in 1910, the number of Co-operative Societies, the number of members and their capital reached to 252 societies, 6116 members and 76364 Kyats respectively. For the expansion of their business operations, it was necessary to found other kinds of businesses; such as Central Bank, Co-operatives Unions, Credit Co-operatives, Inland Fishing Co-operatives, Spinners' Co-operatives and Store Co-operatives. It was unable to register for new kinds of co-operatives under the 1904-Act. In 1912, the 1904-Act was replaced by new Co-operative Societies Act, which allowed Co-operative Societies to be able to operate their businesses not only in agricultural credit but also in other businesses.

The first co-operative banks were formed on the principles of Schultz-Delitsch's City Bank. Then these credit societies were formed on the principle of Mr. Raffaisen's Village Bank. It was at first intended that the capital of the societies should consist of the share capital and deposits from members and government loans (the amount of which would equal the share capital and deposits). But the amounts collected, double by government contribution, were not sufficient to meet the needs of the societies and deposits were sought from private individuals, mostly government servants. This led to form Central Co-operative Banks. The first one was established in Pakokku District in 1908. It was based on 45 co-operative societies. In 1910, Upper Burma Central Union

Co-operative Bank was established in Mandalay. The bank collected funds to finance the primary credit societies. Such central banks were formed in Pegu, Prome, Henzada, Tharrawaddy, Moulmein, Yamethin and Mandalay Districts (Tin Thaung: 1980, 71-73).

As the movement grew, the central banks had to deal with numerous and widely credit-societies with which they had no close contact and of whose affairs was little known. Therefore societies were grouped into Unions whose functions were to get access to the credit and guarantee the borrowings of the affiliated societies. Besides, Pioneer Co-operatives, which granted their members the free and virgin lands, were also established in 1914-15. Each co-operative village consisted of 25 to 50 members and each member got 25 to 40 acres free from land revenue in the first three years. Loans were advanced to members at an interest rate of 15% per annum, where the interest rate of government to them was 6.25%.

Due to the new 1912-Act, the societies improved significantly within ten years. The resulted improvement was shown in Table (2.1).

Table (2.1) Co-operative Societies between 1905 and 1915.

Particulars	1905	1915
No. of Societies	9	1252
No. of Members	568	30130
Share-capital(Kyats)	17518	699819

Source: BSPP: 1974-a, 196.

After 1925, the co-operative businesses became to decline and the collection of loans also was becoming very difficult to implement. The existing 1912-Act was again not sufficient for the collection of loans and the clearance of co-operatives' accounts for

liquidation. Therefore Co-operative Societies Act No. (6) was supplemented to the 1912 Act in 1927 in order to collect overdue loans more effectively and for the liquidation of Co-operative Societies. Due to the many reasons, co-operative societies were in difficulties in 1930s and many were insolvent and liquidated. But from December 1935 onwards, the reconstruction of old societies began. This second phase of the movement was definitely more promising. Co-operation was no longer confined to provision of credits. Steps were taken towards organized marketing of agricultural produce. Members' dues were collected in kind, thus facilitating repayments, and members' crops sold in bulk so those cultivators obtained better prices for their produce (Tin Thaung: 1980,73). There is no doubt that if the movement had been better organized right from the start the members involved, the role that could have been played by co-operative credit in solving the more pressing problems of agricultural finance would certainly have been much larger. Unfortunately, the Second World War cut short the movement before it had time to established itself firmly.

The conditions of agriculture were in distress due to the effects of the War. There were political instability, insecurity, absence of money-lenders, shortages of cattle and labourers, damages of irrigation systems, high cost of cultivation, etc. All these resulted in drastic fall of agricultural production. But the prices of rice were very low whereas the prices of other commodities were inflated.

At that time, the Chettyars had gone back to India. The Burmese moneylenders and landlords were unwilling to lend money to the cultivators. Therefore the agriculturists, especially the tenant farmers, were greatly in need of money. Although the Ministry of

Agriculture had arranged to grant Rs. 5 million of agriculture loans in order to cultivate 9.3 million acres, the plan could not be implemented effectively.

In August 1942, a Bureau for Co-operatives and State Colonies (formerly Pioneer Co-operatives) was formed by few government servants. In the year 1942-43, more than one thousand co-operative societies were reviewed and reorganized. At the end of the 1943, there were 1222 agricultural credit societies through which the Burmese Government under the Japanese rule lent Rs.53201 to the cultivators (Andrus: 1948, 29,93).

2). Ownership Structure: From Independence to the Socialist Era

Economic development of Myanmar in pre-war years under the British took place mainly through the stimulus and participation of foreign investment under a *laissez-faire* policy. Some researchers estimated that about one-quarter of the capital stock in pre-war years was of foreign origin. In addition to foreign investment, there was a large foreign population consisting mainly of about a million Indians and a quarter million Chinese who obtained their livelihood by working in all fields of economic activities.

Burma gained independence in January 1948 and continued to adopt the *laissez-faire* policy, except when explosively deteriorating conditions, such as spreading tenancy and anti-Indian riots, finally forced the government to intervene. The Land Nationalization Act was passed in 1948 as part of the agrarian reform. Other important parts of that reform programme were Disposal of Tenancy Act, 1948 (which let the tenant to have secured tenure) and the Tenancy Standard Rent Act, 1950 (which restricted rents on agricultural land to be not more than two times of the land revenue payable on rice lands).

Similar limitations are also imposed on the land used for other crops. In 1953-54, all the lands were nationalized and redistributed to the Burmese farmers. Due to the land nationalization and redistribution, land-holdings of farmers became small⁵. However, the land was not collectivized. Until the 1960s, the farmer had the control over his land, and they decided the crops and the planning acreage. When the Twenty-Year Plan was implemented in the 1970s by the socialist government, most of the farmers lost their control over their farms.

During 1948-62, the government encouraged the Burmese people to take a more active role in trade and industry, while also welcoming foreign investment, especially in large-scale projects. Joint ventures were also established with both domestic and foreign businesses. The Burmese Businesses, though establishing a niche for themselves, were unable to compete very well with the large foreign firms. On June 8, 1955, the government announced publicly that they changed the emphasis to private sector and gave guarantee not to nationalize private companies for a minimum of ten years, and allowed remittance of current earnings and dividends with repatriation of capital. This effort also failed and laws to enforce this policy were also never enacted. In the period of the Care-Taker government (1958-60) when the Prime Minister U Nu gave up the state power to the General Ne Win to prepare for the general election, the stated policy continued to emphasize the need for growth in the private sector, but the Left Wing effectively prevented any real encouragement of the private sector. Under the Care-Taker

⁵ The 50 acres legal maximum applied to rice and sugar cane lands. For 'Ya' land, the maximum was prescribed at 25 acres, and for 'Kaing' land 10 acres. The average size of land-holdings was between 8 and 10 acres (Tin Thaug: 1980, 90).

government (1958-60), socialism was again endorsed; even when U Nu (the Prime Minister) returned to power in 1960, he was again under pressure from the Left, so that a swing to a more liberal economic policy was impossible.

Even after independence, most businesses sectors were still controlled by foreigners. As a result of improper income distribution and the imbalance ownership structure of economy, the gap in per capita income between foreigner and Burmese people became big enough for the government to change its economic policy. The primary aim of the policy was to lift the standard of living of the local people. Nationalization of both foreign and domestic businesses was considered essential to transfer all the economic entities into the hands of ethnic Burmese citizens.

In January 1962, U Nu agreed to nationalize all import firms. State ownership, planned to begin in March 1, would have hastened the process of Burmanization⁶. The state started to nationalize the production, distribution, import, and export of all major commodities and prohibited the formation of new private industries.

Soon after the Revolutionary Council came to power in 1962, an agricultural development programme, which aimed at abolishing landlordism and improving the social and economic conditions of the peasantry, was launched. The first Tenancy Law was introduced in 1963 by which the rights of tenancy of land was given to Agrarian Committees composed of farmers at the village level. The Tenancy Law of 1965 abolished the tenancy, which was, many scholars believed, the most progressive step in the agrarian history of Myanmar. In practice however, tenancy was not totally eliminated. Some

⁶ Burmanization is intended to transfer ownership of all economic entities from foreigners to Burmese (Myanmar people).

scholars found that tenancy still existed even after 1971 (Mya Than & Nishizawa: 1990, 90).

The Farmer's Rights Protection Law of 1963 protected the farmer or cultivator from confiscation of means of production such as land, livestock, farm implements and agricultural produces as repayment of debts. This policy reform confirmed again that state is the ultimate owner of the land and it assigns the rights to cultivators to work on the land as individuals. They were prohibited to buy ,sell, or mortgage it. In the redistribution of land, the Agrarian Committees gave priority to the poorest persons in the village, thus affecting productivity since he did not have the requisite skills or sufficient capital⁷. This reform, in essence, represented continuation of the land reforms of the 1950s and its main purpose was to break up the landowner-tenant relationship in order to create a new government-owner-cultivator relationship and to strengthen government control over farmers.

The serious economic problems during the colonial period were those that were greatly and directly related with the ownership. The legal structure restricted the rights of Burmese people in many areas. Lack of protection to workers created a condition in which the employers could negotiate the labour price among them or they could determine freely. Laissez-faire policy produced free but favourable state of competition for the British. The policy was indeed the outcome of the political economic system designed by the British government and enforced by laws and regulations aiming for the welfare of the

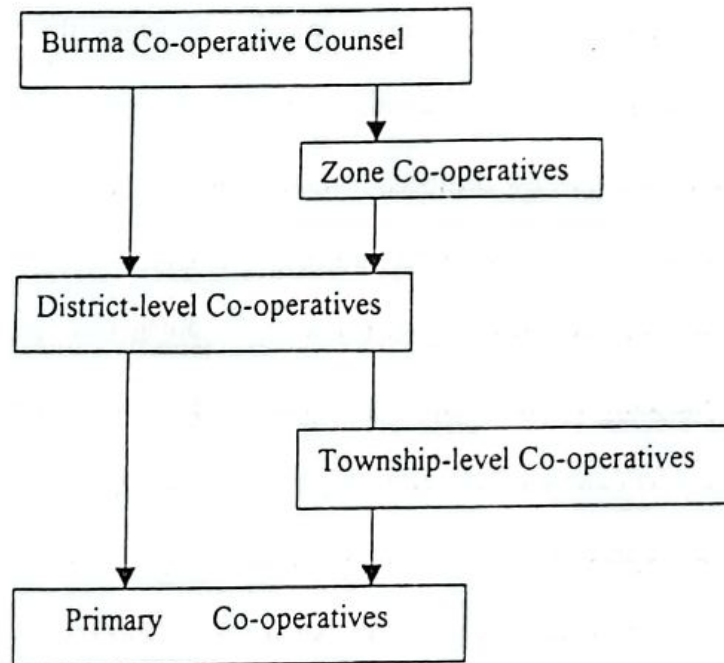
⁷ It could be more understandable by reviewing the ownership structure of the national economy or the ownership of the economic entity once Burmese people experienced under the colonialism in which they were automatically discriminated by the political and economic system. The political incentive for the new government was the resolution of the ownership problems or the equity problems rather than productivity.

British. The improper income distribution and unbalanced ownership structure of economy became critical problems.

After independence, elected Myanmar government tried to adjust these conditions by protecting the rights of workers and farmers. It was at that time very difficult to change those conditions promptly because almost all sectors of economy were already occupied by foreigners. Like the shadows of ghosts in semi-darkness, past problems still prevailed and continue to haunt the post-independence governments. At last it called for transfer of ownership rights of all businesses to Burmese people, that is nationalization. Under the socialism, the economic problems switched to another, the efficiency of economy. This problem became very apparent in 1980s and then it was demanding another type of reform, liberalization. The property rights and agency problems under these two periods (i.e., socialist period and transitional or reform period) will be discussed in the following chapters.

Co-operative Societies: After the independence, parliament approved a Five-Year Plan to reorganize the Co-operative Societies in 1951. In accordance with this plan, at least one Co-operative society had to be set up in one village. It may be Producers Co-operative Ltd. (*Procos*) or Industrial Co-operative Ltd. (*Indusco*). A district-level Co-operative was founded when the number of village-level co-operatives became 30. A national level co-operative can be set up when the number of district-level co-operatives reached to ten. The organization structure is shown in Figure (2.1). As may be seen in the Figure Township-level Co-operatives and Zone Co-operatives are optional to the co-operative societies.

Figure (2.1) The Organization Structure of Burma Co-operative Societies.



Source: BSPP: 1974-a, 327.

Due to the five-year Plan for Co-operatives, the co-operatives could engage in the following areas:

- (1) Manufacturing;
- (2) Sales;
- (3) Commodity procurement;
- (4) Transportation; and
- (5) Banking.

In addition, Primary Co-operatives (grass-root-level co-operatives) had to be (1) Consumer Co-operative Societies (2) "*Inn*"⁸ Co-operative Societies (3) Labourer Co-operative Societies and (4) Savings and Loans Co-operative Societies.

Due to the several amendments in law and privileges, the number of grass-root-level co-operatives increased 18.22 percent within two years (from 11037 in 1950 to 13048 in 1952). In 1956, the 1927-Act was replaced by a new Co-operative Societies Act again. Although the increase of co-operative societies continued and it reached to 14407 in 1961, only 5566 co-operatives were practically doing their businesses (BSPP:1974, 426). Up to the 1961, the government gave many special licences, such as import licence, "*Inn*" licence, "*Zei*"⁹ licence, ferry licence, etc., to the co-operative societies. But most of the co-operative societies ran their businesses at loss. Due to the heavy losses of the Co-operative Societies, it was inevitable for them to be reorganized in order to get more efficient operations and provide better services to the members. Therefore the liquidation of the Co-operative Societies started and continued until 1962.

⁸ "*Inn*" originally means lake in Myanmar language and comprises all businesses operations in relation with fishery except fishery at sea.

⁹ "*Zei*" means bazaar or market and "*Zei*" licence copes those transactions carrying out in the bazaar.

Chapter (3)

Property Rights and Agency Problems under Socialism

Myanmar gained independence in 1948, and continued to adopt the *laissez-faire* policy which allows free competition. It was "free competition" where Burmese people failed to compete with their rivals, foreigners' large businesses who were well experienced in business world. It can also be argued that most of Burmese people had a very limited possibility to establish and compete with the foreigners' big firms as they had lived as workers and tenants of Chettyars (money-lenders and land owners who came from India) under the colonial period.

As a result, the foreigners continued to occupy the dominant positions in most of the economic sectors. The unbalanced ownership of the means of production generated a wide gap of per capita income between foreigners and Burmese people along with the weak policy of the government in income redistribution¹. This pattern of improper income-distribution came to be a serious problem for the democratic government. Therefore, the urgency to introduce a new ownership structure, which can guarantee a fair and proper income distribution, was becoming the first priority in the strategies of the political parties. The introduction of the new ownership structure had to be implemented by restructuring the existing property rights relations of the production factors.

In January 1962, U Nu, under pressure from the Left, agreed to nationalize all import firms. State ownership, planned to begin in March 1, would have hastened the

¹Income redistribution here means wider aspects of tax system, minimum wage level, workers' welfare, and so on.

process of Burmanization². It was politically desirable for the government, but it would have undercut the economic position of the highly entrepreneurial minorities. On March 2, the army took over power and on March 9, formed the Revolutionary Council. The Burmese Way to Socialism³ was first published on April 30. It proclaimed revitalization of the socialist goal and discarded parliamentary democracy, which, it said, had failed. It called for state ownership of the means of production. The Burmese Way to Socialism defined the ultimate goals for the Burmese State. The government started to nationalize the production, distribution, import, and export of all major commodities and prohibited the formation of new private industries. By the early seventies, all major enterprises except agriculture, small-scale trading and minor services, had been nationalized.

Over the years the socialist government established State Economic Enterprises (SEEs) to deal with initially and mostly non-agricultural economic activities. By the end of 1988, there were about fifty of them in all sectors of the economy, including agriculture, forestry, fishery, livestock, industry, mining, energy, construction, transport and communication, export and import, hotel and tourism, and banking and insurance. Private sector involvement in national economy also had at one time dropped down to its bottom [The contribution of private sector to GDP dropped to 55.5% in 1985/86, please see in Appendix (3.1)]. Private businesses such as small-scale commerce and cottage firms were trading in the free market or the black market.

² Burmanization is the term that many Myanmar economists use to express the exercise of Myanmar nationalism, and is intended to transfer ownership of all economic entities or production factors from foreigners to Burmese (Myanmar people).

³ Burmese Way to Socialism is the socialist ideology invented in accordance with the Myanmar history and geo-politic conditions, culture, race, religion, etc. It is a combination of Buddhism, nationalism and

(1) Property Rights Structure in State Economic Enterprises

As mentioned above, after 1962 the socialist government abolished the private ownership of the means of production in almost all the economic sectors. However, the government recognized the private property rights in the area of agriculture, small-scale trading and minor services but did not allow any capital gain at least in laws.

The socialist government believed that the ownership of the means of production would determine the distribution of the means of consumption. Therefore, the means of production had to be the state property so that the state could distribute the means of consumption (pecuniary and non-pecuniary income) in a proper and appropriate way. It aimed to get a fair and reasonable income distribution among all the Burmese citizens. After the formation of Burmese Way to Socialism, the government declared that the state was the ultimate owner of the means of production and collected data to quantify the individual consumption⁴. Unlike other socialist countries, Myanmar socialist government allowed the state to reassign its property rights (expropriated property rights from previous private owners) to individuals though the state was still the ultimate owner of the means of production.

It implied that the state could determine the distribution of the means of consumption automatically if it possessed all the means of production. But the

socialism (Steinberg: 1982). It is therefore different with the world socialism which seeks to get ultimate solutions to the welfare of society in many aspects.

⁴ Soon after the Burmese Way to Socialism was introduced, central planners and economic advisors began to collect the data and attempted to compile input-output tables to set up quantitative targets. Although this effort of compiling sophisticated statistics was abandoned, it was still necessary to report on the state of economy and the effects of government activity on production.

determination by property relations of the production and distribution relations was not as automatic as the government expected. As once private property was abolished⁵, there still remained the real problems of how to reorganize the actual production and distribution relations.

This problem commonly arises because the property rights relations or ownership of the means of production relations theoretically consists of as well as the concept of possession, which means the exercise of ownership in control and use of property. The juridical ownership is legal property right assigned usually by the state or in some cases by the society and it can also be regarded as assignment of entitlement of ownership. The main problem is who exercises the ownership rights in economic activities and who bears responsibilities of such activities and not the problems of who keeps juridical ownership. In other words, who exercises the decision-making rights and who really bears the value consequences of the decisions are the main issues.

There is also an issue of the exercise of possession rights by the state versus by the whole society. At the enterprise level, the issue is the exercise of possession rights by the professional managers versus by the enterprise collectives. Under the same banner of socialism, we can see two extremely different forms of organization, the Soviet type state enterprise and the Yugoslav social (or collective) enterprise. These two are characterized with different property relations. As the property relations in these two types are different, the behaviour of managers and workers will be different but it is, from the point of view of property rights theory, predictable. The externalities (agency problems) resulted from their activities are likely to be predictable.

⁵ It was intensively implemented during 1962-63 by nationalization.

In the Soviet type, enterprise property was the state property and for each worker or manager (agent) who participates in the activities of an enterprise had no property rights to control over the enterprise because the ownership rights could be exercised only by the state. Nobody along with the decision-making processes bore the value consequences of decisions making. Under this condition and without proper control mechanisms, the agents had incentive to expropriate the state property for irregular private benefits or to shirk their duties as much as possible, because it is more rational for them. It eventually called for a very rigid control mechanism upon the decision-making agents.

In contradiction with the Soviet type, each worker in Yugoslav firms maintained a partake of property rights and had very little control over the enterprise, as it was social enterprise system or common ownership of enterprise. Although they had very little control over the enterprise, they bore the risk of value consequences through the profit distribution system in which there were two kinds of fund, namely Wage Fund which was workers' actual take-home-pay, and Business Fund which was for the reinvestment (Furubotn and Pejovich: 1970, 432-433). Under this condition, workers (the collective and elected workers) who had the right to control the distribution of profit between Wage Fund and Business Fund had incentive to get larger portion of profits to the Wage Fund through which they could get more compensations (wages). Because their property rights were valid only when they were in service and because the rights could not be transferred to others, they were probably less interested in reinvestment.

In the case of Myanmar SEEs, the means of production are state property like in the Soviet Russia. For each worker who participates in activities of a state enterprise has

no rights in the enterprise to control over the enterprise property because the ownership rights can be exercised only by the state as opposed with the situation where each worker has almost complete property rights over his wages and bonuses. These two forms of property create different incentives to workers. That is, they have incentives to transform the enterprise property into their own private consumption which they have complete control or they have strong incentive for more on-the-job consumption⁶.

Although all kinds of socialist enterprise have different agency problems resulting from the property relations, the degree of seriousness depends greatly on the control system and allocation of decision processes among agents, which vary with the different enterprise systems.

Prior to 1962, the economic organizations assumed full responsibilities for their profits and losses without government intervention in their day to day operations. In 1966, Revolutionary Council Government (Military Government) introduced the Union Government Consolidated Fund (UGCF) system in the SEEs. Under this system, it was mandatory for the SEEs to place all their revenues into the UGCF and draw their expenses out of the state budget. The SEEs prepared for their budgets in line with the short-term four-year plans. The plans outlined the output targets for the SEEs, which were expected to achieve within the allotted budgets.

Under this system, it is very clear that there is no relationship between the capital available from the state and the revenue or the performance of SEEs. The steady capital supply is guaranteed through the budgets previously planned regardless of their performance. Thus, the SEEs were not very sensitive to profitability. In other words, the

⁶ On-the-job consumption may take various forms such as buying a car for their convenience, furnishing

state-owned assets would not be used in a financially efficient manner. That is, the SEEs will spend all funds allotted by the budgets regardless of their bad performance and prepare budgets that can claim more funds. Budget allocation depends on the negotiating-power of the enterprise with the central planning body.

The contract structure characterizing the state enterprises in Myanmar is considered as centralization of property rights by the state apparatus, with the state bearing risks associated with exercise of these rights. Enterprises function as parts of state apparatus. The entire decision process (initiation, ratification, implementation, and monitoring) is therefore associated with the state apparatus. Nobody along the line of administration bears value consequences of their decisions. Only the central leadership bears the political risk associated with the performance of the economy. Economic risk is borne by the whole society, that is if this organization does not perform well in terms of output the whole society has to suffer by consuming less.

This is a traditional state ownership in which both ownership and management roles are assumed by the state. This kind of state ownership has inherent contradictions. First, this kind of state ownership uses the administrative methods, used in the government organizations, for the management of the economy and state enterprises. It cuts the voluntary horizontal relationships among enterprises, and poses a vertical structure similar to a government hierarchy. Second, the state apparatus is contaminated by commercialism, owing to its direct involvement in the management of the economy. Features of the economy such as bargaining and exchanges for the pursuit of individual economic gains invade the state apparatus. It forms the base for political corruption

the office in a luxurious way, or staffing a nice secretary.

within the state apparatus because an important criterion in the management of the economy is not 'efficiency' but the approval of the state personnel.

Under UGCF system, the managers of SEEs played simply and mainly an agent role. They were assumed to have incentives to shirk because their payments were nearly constant and bore no income risk. They were supposed to be controlled very closely and to be motivated by attractive compensations to get higher contribution to the production processes. There was no attractive wage and bonus scheme in practical sense because the performance was hard to measure to give a guide for compensations. Moreover, the bureaucratic hierarchies mean that the close supervision is impossible. Shirking is the most serious problems for this system and it affects the performance of SEEs.

This system continued until 1975. After experiencing failure for about a decade, the socialist government in 1975 changed their policies toward the SEEs. The socialist government introduced commercial guide lines for SEEs in order to lead the SEEs to operate their business activities on the commercial basis rather than as a part of political mechanism. These, in general, included the creation of boards of directors with one-third representation of workers, partial withdrawal of rigid price controls, and introduction of a bonus scheme for workers (Rana and Hamid: 1995,156).

The important parts of commercial guidelines are as follows:

- (1) Profits are to be used as an indicator to determine their success and for application of material incentive system.
- (2) In order to inculcate a greater sense of responsibility at various levels of the economic enterprises, delegation of authority to the managerial personnel are to be extended.

The fulfillment of targets is to be suitably rewarded and strict actions are enforced against recalcitrant personnel.

- (3) To establish the SEEs operating on commercial basis with their own financial resources. These enterprises are to pay interest for capital investment, rents for the buildings.
- (4) In order to make profit, the SEEs are to adopt the method of reducing the cost of production instead of raising the prices and control the profit margin or the prices of commodities.
- (5) Manpower and expenditure for administration are to be reduced as far as possible and due priority is to be given to acquirement of the required manpower and capital investment.

To implement these outlines the government replaced the UGCF system with the Working Capital system⁷. The restructuring of the SEEs seem to be effective to control the agency problems but there are several contradictions between the above commercial outlines themselves and actual practices.

The followings are possible contradictions:

- (1) When the profit of the SEEs is used to be an indicator to determine compensations of the input factors (bonus apart from the wages), the greater degree of delegation of authority to the managers is extremely important for the management of the enterprise. Delegation of the greater degree of authority may distinguish the problems of ambiguous responsibility of the performance of the SEEs from the state. But, in

⁷ The Working Capital system is that the state allotted a certain amount of working capital to the SEEs after which they are supposed to meet their financial requirements both current and capital by borrowing from the state banks paying interest at the current stipulated rates.

practice, the selling prices, source of raw material acquisition and many personnel decisions were all determined by the central government. This made the compensation mechanism more complicated to determine as to who was responsible for the outcome (profit or loss) of the SEEs, the state or the management.

- (2) The profit may not be an indicator for the performance with lesser degree of authority _ for example, increasing selling price was prohibited and only the reduction of cost of production was allowed to the management. Under this condition, the enterprise would produce low quality products by using cheap but lower quality raw materials or by deducting some steps of production process in order to reduce the cost of production where cutting labour cost was realistically impossible⁸. The social cost or externality was borne by the consumers. They had to consume lower quality products, as there were very limited alternatives available to the public.
- (3) The allocation of profits in the forms of bonus (bonus system) was difficult to implement as operating ratios did not justify payments because there was no effective metering mechanism for the contributions of each agent to the production processes. The allocation of profits, therefore, is probably to be carried out at random⁹ or by fixed rates.

⁸ The deduction of labour cost was practically impossible because one third of board came from workers and the influence of the 'Asiayone' (Union) of Workers was so strong that the management was hard to challenge.

⁹ With team production, it is difficult, solely by observing total output, to either define or determine each individual's contribution to this output of the co-operating input (Alchian and Demsetz: 1972, 779). If rewards are random, and without regard to productive effort, no incentive to productive effort would be provided by the organization (ibid, 778).

- (4) Although the state delegated in principles the extended authority (control rights) to management to make them more responsible (enlargement of the stewardship of agents), in practice, it was hard for management to exercise such control rights. One third of Board of Directors was representative of workers and the majority of remaining were party bureaucrats who often interfered with the decisions of the management and who were nominally not responsible for the performance of the SEEs.
- (5) Control of agency problems in the decision processes is important because the SEEs' managers who practically initiate and implement the decisions are not residual claimants and do not bear any risk of wealth effects of their decisions. The advisory body gives very detail instructions to the managers to control their activities. But in reality, it makes the allocation of decision processes more complicated because there is confusion about the question of who really carry out the decision management. The SEEs' managers could give very reasonable explanations for the bad performance by just simply saying, "we just followed the instructions".

Both the UGCF system and Working capital system for the SEEs were very much hierarchical, ranging from the top state bureaucracy down to lower level bureaucrats, managers and finally workers. Too many hierarchies may generate the possibility of conflicts among agents. Timore (1986) argues that the collusion is typical of most multi-tier hierarchical structures. The more the tiers the structure has, the more serious the problems of collusive activities. Negative effects of collusion in the SEEs include the loosening of the monitoring mechanism and corruption in some cases. When the

loosening terms in material basis, there is a possibility of expropriation of state's assets. The ideal situation for SEEs would be the case that all persons involved in the decision-making-process are not solely agents but they simultaneously have to be stewards, like the management in the non-profit organizations in a market economy.

From the property rights approach, the Working Capital System seems to extend the role of stewardship by separating decision management from decision control but failed in practice. The nature of composition of Directors of Board and the remaining central control in some areas of decision making eventually lowered the role of management, stewardship. With the declination of stewardship in the agents, the opportunistic behaviour of agents was becoming very critical because the stewards were motivated by their commitment. They are supposed to take the responsibility of the their decisions while the agents are externally motivated by incentive payments, pecuniary and non- pecuniary. Agents as mentioned earlier, will make their best effort only when appropriate incentives are provided to induce them to do so, or when they bear value consequences of their own decisions (Lee: 1991, 25). The responsibility means that the agents have to bear some risks on their decisions, which can affect their private property.

It is important for all kinds of organization, socialist or capitalist what ever it may be, to develop a system of making decision agents bear some degree of risks associated with their decisions while offering appropriate incentives. The incentives and control have strong influence upon the behaviour of the agents. It means that the various property-rights -assignments on reward-penalty system have an effect over agents' behaviour. In SEEs, the decision agents bear almost no risk on their income for their decisions so long as they do not commit a criminal act of expropriating the enterprise

property for their individual sake¹⁰. In these enterprises, there may be high rate of shirking and other forms of on-the-job consumption that decision agent probably take part in. These two factors result in low efficiency of SEEs in general or under-utilization of resources.

These factors are theoretically relevant for the capitalism too. Employees in capitalist firms may have incentives to shirk or to expropriate enterprise property for private benefits, which actually often happens. But there are fundamental differences, especially in the property relations (the ownership of the means of production and the ownership of means of consumption), which will make different forms of stewardship and agentship depending upon the types of organization. In capitalist organizations, the shareholders are residual claimants who are willing to monitor their agents without shirking themselves. As in the case of highly dispersed ownership structure, for instance, a joint-stock company, in which each stockholder holds a very tiny portion of the whole capital stock, he is assumed to have little or no incentive for monitoring the agents. Although each stockholder does not have sufficient power to challenge the management, he has the right to shift his investment to other places where he believes to be more profitable without giving notice to management in advance. The stockholders can also

¹⁰ As Burmese Way to Socialism is the product of three forces; Buddhism, Nationalism, and Socialism, the Buddhism and nationalism have a strong influence upon it. As a result, the Burmese Way to Socialism has its originality, which seeks the welfare of Burmese people rather than seeking the general truth for the whole human society. It is not as rigid as in other socialist countries. Therefore, it is normally and usually not a practical act to punish a person because of his bad performance to the enterprise, whereas other socialist countries see punishment as one of the control instruments, at worse, execution is also not uncommon.

take back their money by selling out the stocks in the market when they found any unsatisfactory performance of the management or when the management did not meet their expectations, and whatever the reasons may be. It implies that giving the right to the stockholder to quit from his commitment in the company can avoid undesirable value consequences of the decisions made by the management whenever he believes the performance of the management does not meet his expectations.

In other words, the ownership of any kind of private organizations has alienability or transferability where the state-owned has not. If the performance of management is really unsatisfactory, voluminous sale of stocks will cause the share price down. The decreased share price carries signal or warning from the market to the management. It can be considered as one type of external controls, which may discipline the management to a certain degree.

In the market economy, there is another external control mechanism available to the owner, that is management labour market. If there is "management labour market" the agent may have to bear the risk of his decisions which can affect his future income. The price for the compensation of an agent in the external labour market has, in greater degree, a strong relationship with his performance and his present income. The outcome of the performance of management, at least, may have to show that the company is not running at loss to a permissible period; if not, the company will face bankruptcy under the principle of natural selection.

In contrast, everybody is an agent in the SEEs, with the possible exception of the central leadership who might be assumed to be self-motivated with political risk taking. To quote Demsetz, "Private owners as producers largely follow the dictates of profit

maximization, but the state is motivated by political considerations. The state, therefore, may have no strong incentive to monitor the agents as the state's use of what it owns are not necessarily the same as those that govern private use. The economic theory of democracy has not developed sufficiently to allow us to understand enough about the behaviour of "the state", or "its members" (Demsetz: 1990, 13-27).

The state does not allow SEEs to go into bankruptcy by financing with bank loans or foreign aids, which will later become a burden to the state. For the managers of SEEs, they may not have to bear the risk, as there is no competitive external labour market, which determines their future incomes. Their future incomes mainly depend on the promotion of position that is, in principle, determined by seniority and performance but in practice, it is generally determined by political status or personal relations and seniority. Only the forced resignation or punishment is the main factor that has direct effects on their present and future incomes. Such action was rarely taken under Burmese Way to Socialism (socialist government) as it was greatly influenced by Buddhism and nepotism. Moreover, there were no good reasons to let the agent bear the risk because all the strategic, very often not really strategic, decisions were made by the central government¹¹.

The contract structure characterizing state enterprise, under Burmese Way to Socialism government, was considered as centralization of property rights by the state apparatus, with the state bearing risks associated with the exercise of these rights. Enterprises functioned as parts of state apparatus. The entire decision process (initiation,

¹¹ Although the government had delegated authority to the agents to have more autonomy, centralization was dominant in practice.

ratification, implementation, and monitoring) was therefore carried out by the state apparatus. Nobody along with the line administration bore value consequences of the decisions. Only the central leadership might bear the political risk related to the unfavorable situation of the economy.

The economic risk had to be borne by the whole society through government's circulation of money as social costs. If the SEEs, for example, did not perform well in terms of the planned output targets due to the failure of central planning, or management inefficiency, or any unpredictable accidents, or any reasons, the managers of the SEEs did not have to bear the responsibility. As a result of economic risk, the whole society suffered by consuming less.

The data of SEEs, especially in relation with the productivity or efficiency, are strictly prohibited to the public and kept as confidential data. It is, however, believed that the effects of the changes in property rights in the SEEs can be analyzed with those available data, such as total revenue of SEEs, total expenditure of SEEs, and total deficit, to explore the differences in efficiency between different economic and management systems.

Table (3.1) Performance Indicators for the SEEs.

Particulars	1985/86	1986/87	1987/88	1988/89	1989/90
SEEs' Total Income(K,M)	24083.5	23248.3	20043.4	19100.1	26812.8
SEEs' Total Expenditure(K,M)	28044.1	25864.4	23861.0	23998.3	29977.5
Total Deficit of SEEs(K,M)	3960.6	2616.1	3817.6	4898.2	3164.7
Total Deficit of Government Budget(K,M)	3008	2593.8	3958.0	6314.0	8019.0
GDP at Current Price(K,M)	55989.3	59028.1	68698.4	76242.7	124666.3
SEE's Deficit and Income Ratio(%)	16.45	11.25	19.05	25.64	11.8
% of SEEs' Deficit to the Total DGB	131.67	100.86	96.45	77.58	39.47
%of SEEs' Deficit to the GDP	7.07	4.43	5.56	6.42	2.54

Source: Ministry of Planning and Finance, Review of Financial, Economic and Social Conditions, Various Issues. Note: DGB = Deficit of Government Budget K.M = Kyats in million.

Table (3.1) shows total income, total expenditure and total deficits of SEEs, total deficit of Government Budget, GDP in current price, SEEs' deficits and income ratio, SEEs' deficits to total Deficits of Government Budget, and ratio of SEEs' total deficits to GDP.

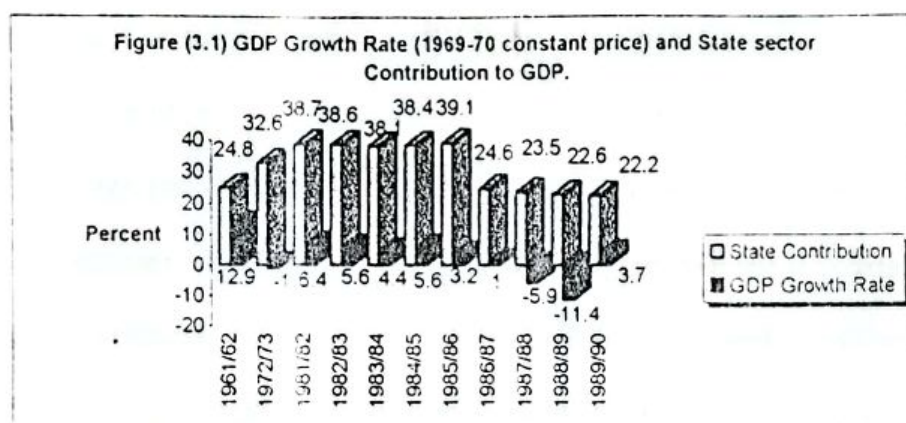
As shown in Table (3.1), from 1985/86 to 1988/89 (before the period of economic reforms) the large deficits of SEEs continued throughout the years. Moreover, high ratios of SEEs' deficits to SEEs' total income from 1985/86 to 1988/89, which could be regarded as an indicator of efficiency of SEE, can be seen as 16.4%, 11.25%, 19.05% and 25.64% in the respective years.

The total deficits of SEEs stood at 131.67%, 100.86%, 96.45% and 77.58% of Consolidated Government Budget between 1985/86 to 1988/89. The ratios of SEEs' total deficits to Gross Domestic Products (GDP), which can be accepted as indicators to measure the degree of social cost to be borne by the whole society, are 7.07%, 4.43%, 5.56% and 6.42 respectively during 1985/86-1988/89.

The deficits were financed by circulation of money and resulted in high inflation rate (6.81% in 1985/86 to 22.5% in 1988/89). Consequently it lowered the value of the private property; that is what we call the externality. To control the inflation, the government announced demonetization, which might be considered as the immediate cause for the political turmoil in 1988. It eventually called for constitutional change and management system reform. In other words, the deficits of the SEEs became to be a driving force for the economic reform.

Figure (3.1) reveals the comparison of the GDP Growth Rate and the contribution of the state sector to GDP. It can be seen in the Figure that the GDP Growth Rate

constantly decreases during 1961 to 1985/86, whereas the state contribution to GDP increases significantly from 24.8% in 1961/62 to 39.1% in 1985/86. After 1985/86, the state sector contribution slightly slopes down 22.6% in 1988/89 when the economic reform started and the GDP Growth Rate rapidly goes down to minus 11.4% in 1988/89. Therefore it is inevitable to the government to take immediate action to transform the economic system apart from the political upheaval in 1988.



After 1962, the government expanded the state sector rapidly by the nationalization of all sizable private businesses and some remaining is transformed to co-operatives. Therefore after 1962 the contribution of the state sector to the GDP increases rapidly and its structural contributions also change significantly. Table (3.2) shows the structure of the State Sector by sector, dividing into the followings:

- (1) Goods Sector; it comprises Livestock and Fishery, Forestry, Mining, Processing and Manufacturing, Power and Construction,
- (2) Agriculture; it is separated from Goods Sector for making this sector more distinct,

(3) Services Sector; it includes Transportation, Communication, Financial Institutions, Social and Administrative Services and Rental and other services, and

(4) Trade Sector.

The most significant changes can be seen in the agricultural sector where the state had no share in 1961/62 and it increases to 44.1 million in 1989/90 (it is 0.09% of Total GDP and 0.4% of State Sector). The most favorable sector for the SEEs can be considered as trade sector, which occupies 34.49 % of State Sector. It can be seen that all sectors of the state decline recognizably after 1986/87. Service Sector seems to be more commendable to the SEEs, as it have strong and stable network and it occupies 57.5% of total output of Service Sector in 1989/90 [please see Appendix (4.1)].

Table (3.2) State Contribution of GDP by Sector (Kyats in million).

	1961/62	1974/75	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
Goods	389.2	791.7	2299.9	2212.5	2435.0	4028.7	3490.4	2785.0	3567.9
Agriculture	0.0	6.2	17.4	13.7	28.0	28.4	25.3	18.6	44.1
Service	782.7	1695.5	3170.8	3377.0	3641.6	5213.0	5378.2	5153.6	3943.5
Trade	763.1	1053.6	1776.6	1880.2	1976.3	4342.0	3592.8	2889.0	3556.8
Total	1935.0	3547.0	7264.7	7483.4	8080.9	13612.9	12486.7	10846.2	11112.3

Note: It is 1969/70 constant producer price up to 1985/86 and after that it is 1985/86 constant price.

(2) Property Rights Structure in the Private Sector

The Burmese Way to Socialism (from 1962-1988) reconfirms that the state is, according to the constitution, the ultimate owner of the means of production. The private ownership was, in principle; not to be in existence or the private ownership should not be recognized by the state. But the socialist government recognized the rights of farmers to

exercise (1) control rights (land use rights), (2) residual claim right (the right to obtain the residual value), and (3) disposable rights (the right to transfer the use right (land) to others¹². It could be assumed that the most important parts (three bundles of property rights) of the full private ownership were in practice reassigned to the individuals¹³ to greater degree. From the viewpoint of property rights approach, it is very reasonable to categorize the agricultural sector as part of the private sector. Some small-scale businesses with the same property rights structure mentioned above scattered among the trading, service and manufacturing sectors. We consider these small-scale businesses as private businesses and they are included in the private sector.

Private sector is therefore divided into agricultural sector and other businesses in the other sectors depending upon the distinct property-rights relations and the importance of agricultural sector in the whole economy. It is very important to analyze the problems of ownership (property rights relations) in the agricultural sector to understand Myanmar economy.

¹² According to the constitution, the state was the ultimate owner of land, the full private ownership of land was not recognized. Therefore the transfer (or sale) of the land use right would not be possible but the state or the society accepted the inheritance from relatives or family members through the traditional law or custom. With the inheritance custom, the farmers had, in real practice, the right to transfer (sell) the land use right by following the necessary official procedures.

¹³ The reassignment of these three bundles of rights does not necessarily mean that the farmers have full private ownership right. The state restricted some rights from the bundle of rights, which define ownership. We will later discuss about the restriction of the rights that will become a factor, which generates the negative externality.

(a) Agriculture Sector

Agricultural sector plays an important role in the private sector because the private farmers occupied nearly 100% of agricultural sector (97.13% and 97.65% of agricultural outputs in 1983/84 and in 1997/98 respectively). Moreover, the agricultural sector is the main contributor to the GDP and the main source of foreign exchange earning from the colonial period to the parliamentary period and the engine of the economy up to present time. The agricultural sector housed 63.35% of total labour force and it was nearly 80% of total population in 1985/86. Its contribution to GDP stood at 37.1% in 1985/86.

We will discuss different property rights relations and agency problems corresponding to the government practices: restrictions and regulations on land use, tenancy, price control, quota system, and other restrictions on agriculture related activities. Agricultural reforms after 1988 and their effects on the property rights will also be discussed.

Burmese socialism, called Burmese way to socialism, had its originality and never collectivized the agricultural sector. Agriculture was left in the hands of individuals. Ownership problems in Burma before economic reform were, therefore, unlike those of other socialist or communist countries in which collective ownership and state ownership were more common. This was a very special nature of Burma's transition, as opposed to other countries of Asia as well as Eastern Europe. Myanmar had the clear role of private sector even in the socialist economy but mostly concentrated in the agriculture sector as already mentioned above, and a few private-owned small-scale businesses scattered in the industry and service sectors.

The existence of different scales of private sector in the socialist economy created different ownership problems to be concerned in the economic reforms. For the economic reforms in East Europe and China in which the economy was mainly occupied by the state sector, the creation of the new private sector within the economy was first to be implemented. It was carried out by assigning the identity or entitlement of ownership to the private _ transferring state-owned enterprises to the private.

After the economic reforms in those countries, for example, China, Czech Republic and Hungary, vague or hybrid ownership forms of enterprises have also been created within borderline areas of private, common and state ownership (Roman Frydman, Andrzej Rapaczynski, and Joel Turkewitz: 1997, 40-59) depending upon the methods they used.

The first priority in Myanmar economic reform, in contrast, was primarily dealing with the problems of how to change the contents of property rights to make private business more efficient. It comprises mainly releasing or liberalizing of regulations, which were imposed upon the private business, to have more freedom to do business within the competitive market. These problems were mainly due to the truncation of ownership¹⁴.

Soon after the Revolutionary Council came to power in 1962, an agricultural development programme, which aimed at abolishing landlordism and improving the social and economic conditions of the peasantry, was launched. The first Tenancy Law

¹⁴ As already explained, the truncation of ownership is constraining some property rights from the bundle of rights which defines full private ownership. This aspect of the economics of ownership was developed and well-known as part of the economics of regulation rather than the context of ownership (Demsetz: 1990,17)

was introduced in 1963, by which the rights of tenancy of land was given to Agrarian Committees composed with farmers at village level. As it was already indicated, the Tenancy Law of 1965 abolished the tenancy, which was, many scholars believed the most progressive step in the agrarian history of Myanmar. In practice, however, tenancy was not totally eliminated. Some scholars found that tenancy still existed even after 1971 (Mya Than & Nishizawa: 1990, 90).

The Farmer's Rights Protection Law of 1963 protected the farmer or all cultivators from confiscation of means of production such as land, livestock, farm implements and agricultural produces as repayment of debts. This policy reform confirmed again that state is the ultimate owner of the land and it assigns the rights to cultivator to work on the land as individuals. They were prohibited to buy, sell, or mortgage it. In redistribution of land, the Agrarian Committees gave priority to the poorest persons in the village, thus affecting productivity since he did not have the requisite skills or sufficient capital¹⁵. This reform, in essence, represented continuation of the land reforms of the 1950s and its main purpose was to break up the landowner-tenant relationship in order to create a new government-owner-cultivator relationship and to strengthen government control over farmers.

The socialist government assigned its property rights or the use-right of land to individuals based on the equity or ownership concerns, not on the productivity. Burmese people were very sensitive in the equity problems because they suffered bitterly during

¹⁵ It could be more understandable by reviewing the ownership structure of the national economy or the ownership of the economic entity once Burma experienced under the colonialism in which Burmese were discriminated by the socio-political system. The political incentive for the new government was the resolution of the ownership problems or the equity problems rather than productivity.

The existence of different scales of private sector in the socialist economy created different ownership problems to be concerned in the economic reforms. For the economic reforms in East Europe and China in which the economy was mainly occupied by the state sector, the creation of the new private sector within the economy was first to be implemented. It was carried out by assigning the identity or entitlement of ownership to the private _ transferring state-owned enterprises to the private.

After the economic reforms in those countries, for example, China, Czech Republic and Hungary, vague or hybrid ownership forms of enterprises have also been created within borderline areas of private, common and state ownership (Roman Frydman, Andrzej Rapaczynski, and Joel Turkewitz: 1997, 40-59) depending upon the methods they used.

The first priority in Myanmar economic reform, in contrast, was primarily dealing with the problems of how to change the contents of property rights to make private business more efficient. It comprises mainly releasing or liberalizing of regulations, which were imposed upon the private business, to have more freedom to do business within the competitive market. These problems were mainly due to the truncation of ownership¹⁴.

Soon after the Revolutionary Council came to power in 1962, an agricultural development programme, which aimed at abolishing landlordism and improving the social and economic conditions of the peasantry, was launched. The first Tenancy Law

¹⁴ As already explained, the truncation of ownership is constraining some property rights from the bundle of rights which defines full private ownership. This aspect of the economics of ownership was developed and well-known as part of the economics of regulation rather than the context of ownership (Demsetz: 1990,17)

was introduced in 1963, by which the rights of tenancy of land was given to Agrarian Committees composed with farmers at village level. As it was already indicated, the Tenancy Law of 1965 abolished the tenancy, which was, many scholars believed the most progressive step in the agrarian history of Myanmar. In practice, however, tenancy was not totally eliminated. Some scholars found that tenancy still existed even after 1971 (Mya Than & Nishizawa: 1990, 90).

The Farmer's Rights Protection Law of 1963 protected the farmer or all cultivators from confiscation of means of production such as land, livestock, farm implements and agricultural produces as repayment of debts. This policy reform confirmed again that state is the ultimate owner of the land and it assigns the rights to cultivator to work on the land as individuals. They were prohibited to buy, sell, or mortgage it. In redistribution of land, the Agrarian Committees gave priority to the poorest persons in the village, thus affecting productivity since he did not have the requisite skills or sufficient capital¹⁵. This reform, in essence, represented continuation of the land reforms of the 1950s and its main purpose was to break up the landowner-tenant relationship in order to create a new government-owner-cultivator relationship and to strengthen government control over farmers.

The socialist government assigned its property rights or the use-right of land to individuals based on the equity or ownership concerns, not on the productivity. Burmese people were very sensitive in the equity problems because they suffered bitterly during

¹⁵ It could be more understandable by reviewing the ownership structure of the national economy or the ownership of the economic entity once Burma experienced under the colonialism in which Burmese were discriminated by the socio-political system. The political incentive for the new government was the resolution of the ownership problems or the equity problems rather than productivity.

the colonial period. The state legalized the entitlement of ownership to private but constrained some rights from the bundle of rights which defines full private ownership by various regulations.

The property rights theory argues that the scarce resources will be used best only when the private owner has both juridical rights and possession rights, which means the exercise of ownership rights in control and use of property. Constraining the rights will generate the externality (the conflicts) between the existing property rights structure and the full private ownership rights. It has negative effects upon the behaviour of private business.

The farmers were prohibited to sell, buy, and mortgage the land, even though lands were sold and mortgaged almost freely in the market. The state restricted some rights from the bundle of control rights; for example, the state determined the type of crop the farmer had to cultivate. The state constrained the control rights of the farmers to cultivate the crop which they preferred or that would be probably more profitable than what the state assigned to. The farmers had to sell their products to the state at fixed price (there was quota fixed by the state). Burma's socialist agriculture system which was characterized by this kind of restriction of property rights or ambiguous property rights relations, generated the negative externalities, and resulted in the inappropriateness and inefficiency of the system.

The fixed price at the beginning of the socialism was a little favorable to the farmers; i.e., the fixed price was a little bit higher than the cost incurred, but sometimes

(later more often) the fixed price did not cover even the cost¹⁶. Only the remaining rice after selling to the state and after leaving for family consumption was available to be sold the free market¹⁷. The profit earned from sales of rice in the free market became a major source for consumption of other commodities.

As mentioned above, apart from the agriculture sector, almost all the economic sectors were overwhelmingly run by the SEEs. As a result of inefficient performance of SEEs, the supply of other commodities suffered shortage and the prices of all kinds of commodity went up. To cope with the rising prices, the farmers tried to hide their products from selling to the state as much as they could. They tried to take more rice for the free market or mostly black market to get more income. The gap between the government price and market price had, therefore, strong relationship with the amount of state procurement (Mya Than and Nishizawa: 1990, 90-92). The government and market prices of the paddy and rice are shown in Table (3.3). As may be seen in Table (3.3), the government procurement price increases 1.37 times from 149 Kyats 204 Kyats whereas the market price increases 3.51 times from 166 Kyats to 582 Kyats during 10 years from 1962/63 to 1972/73. The most remarkable increase of government price was made in 1973/74, which represents nearly two times, after that the government procurement price shows nearly constant or it shows no significant changes. On the other the market price rises 5.26 times during 1973/74 -1988/89. In addition, the market price reached 8.12 times in 1988/89. It implies that the income of the cultivators was explicitly expropriated

¹⁶ The cost refers to total costs including imputed labour cost. Almost all the agriculture businesses were "family business" and labour was mostly family labour.

¹⁷ The remaining amount of rice available to the free market was very small, as the amount of quota set by the government was high.

by the government, as they had no rights to sell their products in the free market. The selling price (or retail price) increases nearly two times from 222 Kyats to 427 Kyats whereas the market price shows 2.93 times from 378 to 1109 Kyats during 1962/63-72/73. From 1975/76 onwards the government price stays constantly up to 1987/88 and in 1987/88 when the reform in agriculture started, the government raised the retail price from 894 to 3998 Kyats (4.47 times within one year). The market price also increases steadily but slightly from 1972/73 to 1986/87. After 1986/87 it jumps up to 9406 Kyats in 1988/89 from 2139 Kyats in 1986/87 (4.4 times). It is very obvious that the government retail prices are constantly lower than market prices around 2 to 3 times throughout the years up to 1988/89. It seems to be an attempt to implement a fair income distribution, but the amount that is cut off by the predetermined price from income was suffered directly by the cultivators who are not rich or who are living under low-living-standard. There will be no problems if the government can provide all necessary things for the living with the fair and well-calculated prices, but is unquestionably and undoubtedly impossible in the real practice.

Table (3.3) Price of Paddy and Rice (in Kyat/ton)

Year	Retail		Procurement		Ratio of Price*	Export Price
	Govt	Market	Govt	Market		
1962/63	222	378	149	166	2.97	443
1972/73	427	1109	204	582	2.51	512
1982/83	894	1500	472	1986	5.32	2510
1983/84	894	1834	472	2291	3.75	1770
1984/85	894	2022	472	2444	3.34	1577
1985/86	894	2126	472	2521	2.79	1317
1986/87	894	2139	472	2597	3.01	1421
1987/88	894	5747	472	2879	1.74	820
1988/89	3998	9406	472	3834	2.98	1406

Source: Ministry of Planning and Finance, Review of Financial, Economic and Social Conditions, Various Issues. Central Statistical Organization, Selected Monthly Economic Indicators, Various Issues.

*Ratio of Export Price and Government Price.

The wide gap between market price and government price and forced-quota-system had serious effects upon the behaviour of farmers. They often left some of their lands uncultivated because marginal income did not cover marginal cost. The result was very stable sown acre (paddy) during 1985/86 and 1988/89 (Please see Table (3.4) for sown acre).

Table (3.4) Sown Acreage, Production, and Yield per Acre (in thousand).

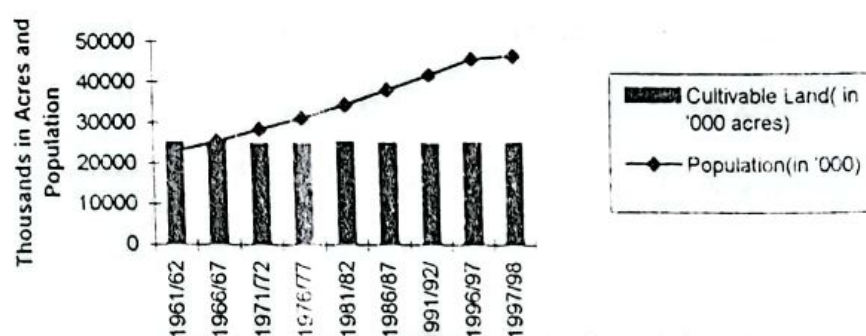
Year	Sown Acreage (Thousand)	Production (Ton, Thousand)	Yield/Acre Ton
1985/86	12114	14098.8	1.16
1986/87	11968	13903.9	1.16
1987/88	11531	13420.2	1.16
1988/89	11807	12956.4	1.10
1989/90	12057	13585.6	1.13

Source: Financial, Economic and Social Conditions, Various Issues.

Though the land distribution was intended to make as many farmers as possible to hold land, as may be seen in the Figure (3.2), there was not enough land for the families to cultivate. The population steadily increased whereas the acreage of cultivable land did not change during the socialist era. Increased population with the stable sown acre and stagnant output resulted in less consumption.

The negative effect of fixed government procurement price caused under-investment upon land development and consequently affected the productivity. The production and yield per acre can be seen in Table (3.4), which shows no significant improvement during the last two decades.

Figure (3.2) Cultivable Land and Population



When the land reforms were implemented in 1962, the reallocation of land was given first priority to the poorest person in the village. This kind of land reallocation had serious negative effect on the productivity and economy of scale as they did not have enough capital, equipment, and know-how for farming. As may be seen in Table (3.5) most of the farmers concentrated within the range of under 20 acres (96.62% in 1961/62, 97.33% in 1971/72 and 97.31% in 1981/82) and nearly constant yield per acre [see Table (3.4)]

Table (3.5) Farm Size and Peasant Households

Farm Size	1961/62		1971/72		1981/82		1985/86		1987/88		1988/89	
(Acres)	P.H	%	P.H	%	P.H	%	P.H	%	P.H	%	P.H	%
<5	0.00	0.00	2785.51	63.80	2622.46	61.09	2612.60	61.25	2637.90	61.45	2622.61	61.11
5 - 10	2337.96	83.93	1003.83	22.99	1051.97	24.50	1051.04	24.64	1058.58	24.66	1064.44	24.80
11 - 20	353.51	12.69	460.39	10.54	502.99	11.72	492.97	11.56	489.71	11.41	496.65	11.57
21 - 50	88.88	3.19	114.25	2.62	112.92	2.63	106.07	2.49	103.83	2.42	105.01	2.45
51 - 100	4.71	0.17	1.95	0.04	2.04	0.05	1.53	0.04	1.47	0.03	1.60	0.04
>100	0.56	0.02	0.26	0.01	0.57	0.01	0.99	0.02	1.43	0.03	1.37	0.03
Total	2785.62	100.00	4366.19	100.00	4293.05	100.00	4265.20	100.00	4292.92	100.00	4291.68	100.00

Source: Ministry of Planning and Finance, Review of Economic, Financial and Social Conditions, Various Issues.

Note: P.H refers to Peasant Households (in thousand).

The agricultural sector is the most important sector not only for the whole economy but also for the private sector. The agriculture occupied, as seen in Figure (3.3), more than 40% of the private sector throughout the years up to 1989/90, except 1961/62. Moreover it can be easily observed from this Figure that the degree of dependency of the private sector upon the agricultural sector is increasing during socialist era and it reaches 52.1% in 1989/90 from 34.9% in 1961/62 [Please see data in Table (3.6)].

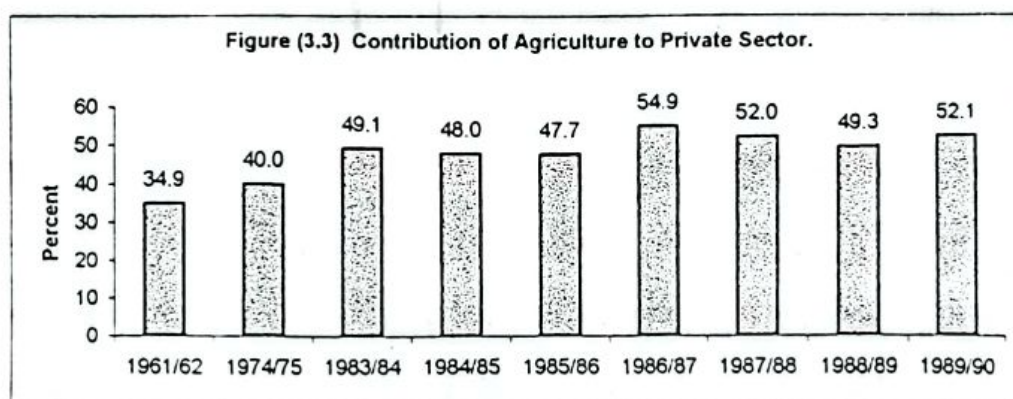


Table (3.6) Structural Changes of Private Sector up to 1989/90 (Kyats in million).

	1961/62	1974/75	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
Goods	1374.9	1733.1	2312.8	2506.1	2677.4	7233.7	7502.2	6951.9	7190.2
Agriculture	2028.0	2956.6	5253.5	5311.3	5464.6	20874.2	19249.8	16628.8	19685.0
Service	928.6	1095.5	1419.0	1498.2	1565.5	3169.9	3266.6	3172.2	3269.2
Trade	1479.9	1611.0	1719.4	1740.4	1759.6	6745.8	7025.2	6978.3	7630.4
Total	5811.4	7397.2	10704.7	11056.0	11467.1	38023.6	37043.8	33731.2	37774.8

Note: It is 1969/70 constant producer price up to 1985/86 and after that it is 1985/86 constant price. Therefore the year duration between 1985/86 and 1986/87 is skipped for the analysis.

The Agricultural out put of the private sector, as may be seen in Table (3.6), shows only an increase of 1.7 times from 2028 million Kyats in 1961/62 to 5464.6 million in 1985/86. During 1986/87-1989/90, it shows a slight decrease from 20874.2 to 19685 million Kyats. It can generally be considered that the agricultural businesses were

running under the unfavorable conditions. Moreover, it can be regarded as an evidence of the severity of the constraints imposed upon private agri-businesses. In other words, it represents the seriousness of the restrictions of private property rights not only in the ownership of land but also the outputs generated.

(b) Private Businesses in Other Economic Sectors

After nationalization of all sizeable businesses, new business was prohibited and private business was limited by various regulations. Only small businesses, mostly family businesses, were allowed in trade and industry. However, these small businesses were also allowed only in the form of unlimited liability, such as sole proprietorship and partnership. The condition of limited liability, which is necessary for a company to expand its scale, (for example, a company limited or a joint stock company) was practically prohibited.

The state recognized the private property rights in the private businesses apart from the agriculture, though they were small-scaled. The private businesses like farmers could use and sell the land freely, even though the state was the owner of land. They had (1) control rights over business operations, that is the rights to use the property in the production process to generate income, (2) the right to obtain the residual value, and (3) the right to transfer the property to others. The private businesses had greater degree of private ownership but the responsibility of the owner against the business was unlimited.

In accordance with the property rights approach, this form of business has significant negative effects upon the investment behaviour of business. The private property and the business property are identical. If the businesses go into losses and

bankrupt, the private property will be claimed by the creditors, and consequently, their living standard will be directly affected. It is very clear that the owner's standard of living totally depends on the performance of business or the ups-and-downs of the business. The investment in this form of business has high risk and the investors may be reluctant to pour their money into the business. This kind of property rights that embedded in the private property¹⁸ has a very weak incentive for the investors.

This regulation had serious negative effects upon the growth of private businesses. Myanmar socialist government had, since 1962, started to nationalize all sizeable enterprises, which had been established under the colonial period. For example, Imperial Chemical Industry and Burma Oil Company were nationalized in 1962 and 1963. Before 1973 when the army transferred the power to the civil government (socialist government), all sizeable enterprises were already nationalized. The remaining small-scaled businesses, allowed only in the forms of unlimited organization, could not expect the growth of their businesses. It was very obvious that the number of private businesses declined significantly during the socialist era. It become limitations for the business expansion, the number of factory establishments with more than 50 workers decreased from 45 in 1983/84 to 13 in 1988/89 (Please see in Table (3.7)).

Table (3.7) Factories and Establishments by Number of Workers

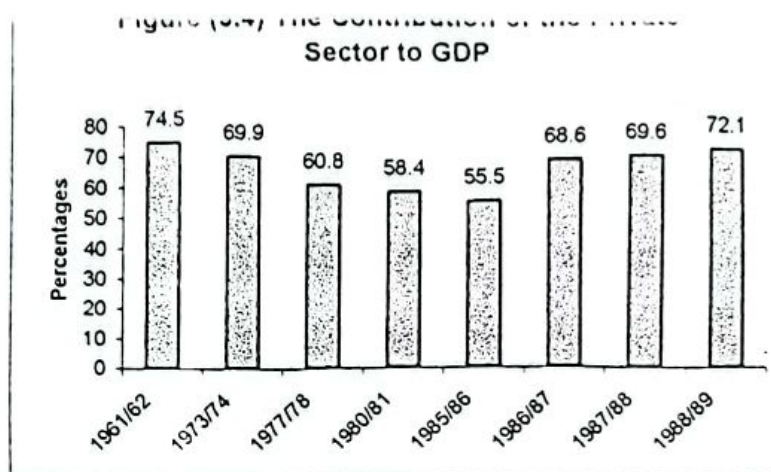
No. of Employees	1971/72	1983/84	1988/89
Below 10 workers	10630	37533	37965
10-50 workers	3457	1182	1824
51-100 workers	137	39	9
Over 100 workers	22	6	4
Total	14246	38760	39802

Source: Ministry of Planning and Finance, Review of Financial, Economic and Social Conditions, Various Issues.

¹⁸ Fama and Jensen (1983, 302) calls it restricted residual claim.

As shown in Table (3.6), Goods Sector increases 1.95 times from 1374.9 million Kyats in 1961/62 to 2677.4 million Kyats in 1985/86, which is little bit more than the growth of agriculture. Service Sector increases 1.69 times and 1.19 during the same time. From 1986/87 to 1989/90, the Goods Sector shows a slight decrease and Service Sector and Trade Sector also shows only a decimal increase. It is generally observed that the structure of the private sector shows no significant changes throughout the years. Therefore the private businesses in all sectors including agriculture were running under serious restrictions of their property rights, as socialist economic system is intended to obtain the state ownership of all resources, not for the private ownership.

From the point of view of business network, constraining private businesses from many sectors had also negative effects upon the performance of the business. For any business, it undoubtedly needs vertical and horizontal business relations to run more efficiently. Most of other essential businesses, for example bank and financial institutions, were run by the state owned enterprises. They had no incentive to co-operate with the private business. As a result, the private business lost its network. As may be seen in Figure (3.4), the resulted outcome was a stagnant or declining contribution to GDP until 1985/86. In 1985/86, the government recognized the importance of the private sector and started to encourage them by issuing some notifications. After 1985/86 onward, the private sector contribution of the GDP increases gradually.



Source: Ministry of Planning and Finance, Review of Financial, Economic and Social Conditions. Various Issues.

3) Property Rights Structure in Co-operative Societies

As mentioned above the nationalization started by the Revolutionary Council in 1962. During this period, many businesses, which were difficult to be nationalized, were transformed or transferred to the co-operatives. Most of them were those firms, which scale was small in amount but necessary for the society such as distribution, retailing, agricultural credit, etc. The government also considered the co-operatives sector as second important pillar that had to support the economy and economic development. The government also declared publicly this slogan and gave emphasis to them for the implementation of socialist economic system. When the Revolutionary Council came to power, there were only 5331 co-operative societies, which engaged in actual business operations, out of 14407 registered co-operatives (BSPP: 1974-b, 38). It was only 36.17 percent of total number of co-operatives.

The Revolutionary Council ordered to make intensive inspections on the co-operatives and reorganized them in order to be compatible with the socialist economic system. In 1963 only one co-operative society (Co-operatives of farming and general business) for one village track (a group of villages) had been allowed to establish

according to the reorganization plan. All other kinds of co-operative society had to be liquidated. Due to this re-organization plan, the number of co-operatives decreased to 10627 and the number of members to 1215597. However the share capital increased to 231 million Kyats.

Due to the improvement of the co-operatives after reorganization plan (restructuring), the government set up Ministry of Co-operatives to manage the co-operatives' affairs more effectively in 1963. But some co-operatives were included in the nationalization of department store and wholesales businesses in 1964. There were still some co-operatives remained in 1964, as there were some difficulties to make them clear their accounts. For the liquidation of these co-operatives and reorganization of remaining co-operatives, 1956-Act was abolished and a new Co-operatives Act was introduced in 1970. According to this Act, Consumers' Co-operatives, Credit Co-operatives and Producers' Co-operatives, which were intended to support the socialist economic system, were established (Mu Mu Thet: 1989,26-28).

The co-operative societies were also reorganized into only three levels; Primary Co-operatives, Township-level Co-operatives and Central Co-operative. Only Primary Co-operatives and Township-level Co-operatives engaged in actual business operations. The "Central Co-operative" was dealing with the distribution of management technology and co-ordination of co-operatives. Primary co-operative societies included the following co-operatives:

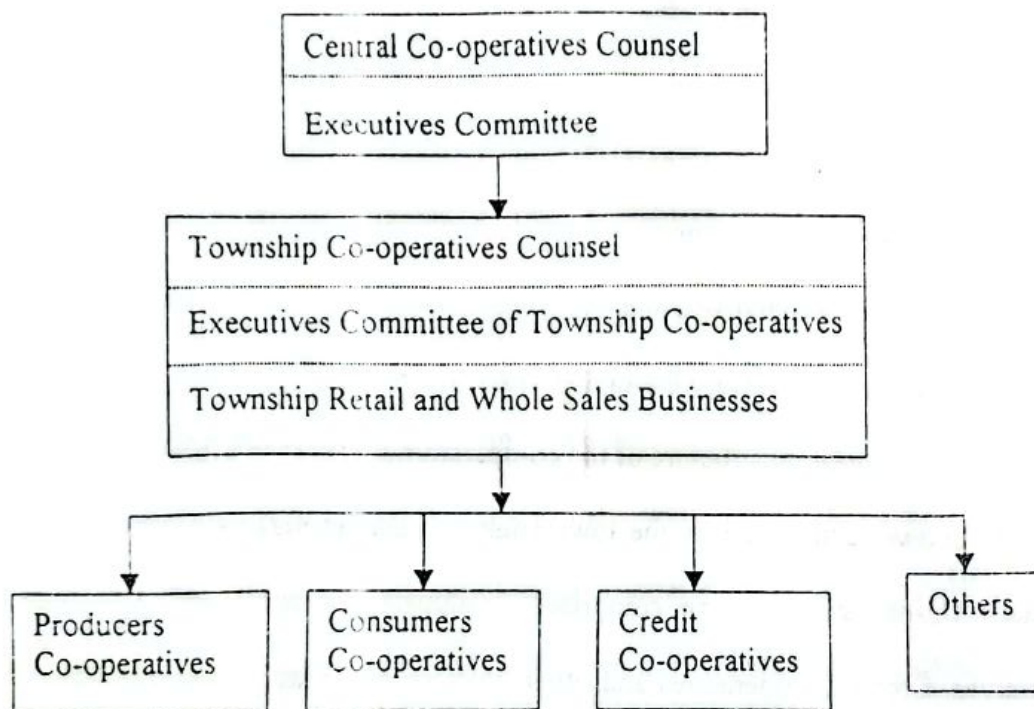
- (1) Consumers' Co-operatives;
- (2) Agricultural Co-operatives;
- (3) Industrial Co-operatives,

- (4) Village Track Co-operatives;
- (5) Tailors' Co-operatives;
- (6) Credit Co-operatives;
- (7) Fishing Co-operatives;
- (8) Police Co-operatives;
- (9) Ferry Co-operatives; and
- (10) Food and Brewery Co-operatives.

The organization structure of the co-operative societies in 1970 is shown in Figure 3.5). As shown in this Figure, the lowest level in the organizational structure was the Primary Co-operatives, which comprised Producers' Co-operatives, Consumers' Co-operatives, Credit Co-operatives and other kinds of co-operatives. In the Township Co-operatives, there were three levels, Township Retail and Whole Sales Businesses actually engaged in the business operations, where the remaining two Township Co-operatives Counsel and Executives Committee of Township Co-operatives were responsible for the management of the co-operatives. The Township Co-operatives Counsel was the highest authority in the Township Co-operatives. The highest authority for the co-operative societies was Central Co-operatives Counsel, and Executive Committee was actually handling the co-operatives' affairs of the whole country.

In 1988-89 when the economic reform started, there were 20882 co-operative societies in total _ one Central Co-operative, 313 Township Co-operatives and 20568 Primary Co-operatives (including 137 Primary Co-operative Syndicates).

Figure (3.5) The Organization Structure of Co-operatives in 1970.



Source: Aung Than Tun 1971, 18.

(a) The Rights of the Members and Formation of Management

As mentioned previously, for the capitals of Primary Co-operatives had to be contributed by the members of respective co-operatives with the predetermined amount of contribution. Although the predetermined contribution was comprised of several shares (the same number of shares for each member), each member could have only one vote in the annual general meeting for all his shares. The voting right in the co-operatives was not based on the number of shares, hold by the member. It was embedded in human being. Moreover, the voting right could not be delegated. The member had to attend the general meeting and give his vote, and no representative (or proxy) for any shareholder

was allowed. The member who was absent in the general meeting would lose his voting right. The co-operatives thus resemble to the democratic system, where each citizen can have only one vote regardless of other things. This system was primarily intended to prevent from the over influence of the minority wealthy members upon the management by allocating equal voting right among the members.

As the shareholding of the members was necessarily to be the same, everybody had equal rights to get benefits. Moreover, the members could register anyone to be their inheritors in the co-operatives and could transfer their shares to them. But the inheritors were restricted to be the following persons, after the member died regardless of whatever the other laws and regulations say.

- (1) the member's immediate family such as wife or husband or children,
- (2) the member's parents and
- (3) the member's relatives or any other persons who are still depending upon the member.

The responsibility of the co-operatives' liabilities for the member also limited to the total amount of their shares. Therefore the co-operatives were business organizations with limited liability. Thus, the co-operatives-organization was only a liability-limited business organization under the socialist economic system. From the viewpoint of property rights theory, this form of property rights is very attractive and essential to the investors (as well as for the business expansion), because the risk of their investments or their commitments in the business can greatly be reduced.

The legitimacy to be a member of co-operatives management-committee (like a member in Board of Directors in the private company) was wholly depending to the laws

and regulations issued or notified by the government. It was not related to their shareholding as all members held the same number of shares. Almost all committee members were from the political party [only one political party, Burma Socialist Programming Party (BSPP)] and they were pre-listed by the socialist party. The general meeting seems to be an assembly for approving the pre-listed candidates and no one could enlist for the race of committee members voluntarily. Moreover, the members also had no strong interests on the voting rights and in many cases the number of votes did not affect the pre-listed candidates.

The lack of control over the management and unavailability of share-withdrawal for the members at the actual value created the conditions, which had no possibility for the members to challenge the management. Almost all the members did not know about the co-operatives' operations. There is always a tendency for the management to deviate from the course of what the management should do for the sake of co-operatives' members.

One representative from each Primary Co-operative had to be a member in the management committee of the Township Co-operatives. Two representatives from the Township Co-operatives had to be committee members in the central co-operatives: one for permanent and one for temporary (result). Although the system itself in principle seems to have control mechanism for the members of co-operatives (shareholders), in practice the interference or intervention of the government was inevitable for the co-operatives. Due to the rules and regulations all committee members had to be from the socialist party. Thus it was very common that all operational activities from policy-making to day-to-day operations were greatly influenced by the socialist party. The co-

operatives were, in great extent, supported by the government for their business operations throughout the socialist era. Without the government's supports, the survival of the co-operatives was hardly to be guaranteed. Moreover, the government did not normally allow co-operatives to bankrupt even they were running at heavy losses, by lending several bank loans and providing subsidies.

It was true throughout the socialist era that the business operations of the co-operatives were dealing mainly with the distribution of the commodities produced by the state-owned enterprises, raw material procurement from the state-owned enterprises and getting several special licenses from the government, which could surely generate profits. The co-operatives were wholly dependent upon the government. Therefore, the co-operatives became part of the government administrative mechanism like state-owned enterprises.

(b) Acquisition of Share Capital and Profit Distribution

According to the 1970 co-operatives plan, the necessary capitals for the co-operatives had to be obtained only from the members of the co-operatives. Moreover, the contribution had to be the members' own money. Nobody could pay the contributions in stead of other members.

In the Primary Co-operatives, all share-capitals were collected from the members. The payment of the shares for each member could be several times as there were many poor members who could not pay all the amount of their shares at once. But every member had to pay full amount of at least one share at once to get membership. The share price was also determined at the price that every member could pay: it was only one kyat

for each share. In all Primary Co-operatives, except Industrial Co-operatives, the number of shares for each member had to be the same. The number of shares owned by the members in Industrial Co-operatives could be different due to their nature. The number of shares for each member was generally from 10 to 50. The members decided these numbers of shares and par value in the general meeting, which should be appropriate and reasonable for all members. The number of co-operatives, their members and turnovers from 1979-80 to 1988-89 are shown in Table (3.8).

Table (3.8) No. of Primary Co-operatives and its Members.

Years	No. of Societies	No. of Members	Turnover
		(thousand)	(Kyats in Million)
1979-80	20150	6998	3553.5
1980-81	20652	7004	3844.4
1981-82	20726	7105	4314.1
1982-83	20801	7122	4411.6
1983-84	20818	7129	4578.5
1984-85	20631	N/A	N/A
1985-86	20730	7490	5390.0
1986-87	20763	7671	5684.2
1987-88	20851	7697	5733.4
1988-89	20882	7705	4219.6

Source: Ministry of Planning and Finance, Review of Financial, Economic and Social Conditions, Various Issues.

N/A = Not available.

All Primary Co-operatives in respective Townships had to be the members of Township Co-operatives and were responsible for the share capital of the Township Co-operatives. The number of shares, each Primary co-operative had to contribute, was decided in the Township Co-operatives general meeting. In general, each Primary Co-operative was responsible for at least 50 shares at 100 Kyats per share. All Township Co-operatives had to contribute 100 Kyats (10 shares at 10 Kyats for each share) for the share capital of the Central Co-operative. As the Central Co-operative was actually not

doing businesses, they could not earn any income. They depend totally upon the members' contributions for their operations_ co-ordination of nation-wide co-operative societies, distribution of management knowledge, giving leadership to the co-operatives, supervision of the co-operatives, social affairs of the co-operatives, etc.

The main objectives of the co-operatives were to provide better social welfare of the members, not for getting profits. Sustaining sufficient capital, covering total running cost and covering the costs incurred by unexpected causes, were given priority rather than the profits. Profit Tax was deducted from the gross profits, which was generally the difference between current revenue and current expenditure.

The profits after tax had to divide in to three portions: Co-operative's Portion, Employees' Portion and Members' Portions (1970 Co-operatives Act, Section 46). Co-operative's Portion was mainly for the reinvestment in or order to get the development of the organization. This portion was generally 20 to 50 percent of the net profit in the Primary Co-operatives and 20 to 55 percent in Township Co-operatives. Employees' portion was used as to obtain their best efforts and distributed into bonus and social welfare. Members' Portion was two kinds: dividends and commodities. Dividends were the same in nature with the dividends in the private businesses and all the members were provided some commodities necessary for the living as a part of dividends. The decision No. (27/77) of the central co-operatives counsel clearly determined the allocations of profits for different type of co-operatives in 1977 and it may be seen in Table (3.9).

Table (3.9) Profit Allocation of Different Type of Co-operatives.

Allocation	Type of Co-operatives					
	Consumers	Village	Industrial (a)	Industrial (b)	Credit	Township
(1) Co-operative' Portion	45	35	50	35	50	60
(a) Expansion Funds	25	20	45	20	30	50
(b) Social and Cultural Fund	15	15	5	15	15	5
(c) General	5	---	---	---	5	5
(2) Employees' Portion	25	20	20	25	25	15
(a) Executive Bonus	10	10	5	10	10	5
(b) Employees' Bonus	10	10	10	10	10	5
(c) Social welfare	5	---	5	5	5	5
(3) Members' Portion	30	45	30	40	25	25
(a) Dividends	25	25	30	25	25	5
(b) Commodities	5	20	---	15	---	20
Total	100	100	100	100	100	100

Source: Ministry of Co-operatives, Department of Co-operatives, Notification No. (1/77). Note: Industrial (a) is high-level manufacturing and Industrial (b) is low-level manufacturing according to their level of technology.

Although the profit was distributed into three portions by the predetermined percentages, in practice there were other funds to be reserved. The following funds had to be retained from the profit.

- (1) Tax Fund: It was reserved for the payment of income tax timely without exceptions.
- (2) Depreciation Fund: The depreciation of the assets was calculated and reserved for the replacement and repair of assets.
- (3) Social and Cultural Fund: It was a provision aiming basically for the improvement of social and cultural conditions of employees.
- (4) Pension Fund: Pension Fund was deducted from the salary of employees, ten percent of salary.
- (5) Others: It was reserved for the casual cases of the employees such as injuries at job, leaves with pay, etc.

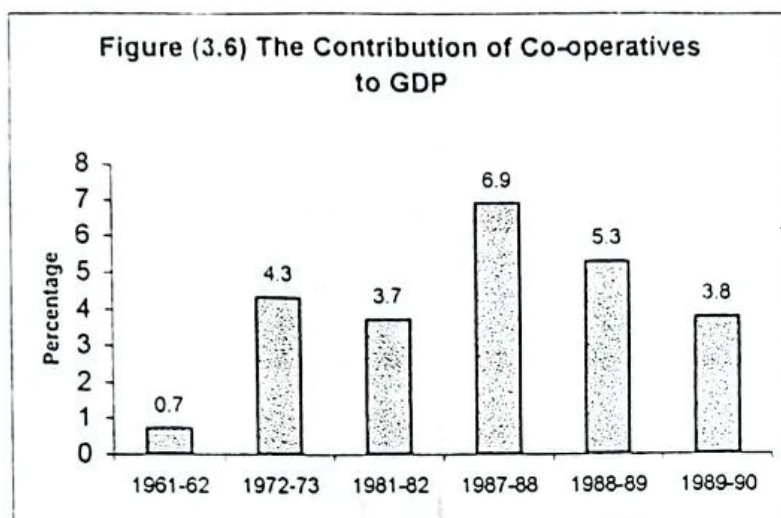
Among these funds, Pension Fund was reserved separately and had to be deposited into banks. It had to be withdrawn only when the employee retired. The co-operatives had no rights to use this fund and the interest obtained from pension fund. Only the retired employee had the right to get the benefits. Although other funds were reserved for their specific purposes and had to be deposited into banks, in practice all these funds were using in the business operations (Mu Mu Thet: 1989, 45-48).

As mentioned previously there were two distinct socialist enterprise systems in the world, Russia-style state enterprise system and Yugoslav-type enterprise collectives. It could be observed that both of these two different systems had existed in Myanmar socialist economic system. Russia-type could be seen in the Myanmar's state enterprises and co-operative societies could be considered as Yugoslav system. Co-operatives are governed by the collective enterprises rather than by the management professionals and as independent business organizations. The initiation of co-operative societies in Myanmar was started under the sponsorship of colonial government and the government supported their operations, but the management of the co-operatives was free from the government's direct control during the colonial period. After independence, the government involvement in the management of co-operative became very apparent.

On the other hand, the members also had no chance to give up their shareholding in the co-operatives because the membership seems to be compulsory. It seems to be compulsory because the members, who were living within the legislative territory, had to found the Primary Co-operatives. Most of the people had compulsorily to be a member of the co-operatives due to the two main reasons_ low prices and source of availability of commodities. Under the socialist system, most of the commodities were produced by the

state-owned enterprises and they provided their products to the co-operatives at predetermined prices (very low price compared with the market price). The co-operatives redistributed the commodities (including rice) to the members at lower price than the market price. Most of the economic sectors, except agricultural sector, were overwhelmingly running by the state-owned enterprises in the socialist economy. The resulted inefficiency of the state-owned enterprises and serious limitations of private business, the necessary commodities for the living were shortage in the market. Therefore almost of the people living in the legislative regions were heavily dependent upon the co-operatives for getting commodities at chief price.

The survival of the co-operatives was also promising with the full support from the government and the co-operatives were running under favorable conditions to expand their operations under the slogan of socialism. The growth of the co-operatives in terms of the contribution to the GDP was impressive as may be seen in Figure (3.6). The contribution of the co-operatives to GDP in 1961-62 when military took over the power stands 0.7%, but it increases to 4.3% within ten years (over six times). The growth continued and the contribution of co-operatives to GDP reached its peak at 6.9% in 1987/88. In addition, the 1987-88 is the year that the economic reform in some sectors mainly in agriculture sector began to start. After 1987-88, a rapid decrease can be seen in the Figure (3.6). The intensive reorganization of the co-operatives was started in the 1988-89. The reorganization mainly dealt with the cutting off all the direct supports of the government to the co-operatives and gave more freedom to do business operations as an independent business organization. The situation of the co-operatives after 1988-89 is explored in chapter (4).



Source: Ministry of Planning and Finance, Review of Financial, Economic and Social Conditions, Various Issues.

Chapter (4)

Property Rights and Agency Problems in the Transition Period

Although Myanmar adopted a centralized system of economic management, it was never integrated into the international communist system. In most respects, it most closely resembled experiments in nationalist, and inward-looking economic strategies elsewhere in the developing world in the post-colonial era (Rana and Hamid: 1995,9). The economic policy in Myanmar during 1962-1988 period was mainly inward-looking, and the economy with a low growth rate, a relatively high inflation, and low investment and saving rate (Mya Than and Tan: 1990).

The Burmese Way to Socialism with inefficient property rights structure failed to obtain sustainable economic growth. The collapse of the Myanmar economy was becoming evident by the mid-1980s. Low or negative growth rates, unfavorable balance of payments, rising debt service ratios and inflation rates as shown in Table (4.1), proved that Myanmar's economy began to decline from the mid-1980s. This situation forced Myanmar to apply to the United Nations for "Least Developing Country" status in 1986, and Myanmar was accordingly granted it in December 1987.

The economic decline later came to be one of the important responsible factors to the political unrest in 1988. In late 1988, the socialist government resigned and new military government (State Law and Order Restoration Council - SLORC) came into power. The new government declared the termination of socialist economic system and adopted market oriented economic system with the intention of introducing various reform measures and liberalizing the economy for better all round development.

Table (4.1) Principal Economic Indicators from 1985/86 to 1988/89.

Particulars	1985/86	1986/87	1987/88	1988/89
Real GDP Growth Rate %	2.9	-1.1	-4	-11.4
Consumer Price Inflation %(1986=100)	6.81	9.21	22.03	22.5
Exports f.o.b. (\$ millions)	311.0	331.0	274.0	341.0
Imports f.o.b. (\$ millions)	513.0	621.0	612.0	634.0
Current Account (\$ millions)	-205.5	-294	-180	-175.9
Reserves excluding Gold (\$ millions)	33.9	33.1	27.2	77.4
Total External Debt (\$ millions)	3091	3792	4387	4414
Debt-service Ratio %	53.2	80.7	73.1	34.9

Source: EIU Country Report 1997/98 and Myanmar, Asian Development Review, 1997-98.

Myanmar's economic reform approach is different from what the IMF and World Bank recommended, i.e., a standard approach, which gives first priority to macro-economic reforms such as fiscal, monetary, and foreign trade reforms. Myanmar's approach is so-called Asian approach or bottom-up approach, which gives micro-economic reforms first priority. Ministry of National Planning and Economic Development issued a proposed economic reforms program in 1989¹. The objectives, in general, are to decentralize the state control, to encourage the private sector development, to restructure the import/export procedure, to allow foreign investment, and to allow farmers to cultivate crops of their choice and to process, transport and trade freely.

¹ The salient reform measures are: (1) decentralizing central control, (2) encouraging private sector development, (3) abolishing price control and reducing subsidies, (4) allowing direct foreign investment, (5) initiating institutional changes, (6) initiating the new financial management system, (7) streamlining taxes and duties, (8) promoting export by streamlining export and import procedures, (9) diversifying export through introduction of new products and emphasizing on semi-processed and processed goods, (10) improving infrastructure support, (11) restructuring wages and prices, (12) allowing farmers to cultivate crops of their choice and to process, transport and trade freely, (13) allowing state enterprises, co-operative societies, joint ventures and private entrepreneurs to claim and utilize fallow and cultivable waste land up to 5000 acres for the enhancement of agriculture, livestock and fishery production. (Ministry of National Planning and Economic Development: 1996, 33-38).

1) Reforms of State Economic Enterprises (SEEs)

Since Myanmar gained her independence, Myanmar has invariably had State Economic Enterprises owned and managed by the government. In this sense, it can be said that Myanmar has had quite substantial experience with regard to the operation and management of economic enterprises by the government. The SEEs had been set up with a mixture of political, social and economic objectives. The establishment of SEEs had multiple objectives. Therefore, some researchers argue that it is better to be considered in a wider perspective rather than looking from the single objective, such as from the standpoint of view of purely economic, social or political objectives in evaluating and appraising the performance of SEEs (Aung Myint: 1997, 92-93).

The main objectives of the SEEs, in the period of 1948 to 1962, was to wrest and divest the control of economic ownership from foreign firms and to strengthen political independence and partly for social welfare of the total populace. The government also formed joint ventures with private businesses. The Special Company Act was enacted to regulate the enterprises with equity participation by the government. In the beginning SEEs were rather badly managed due to lack of experience and too much political nepotism and interference.

The performance of the SEEs began to improve, as they became familiar with the management practice. The more the SEEs obtained the management experience the more the SEEs were operating under sound and pragmatic financial and management principles. During this period (1948-1962), the SEEs operated and were managed as corporations with a large autonomy in financial and managerial matters. Therefore they

were running on sound commercial principles and practices. Thus many SEEs in this period showed financial surplus.

As mentioned previously, the period from 1962 to 1988 was regarded as the socialist era in Myanmar, even though the period from 1962 to 1974 was under the rule of military government or Revolutionary Council. Since 1962 the government had nationalized all sizeable firms including the private businesses of citizens. A number of new SEEs were also established and Revolutionary Council tried to manage all SEEs by strict administrative rules and regulations. The highly centralized and inflexible management started and was responsible for their poor performance. Due to their poor performance, in 1976/77 SEEs were reformed and commercialization programme for SEEs was introduced.

Since 1977/78, SEEs were not confined any more to the state budget and they were converted to limited commercial enterprises from part of administrative apparatus. SEEs had to run their businesses by their own financing and the required funds had to be borrowed from Myanmar Economic Banks. At the very beginning of commercialization, SEEs' performance seemed pretty good. But the situation was gradually deteriorated day by day. As a result, the deficits of SEEs significantly climbed up and all deficits were covered up by bank loans. In 1987/88, SEEs were 5 financial and 47 non-financial institutions, including 11 trade corporations. Out of 36 non-financial enterprises, 23 incurred losses.

The problem of poor performance of SEEs during the socialist era or increasing deficits of SEEs [please see Table (4.2)] became a serious problem and called for the urgent reforms of the state enterprise system. The reforms could be summarized as (a) the

introduction of a new financial system called State Fund Account (SFA) system² in order to replace the unsuccessful Working Capital system³ and (b) reallocation of decision processes among the state administrators giving more authority to the SEEs' managers.

With the introduction of the State Fund Account system, the SLORC, at the same time, cleared all the liabilities of SEEs through the state budget and set the inter-SEEs liability accounts at zero in 1989. The liabilities include the interlocking liabilities incurred among the SEEs and outstanding-debts borrowed heavily from the state banks. It implies that all internal-debts of SEEs converted into the government equity.

According to the new financial system the SEEs are allowed to keep a separate fund account called the Revolving Fund Account, aiming to facilitate the operations of the State Fund Account. The Revolving Fund was set up to act as a buffer for the SEEs who were in urgent need for funds. The SEEs can draw out the necessary funds from the Revolving Fund Account while waiting for their allotments of fund from the budget. The drawings from the Revolving Fund Account are to be deposited when they get their funds allotted by the budget. It is also stipulated that the profits earned by using the Revolving Fund must be put into the Revolving Fund Account. Thus the Revolving Fund will act as a facilitating source of funds for the SEEs as they operate within the framework of the State Fund Account and the budget.

However, the SEEs became too dependent on the Revolving Fund. Moreover, no reliable mechanism was available to make the SEEs to adhere the original regulations in

² Under State Fund Account system, the SEEs have to put all their revenues into the State Consolidated Fund and necessary expenditures are obtained from the annual budget allotments (Hla Myint: 1998, 13)

³ Under Working Capital system, the state provided certain amount of working capital to the SEEs and after that the enterprise has to run its business by financing from bank if necessary (Hla Myint: 1998, 12-13). But later all the debts were transferred to the state as equity.

respect of the Revolving Fund Account although attempts have been made by issuing many guidelines and instructions. As a result, the SEEs were found to be operating virtually outside the budget system (Hla Myint: 1998,14).

From the point of view of property rights relations, this Revolving Fund made the property relations more complicated. The Revolving Fund generates two types of property within the firm. The state enterprise is originally the state property while Revolving Fund seems to be the enterprise property. The enterprise has complete control over Revolving Fund. Under this situation the SEEs have a strong incentive to transfer state property into the Revolving Fund on which they have complete control. In other words, there is a tendency that the SEES will transform the profits actually obtained by using budget allotted funds into the profits generated by the Revolving Fund. Metering the contributions of each kind of funds used in the production processes to generate profits, is ultimately impossible especially where the production takes place as a part of organization⁴. As a result, the exploitation of state property becomes an externality to the state and the state has to bear the burden in the form of SEEs' deficits or the reduced profit or income.

This system produces complicated property relations (the relationship between Revolving Fund and the state property) between the state and the SEEs. Complicated property relations can generate two types of collusion, one exists between the SEEs and the state on the issue of profit distributions, and the latter lays between the management

⁴ See more details about the metering input and output of team production in "Production, Information Cost and Economic Organization" (Alchain and Demsetz: 1972, 777-780).

personnel for the allocation of Revolving Fund and distribution of compensations from the Revolving Fund.

It also implies that there will be conflicts between the SEEs who have incentives to get more funds (because the allotted budget funds for expenditure have no direct relation with the performance of SEEs) and the state who tries to exercise the tight control upon the expenditure of SEEs. Thus, the availability of funds greatly relies on the negotiating power of SEEs with the central planning authorities. When the negotiations are translated on material basis _ materials-based negotiations between the state administrative hierarchies _ there will be a higher degree of possibility of corruption.

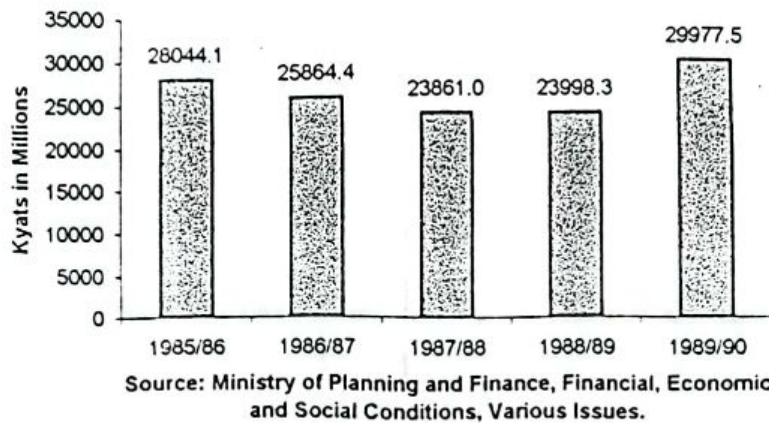
The state has released some rights retained previously from the management body of SEEs. The enterprise managers are given more authority for business operations such as material acquisitions, pricing, etc., on which the managers had previously no control. Besides, there is an attempt to professionalize "management" by downgrading the role of workers and government representatives in the Management Committee (Board of Directors).

These changes in the contents of control rights have negative and positive effects on the behaviour of SEEs managers. First it is positive because enlarged control rights can be translated into stewardship with which the managers are motivated with their commitment. But more authority without clear definition of responsibility and an attractive reward scheme leads to serious agency problems. That is the managers have incentives to enjoy on-the-job-consumption at a high rate, using the increased power.

Although the state imposes, in principle, strict control upon the expenditure, in practice, SEEs can practically demand the necessary expenditures regardless of their

performance. Annually increased expenditures can, therefore, be seen in Figure (4.1).

Figure (4.1) SEEs' Total Expenditure

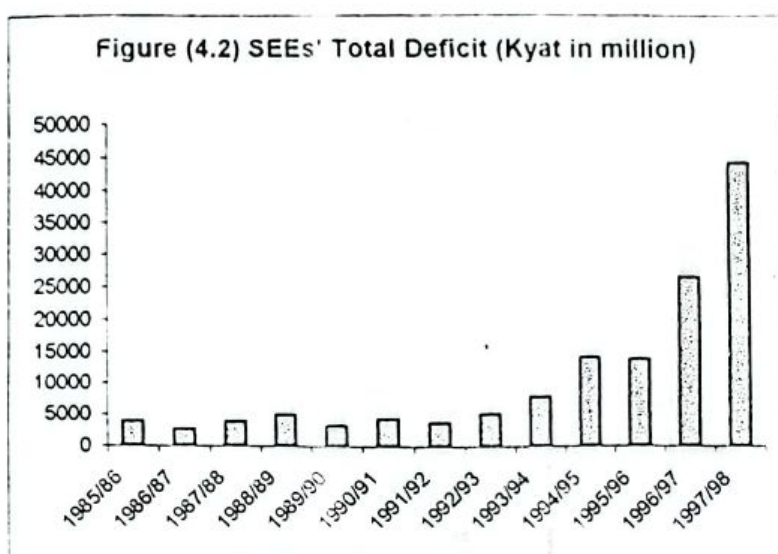


Effective reward-penalty system or incentive-control system cannot be found yet in the reform program⁵. The management of SEEs probably has more incentive to on-the-job consumption and free-riding because the management has more authority in business operations than before but personally bear no personal risk with the enterprise performance. In other words, the managers of SEEs bear no risk of value consequences of their decisions⁶.

Even the state has engaged in several forms of adjustment to transform SEEs to be more profitable ones, as shown in Figure (4.2), SEEs have, however, still continued to have deficits even after reform program started. It can be regarded as an evidence that the reforms fail to solve sufficiently the agency problems.

⁵ Reward/ penalty systems or incentive/ control systems are only reliable tools to control the agency problems where close supervision is impossible for practical use.

⁶ On the other hands, the increased control rights they can play in the business operations can be assumed as an incentive positive to their behaviour because they may substitute their utility function at least spiritually.



Source: Ministry of Planning and Finance, Review of Financial, Economic and Social Conditions, Various Issues.

The economic performance of SEEs from 1989/90 to 1997/98 is shown in Table (4.2). As may be seen in Table (4.2), the total deficit of SEEs to GDP shows over 2 percent from 1989/90 to 1995/96, which reveals a rapid decrease from 7.07 percent in 1985/86. But it rises to over 4 percent after 1996/97 again. It is responsible not only to the increase of SEEs' deficit but also a slight decline of private sector after 1997, which is largely due to the impact of Asia economic crisis.

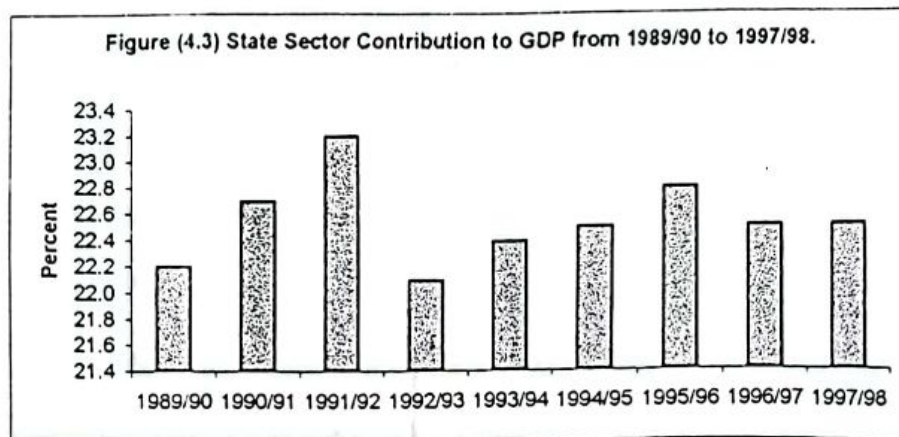
Table (4.2) Economic Performance of SEEs from 1989/90 to 1997/98.

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
SEEs' Total Income(K,M)	26812.8	32041.7	36399	43548	52044.5	73444.1	88182.9	118788.2	213192.2
SEEs' Total Expenditure(K,M)	29977.5	36361.4	40110.8	48624.0	60723.8	87373.3	101853.6	145343.6	257663.4
Total Deficit of SEEs(K,M)	3164.7	4319.7	3711.8	5076.0	7779.3	13929.2	13670.7	26555.4	44471.2
Total Deficit of Government Budget(K,M)	8019.0	11204.0	12311.0	12096.0	15518.0	29648.0	38819.5	54469.8	65308.6
GDP at Current Price(K,M)	124666.3	151941.4	166802.4	249394.7	360320.7	472773.7	603601.8	715437.7	1067521.9
SEE's Deficit and Income Ratio(%)	11.8	13.48	10.2	11.66	14.95	18.97	15.5	22.36	20.86
% of SEEs' Deficit to the Total DGB	39.47	38.55	30.15	46.96	50.13	46.90	35.22	54.7	68.09
% of SEEs' Deficit to the GDP	2.54	2.84	1.99	2.04	2.16	2.07	2.26	4.16	4.17

SOURCE: Review of Financial, Economic and Social Conditions, Various Issues.

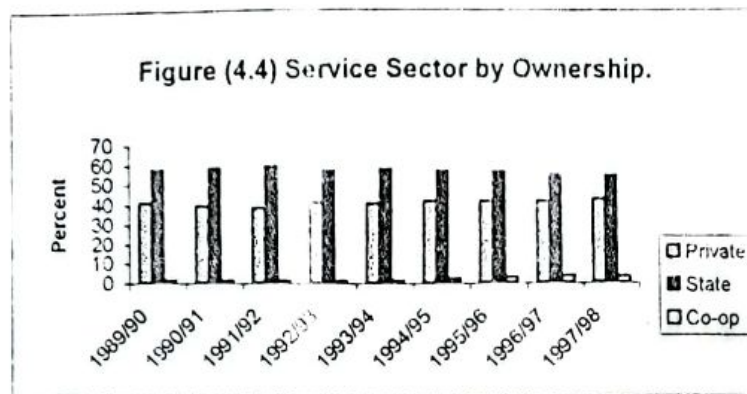
The percentages are calculated.

DGB = Deficits of Government Budget. K,M = Kyats in Million



The contribution of State Sector to GDP also occupies only a round 23 percent, which previously stood at 39.1 percent in 1985/86. As may be seen in Figure (4.3), it significantly increases after 1989/90 until 1991/92 and after that it declines at marginal rates. Therefore even after the economic reform, the SEEs involvement in the economy still is critical and plays an important role in the whole economy.

Although the state sector contribution to GDP declined significantly just before and after 1988, the state plays an important role especially in service sector. As may be seen in Figure (4.4), the state continuously holds over 50% of the Service Sector throughout the year from 1989/90 to 1997/98. [The contribution of each sector by ownership is shown in Appendix (4.1)].



2) Privatization and Joint Ventures: State-Owned Enterprises

The most effective way to solve the agency problems of the SEEs is to transfer state property rights to the private businesses or individuals, the Privatization⁷. Privatization is an important aspect of the economic reforms. The government has planned to privatize SEEs by piecemeal depending on their performance. The Privatization of SEEs is very slow at present because the Privatization has its own problems and the importance of state sector in the economy is still prevailing.

Unlike those countries in Eastern Europe in which state sector occupied the major portion of GDP, [for example, 97% in Czechoslovakia, 96.55% in East Germany, 65.2% in Hungary, 81.7% in Poland, and 80% to 90% in USSR in selected year (Rana: 1995,146)], Myanmar's state sector accounted for only 21.6% in 1988/89 when the economic reforms was introduced. Moreover, the state sector housed less than 10% of total labour force. The state sector dominated in such industries as manufacturing, mining and power where its share reached 71% but the output of these industries contributed

⁷ Privatization here means any operation that shares or transfers the state property rights partly or wholly to the private businesses or individuals.

only 10.9% of the GDP. The Privatization is thus a matter of urgency for containing or reviving the deteriorating economy.

Privatization has its own barriers to be fully overcome. The prominent barriers are:

(a) the valuation problems of the enterprises;

It is difficult to price the actual value of the enterprise because of unreliable book value or overvaluation of obsolete fixed assets.

(b) no mechanism for pricing of the value of enterprises;

In a capitalist economy, there is stock-exchange market, which can be considered as watching the performance of each and every enterprise that is listed in the stock exchange, and the stock price can be considered as real value of the enterprise. That is, the real value consists of the actual value plus future expectation of the investors, generally called as the present value of future share price.

(c) restrictions imposed upon the lease-contract or transfer;

The government imposes some restrictions upon the contract, which have negative effects on the speed of Privatization (for example, a cinema has to be a cinema even after leasing out or transferred).

(d) Privatization depends upon the performance;

Profit-making SEEs should be given priority for Privatization rather than those running at loss, which are less attractive for the investors. But in the Privatization programme, the SEEs with the poor performance are targeted for the Privatization.

(e) employment problem;

Employment problem is the most critical problem to the government. It may be one of the main factors to make Privatization slow. Massive Privatization in a short period will probably create very risky situation, which can lead to a political upheaval, as it will generate unemployment for which the private sector has no capability to house.

Another factor that is responsible for the slow Privatization is the method of Privatization. The Privatization experts from ASEAN and Japan, who met in Thailand in September 1994, have suggested five methods of Privatization⁸; Myanmar applied all the methods of Privatization, except corporatization.

The Privatization Commission has adopted the following methods at present to transfer the state property rights to private hands:

- (1) by transferring the enterprises to the co-operative societies;
- (2) by offering shares to the public and forming joint-stock companies;
- (3) by forming joint-venture between private national entrepreneurs as well as foreign investors; and
- (4) by transferring small-scale enterprises completely.

Shareholding system or corporatization, which is a very useful method for "Speedy Privatization", is not practiced in Myanmar except in the case of Myanmar Timber Corporation which issues and sells share to the public though it is widely used in the economic reforms in other socialist countries. This method also has weakness due to lack of stock exchange market. The example of Myanmar Timber Enterprise is in deed shareholding system between government and public or can also be considered as a kind

⁸ They are corporatization, divestment, built-operate-transfer, contractualization and establishment of new companies.

of joint ventures. The shares of Myanmar Timber Enterprise⁹ are now traded through the Myanmar Securities Exchange Centre Co. Ltd., jointly formed by the Myanmar Economic Bank (SEE) and Daiwa Institute of Research Limited.

From the point of view of investor, the risk of investment is relatively very high because there is no stock exchange market. Lack of stock exchange market implies that the investor or shareholder loses a kind of control mechanism, which can discipline the management. Although public organization (Joint Stock Company) is an open-organization characterized by the high degree of transferability of ownership, without stock exchange market, the transferability becomes limited.

Transferability of ownership is of great importance to discipline the managers, but in this case, it becomes ineffective. To solve this problem it is necessary for the state or companies to guarantee investors the lower limit of rate of dividend, for example, the investors are implicitly promised to pay dividends at an annual rate of round about 25%¹⁰.

Foreign investment is very important for Myanmar to get hard currency and modern technologies for the economic development, but it is paralyzed by the economic sanctions imposed by some countries (mainly U.S. and EU member countries) with the political reasons and also by the several regulations issued by the government.

Under the Privatization Programme, many of the state owned properties such as factories, theatres, etc., were transferred to private hands by selling out, by leasing out, by contract manufacturing. SEEs have also set up joint ventures with foreign and local

⁹ Current situation of Myanmar Timber Enterprise will be discussed more detail in chapter (5).

¹⁰ Annual rate of bank saving account is 12%.

private entities, and production sharing contracts with foreign companies, especially in the oil and gas sector. The widely used methods to form a joint venture are:

- (1) profit sharing _ the partner (Myanmar or foreign investor) has to contribute his share capital in cash and the state contributes enterprise property as share capital, some times with some amount of capital and profits are shared upon the agreed rate, mostly 65% to the private and 35% to the state;
- (2) product-sharing _ The partner has to contribute his share portion in cash and the state gives the partner the use rights of enterprise property and the outputs are divided according to the agreed ratio, mostly 70% to the private and 30% for the state.

It is clear that there are different forms of property rights structure and agency relations in each type of methods used to transfer state-owned enterprise to private.

The profit sharing system seems to be less attractive to the potential investors because the degree of control rights will probably be lesser than the risk of value because of the requirement to guarantee the job security of government employees who are well accustomed to free-riding. There may be conflicts between the private owners and enterprise employees.

Production sharing is one of the effective methods to solve the agency problems, in which the state need not necessarily monitor its partners (mostly foreign firms) because partners are bearing risk of their decisions and motivated by the profit incentive. What the state has to do is to monitor the production side. It is not a complicated task. In this form of business, the state assigns the property rights to the partners and the partners have to pay some portion of their products (agreed portion under contract) to the state as

rent of reassignment of property rights. This form also has its limitations depending on the nature of the business. It is suitable especially for the extraction industries in which the production process is very simple and the output can easily be monitored without using any sophisticated or high technology or technique.

The joint venture also creates different forms of property rights and agency problems. There are conflicts between the government staff who has strong incentive to shirk and the private enterprise staff who is motivated by reward, and between stodgy management and flexible management. Negotiation cost for these conflicts has also negative effects upon the performance of enterprise and it will probably lower the efficiency of the business.

Using all the methods mentioned above, the state can share (or transfer) its ownership rights with the private sector. Though this process is now slow and on a small scale at present, it may have some influences upon the management of SEEs. The Privatization makes the management to be more sensitive to the profitability as there will always be a possibility for their enterprises (SEEs) to be privatized. The Privatization itself may discipline the management to compromise their personal goals with the objectives of the enterprises.

3) Deregulation in the Private Sector

(a) Agriculture Sector

In 1987, some regulations imposed upon the agriculture and agriculture related activities were removed. When economic reform was started after 1988, the state partially abolished the fixed procurement price and sales-quota system and the farmers became

free to deal with their produces, i.e., the farmers have the right to sell their produces in the free market, to store, and to transport where they like.

Even though the state removed some regulations, the state is still the owner of the land and can alter the tenancy whenever the state wants. The most serious problems from the viewpoint of property rights are yearly-contract tenancy practice and alternate land-use-rights.

The first one is that the farmer has to get land-use right from the state annually and it has the direct influence upon the capital investment behaviour¹¹. With short tenancy, the farmer has little incentive to put his money to the development of land because there is no possibility to get agreements for sharing cost of present investment with unknown future owners.

The latter is that if the initial owner (farmer) of the land is not willing to cultivate the second or third crops, the state may assign the land-use right to other persons for next crops. It has also negative effects on the capital investment of land development for the long-term perspectives because there is no possibility to negotiate with and get agreement from next owners for sharing cost of present owner. Moreover, the value consequences of the decisions made by the next owners have to be borne by the initial owner. It means that all activities of the next owners, on which the initial owner has no control, have negative and positive effects on the quality of land and the effects will be borne by the initial owner.

¹¹ Although annual tenancy practice is not compulsory one, the local authorities can enforce it when necessary.

As a consequence of these situations, sown acreage and yield per acre will probably get no a significant or rapid improvement in the foreseeable future. This system may cause a significant increase in the production (output) of agriculture in the short-term, as the same area of land can produce more output regardless of whether the marginal cost can cover the marginal cost.

It is, however, true that the improvement of the private property rights in the agriculture sector can cause some improvements especially in Sown Acreage and Production. Due to the nature of the agriculture, the rapid increase in yield per acre is very difficult to obtain. It largely depends upon the introduction of high technology as well as more clearly defined private property rights. If there is no private property right, there will be difficulties to invest for the introduction of technology, as the benefits of business are not guaranteed for the owner to obtain wholly. The sown acreage and production are greatly related to the property right reform or the property rights, which can exercise upon the land. Less private rights upon the land cause the owners less attractive to expand the sown acreage because the marginal income of expansion of sown acreage did not cover the marginal cost (as under the socialist economic system). Less Sown Acreage definitely affects the production. Therefore the lesser degree of private property rights have direct influence upon the production.

Table (4.3) shows sown acreage, production and yield per acre after economic reform. As may be seen in Table (4.3) sown acreage and production increase slightly but continuously after economic reforms, whereas yield per acre indicates no significant difference before and after economic reform.

Table (4.3) Sown Acreage, Production and Yield per Acre

Year	Sown Acreage (Thousand)	Production (Ton, Thousand)	Yield/Acre Ton
1989/90	12057	13585.5	1.13
1990/91	12220	13748.3	1.13
1991/92	11935	12992.9	1.09
1992/93	12684	14603.0	1.15
1993/94	14021	16495.0	1.18
1994/95	14643	16695.0	1.28
1995/96	15166	17953.0	1.18
1996/97	14518	17676.0	1.22
1997/98	14665	17308.0	1.18

Source: Ministry of Planning and Finance, Review of Financial, Economic and Social Conditions, Various Issues.

As already mentioned previously, the private property rights are greatly and widely recognized by the state after economic reform. But there are still many constraints to realize the private property rights in a more efficient manner, especially in the case of land-transfer because the state is still the owner of all lands. Therefore it is hard to hold large acreage by cultivators to reap the benefit of economy of scale. As a result, the land holding of each household does not show any recognizable changes.

Table (4.4) Farm Size and Peasant Households.

Farm Size	1991/92		1993/94		1994/95		1995/96	1996/97		1997/98	
(Acres)	P.H	%	P.H	%	P.H	%	P.H	P.H	%	P.H	%
<5	2721.6	61.8	2763.4	61.9	2773.2	61.8	2777.4	2804.2	61.9	2804.2	61.7
5 - 10	1091.6	24.8	1107.9	24.8	1119.8	24.9	1133.6	1132.4	25	1139.4	25.1
11 - 20	485.9	11	488.6	11	491.4	10.94	493.6	489.7	10.8	493.3	10.9
21 - 50	99.8	2.3	100.3	2.25	100.4	2.3	100.3	100.2	2.2	101.1	2.2
51 - 100	1.4	0.03	1.5	0.03	1.7	0.04	1.8	1.8	0.04	1.9	0.04
>100	0.8	0.02	0.8	0.02	0.8	0.02	0.9	1	0.02	1.1	0.02
Total	4401.1	100	4462.5	100	4487.3	100	4507.6	4529.3	100	4540.8	100

Source: Ministry of Planning and Finance, Review of Financial, Economic and Social Conditions, Various Issues.

As shown in Table (4.4), most of the cultivators are still working on the farm size of less than 5 acres¹² (2.02 hectares), it constantly occupies nearly 62 percent of the cultivator-households. It can generally be said that there is no significant change between the socialist era and transitional period.

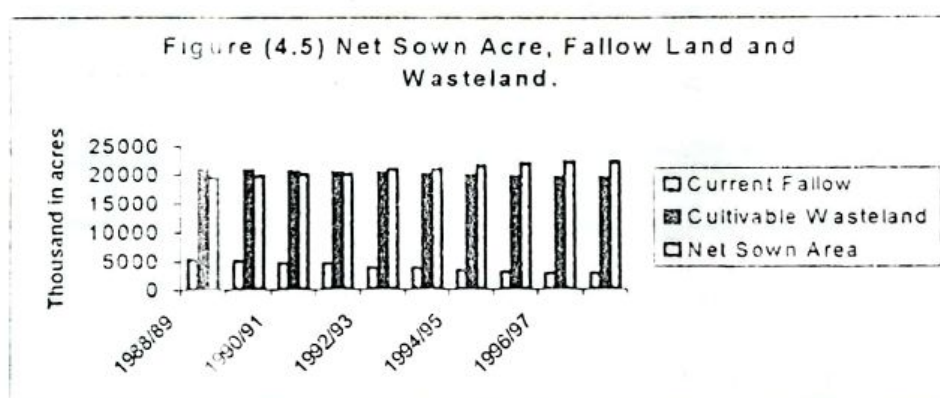
Recently the government allows some companies to hold a large area (thousand of acres) of agricultural lands, so the rapid increase in cultivable land may be expected from now onward. But there are still some problems remained to be solved. Most of the companies, which obtained this special permit, are construction companies, as the construction companies (real estate companies) suffered the most serious impact of Asia economic crisis in late 1997. This permit can also be considered as a kind of subsidies or privileges for the real estate companies. But these companies have in reality no interest in agri-businesses. Therefore the companies reassign their rights to the cultivators and it creates a new tenant-cultivators relation. The cultivators have to pay rents to these companies. The rent for land utilization is to be borne by the cultivator and it causes an increase in production cost. It is more reasonable and beneficial for the cultivators if the cultivators can get this permit directly from the government in stead of from the private companies.

This special permit also conveys the right to export the rice yielded from these lands (the export of rice is still monopolized by the state). Therefore these companies can export their product (the rice from their land, mostly operating by the cultivators). There is one possible reason to be pointed out for giving this special permit only to the companies not to the cultivators directly. This permit is given for only those lands called

¹² One acre equals to 4050 square metres.

"Ye-net-Kwin"¹³, not for all kinds of land. The development of these lands requires a large amount of capital, so that it is not possible for an individual cultivator.

The most attractive incentive for this permit is the right of rice-export. If this kind of permit is expanded more widely to other kinds of land, there will be a strong expectation that many companies and entrepreneurs will join in the agriculture related businesses. Therefore a rapid increase in both sown acreage and production can be expected in the intermediate term, as there are still large areas of cultivable wasteland and fallow land. Figure (4.5) gives some comparison of sown acreage and cultivable wasteland and fallow land from 1988/89 to 1997/98 [please see Appendix (4.4)].



As may be seen in Figure (4.5), after 1988/89 there is a steady increase in net sown acre, which goes up over current fallow land after 199/293. But there is still a large area remained and the net sown acre occupies nearly half of the cultivable lands (fallow land and wasteland). Therefore the well-defined private property rights in land ownership should be given first priority for the expansion the agriculture sector, without the private property rights it is difficult to expect a rapid increase in sown acre and production

¹³ Most of "Ye-net-kwin" are located in *Ayeyarwady Delta*, the southern part of Myanmar and refer to those fallow-lands, which are covered up by water during the whole year. Therefore, the development of "Ye-net-kwin" requires a large amount of capital will take several months or years.

(b) Private Businesses in Other Economic Sectors

After 1988, the military government has being undertaken economic reforms and lifted many of the regulations imposed upon the private business. Almost all sectors became available to the private business except some sectors and some businesses, such as post and telecommunication, mining and public utility, etc.

The government has permitted private business organizations in the form of limited liability_ for example, public companies (joint-stock companies). This reform is very important and fairly attractive for the private businesses to enlarge and to reap the benefits of economies of scale and increased efficiency arising from competition. In the limited liability business, the owner or investor's private property has no direct relationship with the business property. The fall and rise of the business has indirect effect only on the dividend and share price, which will affect the owner's private property. When the business is going to bankrupt, the creditors cannot claim the owner's private property and the owner has the responsibility only for the portion of his share that he has already committed.

From the point of view of investors, the risk is not so great in the limited liability companies as it is in the unlimited liability type as the amount they have to bear is limited to the amount of share they hold. This form of business has a significant positive effect upon the investment behaviour and can accumulate more capital than under unlimited liability forms. As may be seen in Table (4.5), the number of private businesses increases remarkably (nearly 17 times) from 1776 in 1989/90 to 29868 in 1997/98.

Table (4.5) Number of Registered Exporters/Importers, Limited Companies, Partnership Firms and Joint Venture Companies Limited.

Enterprises	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Exporter	770	1777	2102						
Importer	216	900	1503	4813	6032	4277	5510	7410	8931
Business Representatives	183	480	768	947	1225	1509	1805	1981	2075
Myanmar Co. Ltd.	174	816	1308	2269	3401	4784	6672	5814	10844
Partnership Firms	376	565	727	850	949	1055	1108	1166	1214
Foreign Co. & Branches	39	80	133	183	296	442	658	984	1184
J.V. Co. Ltd.(A)									
a. State and Local	7	10	12	13	16	17	23	29	31
b. State and Foreign	8	8	12	13	24	32	64	78	92
J.V. Co. Ltd.(B)	0	14	18	23	23	23	53	66	78
Other Organizations	3	5	27	29	31	31	32	33	35
Tourist Enterprises	0	0	0	69	145	288	455	573	474
Tourist Transport Businesses	0	0	0	71	287	825	1283	1562	1642
Hotel Businesses	0	0	0	27	72	112	179	258	302
Lodging-House	0	0	0	19	62	102	177	229	198
Tour Guide Businesses	0	0	0	87	247	600	1407	2124	2787
Total	1776	4655	6610	9413	12810	14097	19426	25315	29868

J.V. Co. Ltd. (A) is excluding those under Foreign Investment Law.

J.V. Co. Ltd. (B) is formed under Foreign Investment Law.

Source: Statistical Year Book, 1995, 1997, 1998.

The increase in the private business can be seen in not only its number of businesses but also its scale. The number of factories and establishments, which employed over 50 workers, increase over 17 times from 13 in 1988/89 to 225 in 1997/98. The rapid growth of businesses in manufacturing sector can easily be seen in Table (4.6) during last ten years (1988-1998), after the gradual decrease throughout the years from 1971 to 1988.

Table (4.6) Factories and Establishments by No. of Workers.

No. Workers	1971/72	1983/84	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
<10	10630	37533	37965	30615	31050	33463	34649	38189	42925	44355	44845	48898
10-50	3457	1182	1824	1511	1534	1954	1897	1870	1863	1846	1911	1978
51-100	137	39	9	26	746	117	67	62	81	86	108	124
>100	22	6	4	5	5	14	19	24	43	68	91	101
Total	14246	38760	39802	32157	33335	35548	36632	40145	44912	46358	46955	51101

Source: Statistical Year Book, 1995, 1997, 1998.

4) Foreign Direct Investment in Myanmar

In this thesis Foreign Investment is mainly viewed mainly from the viewpoint of business organizations rather to view as an instrument or a tool using for the economic development. Therefore this portion is putting under the private business section in order to explore the importance and influence of the foreign business firms in the development of Myanmar economy.

Many countries welcome Foreign Direct Investment (FDI) simply because domestic savings are inadequate to invest in the activities of economies. Governments also expect FDI to provide skills, technology (including management technology) and access to markets. As Myanmar is one of the least developed countries, lack of capital and technology know-how pose severe constraints for reaping the benefits of abundant natural resources and cheap labour.

In order to accelerate the development of the national economy and particularly to encourage technology transfer and exports, the Union of Myanmar Foreign Investment Law (FIL) was enacted in late 1988, providing generous incentives and privileges. In fact, the policy of FDI can be seen as an important component of the overall economic restructuring and development policy of the State. The main components of the policy are:

- (a) adoption of market oriented system for the allocation of resources;
- (b) encouragement of private investment and entrepreneurial activity; and
- (c) opening of the economy for foreign trade and investment.

The policy objectives of the Foreign Investment Law are:

- (a) promotion and expansion of exports;

- (b) exploitation of natural resources which require heavy investment;
- (c) acquisition of high technology;
- (d) supporting and assisting production and services involving large capital;
- (e) opening up of more employment opportunity;
- (f) development of works which would save energy consumption; and
- (g) regional development.

Policy objectives underlying foreign investment are for the promotion and expansion of exports, exploitation of natural resources which requires heavy investment, acquisition of high technology, supporting and assisting capital intensive production and services, opening up of employment opportunities, deployment of energy conserving activities, preservation of environment at and around the project site and regional development. The Foreign Investment Law (FIL) in which a wide spectrum of incentives is provided has been enacted.

Foreign investors are allowed either in the form of a hundred percent wholly foreign-owned or partly owned enterprise, in the form of joint venture with a private or public local entity. If it is a joint venture, the minimum foreign capital must be at least 35% of the total equity capital.

A foreign investor who invests and operates under the Foreign Investment Law has the right to enjoy appropriate economic benefits particularly in the form of tax incentives, as well as to repatriate profits and withdraw the legitimate assets on winding up his business. There is also an unequivocal State guarantee against nationalization and expropriation of all the foreign businesses.

(a) Foreign Direct Investment by Sector

Since the enactment of the Foreign Investment Law, Foreign Direct Investment inflows by sector between 1989 and 1999 were estimated to total US \$ 7 billion, as may be seen in Table (4.7).

Table (4.7) FDI by Sector between 1989 and 1999 (US \$ in million).

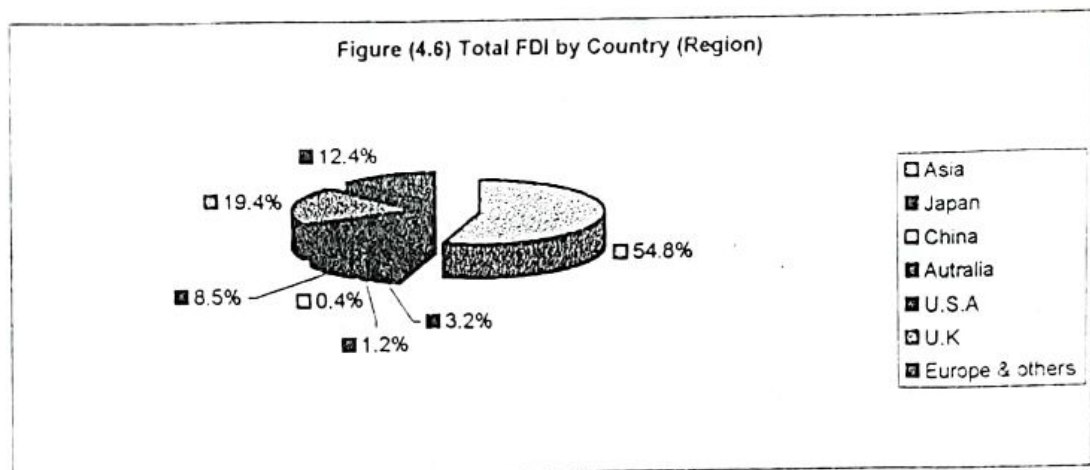
Sector	US\$ in million	Percent
1. Agriculture	14.350	0.20
2. Fishery	280.110	3.93
3. Mining	507.250	7.12
4. Oil and gas	2303.120	32.31
5. Manufacturing	1483.340	20.81
6. Transport	275.390	3.86
7. Hotel and Tourism	1042.410	14.63
8. Real Estate development	997.140	13.99
9. Industrial Estate	193.110	2.71
10. Construction	17.270	0.24
11. Others	13.690	0.19
Total	7127.170	100.00

Source: Directorate of Investment and Company Administration.

In terms of the volume of investment, the Oil and Gas Sector occupies the largest FDI, with a total approved amount of US\$ 2303 million. During 1995-96, within less than two years, the FDI increased two times of total amount of FDI between 1988-1995. Most of them went into mainly extraction industry, Oil and Gas, Mining and Fisheries, which accounted for 42.63% of total FDI up to November 1996 [please see Appendix (4.2)]. The extraction industry is still the most attractive sector up to 1999, where it occupies 43.36% of total FDI (total of Fishery, Mining and Oil and Gas). This is very clear that most of the foreign investors tried to find the outsourcing as they are facing with the shortage of natural resources to meet the increasing world-wide demand. As most of the ASEAN countries are exercising region-wide division of labour or shifting their labour intensive industries to underdeveloped economies mainly within the Southeast Asia region.

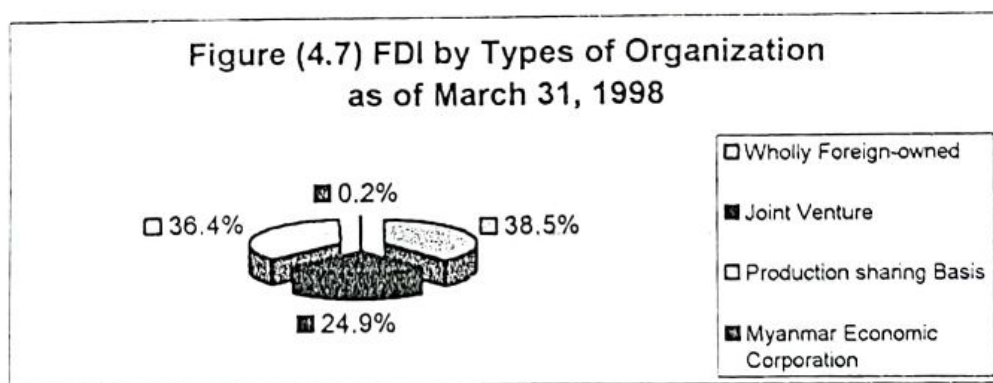
Manufacturing and processing Sector follows next to Oil and Gas Sector with the amount of US \$ 1483 million, which is 20.81% of total FDI. Most investors in the manufacturing and processing sector are from ASEAN countries. Among the NIES, Hong Kong, Singapore and South Korea are the chief investors. This shows two things. First, the foreign investors from Asian countries regard manufacturing and processing as a sector with potentials for further development. Second, it is still very undeveloped sector. There is a vast of opportunities in this sector and it is the most attractive sector next to the extraction sector, to the foreign investors along with the availability of cheap labour. An in depth look at the sector, further reveals that most foreign investors so far are interested in small scale, labour intensive and low technology type of enterprise¹⁴. As shown in Figure (4.6) the largest portion of foreign investment in Myanmar comes from Asia countries, which reaches to US \$ 3741.480 million (54.8% of total foreign investments). Viewing FDI by country, Singapore topped the list with US \$ 1344.43 million followed by United Kingdom with US \$ 1327.71 million. Thailand was listed in third with US \$ 1164.97 million as of March 31, 1998 [please refer to data in Appendix (4.3)]

¹⁴ These general propositions are also empirically supported by the survey conducted by Department of Management Studies, Institute of Economics, Yangon during 1997. This survey shows that all sample companies are labour intensive or low technology based industries (Aung Myint: 1997, 148-149).



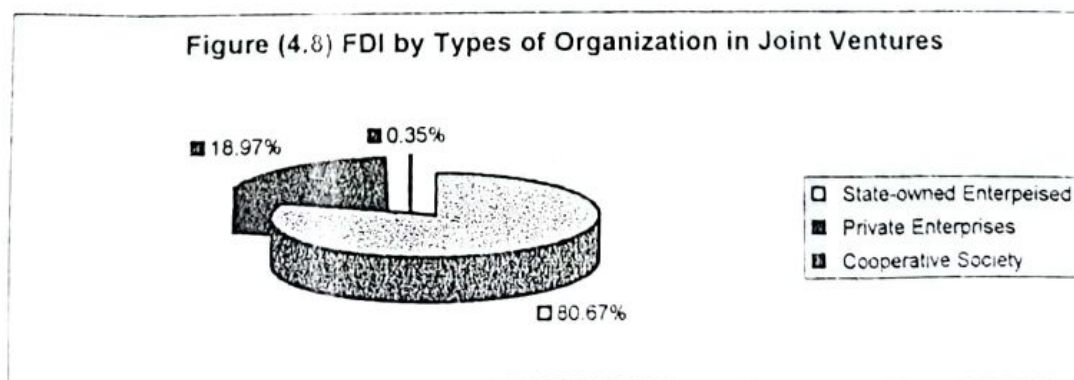
(b) Foreign Direct Investment by Types of Organization.

The allocation of FDI by different types of organization is shown in Figure (4.7). The companies wholly owned by foreigners occupies 38.5% of total FDI followed by the production sharing company with 36.4%. Only 24.9% of FDI go to the joint venture organizations with private enterprises and state-owned enterprises.



The joint ventures with state-owned enterprises and military-owned Company (Myanmar Economic Holdings Ltd.) occupy 80.7% of total FDI, which goes into joint ventures. It is more than half of the total FDI, 56.6% of total FDI [as shown in Figure (4.8)].

There is always an implication that the most effective way to enter the new markets in those countries under transition and/or ruled by the authoritarian is to form a joint venture with the authorities or to get close contacts with them. Without any close contact with the authorities, it is practically very difficult to operate the business operations successfully. Even after the reform of SEEs, there are still serious agency problems in the state-owned organizations (or joint ventures with them) than in the private businesses, as the inherent deficiency of the state-owned organization. The property rights structure in the state-owned organization has still weakness in the control and incentive mechanism. However, under the extremely imperfect market with high degree of information asymmetry, there are always some privileges accessible only to those who have close contacts with the authorities.



It is also widely accepted that the development or active participation of private sector is vital and essential for the development of the whole economy. In the case of Myanmar, although the economy is opened to the outsiders, as may be seen in Figure (4.8), the citizen-owned private enterprises' involvement in total FDI shows only 18.97 % of total FDI, which goes to joint ventures organizations. It is only 4.72% of total FDI. Therefore, it is very obvious that most of the foreign investors are very eager to join with the SEEs and military-owned company (Myanmar Economic Holdings Ltd.), with the expectation of getting special privileges. It is also the only way that can definitely be guaranteed their survival and the smooth running of their business operations. As may be seen in Table (4.8), the mount of FDI with Myanmar Economic Holdings Ltd. is itself almost the same with the total amount of private enterprises. It is 4.54% of FDI whereas the private enterprises occupy only 4.72%.

There is no doubt that in the early stages of economic take-off or of economic development, every country requires FDI to fill the place that is far out of the capability of that country. Welcoming FDI is also vital requirement for opening up the economy of developing countries to reap the benefits of their abundant resources. In recent years around the world, there are many countries (centrally planned economy or closed economy) which welcome FDI to step towards a market economy. Even Myanmar reformed its economy and welcomed FDI in late 1988, the flow of FDI is still slow not only because of political concern blaming from the USA and the Western countries but also the weakness of reforms itself.

Table (4.8) FDI by Types of Organization as of March 31, 1998.

	Percent	US \$ in Million
1. Wholly Foreign-owned	38.54	2632.08
2. Joint Venture	24.87	1698.66
(a) State Economic Enterprise	15.51	1059.40
(b) Myanmar Economic Holdings Ltd.	4.54	309.95
(c) Yangon City Development Committee	0.01	1.00
(d) Private Enterprises	4.72	322.31
(e) Cooperative Society	0.09	6.01
3. Production sharing Basis	36.39	2484.74
4. Myanmar Economic Corporation	0.20	13.53
Total	100.00	6829.02

Source: Directorate of Investment and Company Administration.

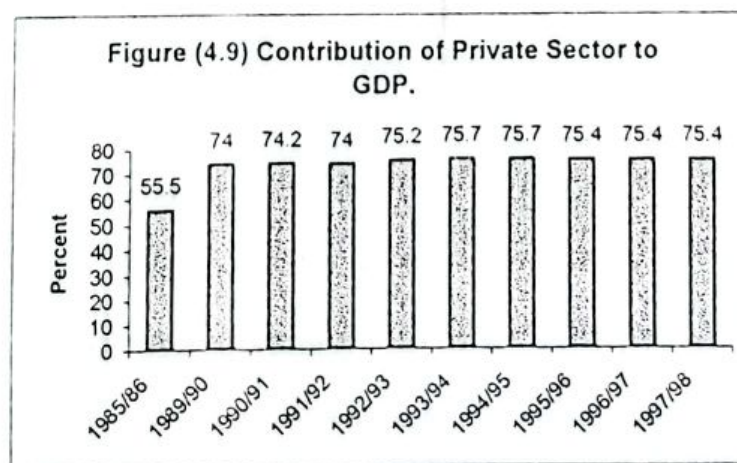
In the case of Myanmar, there is a need to look back to the early post war period. At that time, almost all the businesses were owned by foreigners and one quarter of capital stock was of foreign origin. That, as mentioned earlier, was one of the most important factors for going back to the socialist economy, i.e., Burmanization of the economy with the aim of transferring all the resources to Myanmar citizens.

However, since shortly after the opening-up of the economy in late 1988, the FDI has been gradually but slowly increasing throughout the years concerned. This unintentionally creates a very subtle problem about the vital role of the national economy, and increasing disparity in income between those who are working in foreign companies and those who are either self-employed in government service. For example, as of 1994/95 fiscal year, the FDI was US\$ 1352.295 million (i.e., 148.75 billion Kyats with market price or 8.11 billion Kyats with official rate) while the State investment was 48.38 billion kyats (state sector 22.89, co-operative sector 0.272 and private sector 25.22 billion). FDI is 3 times more than state investment with market price or 0.17 times with official rate. It can easily be observed that the overall economy is greatly influenced by foreign forces. This situation will push up the question about the benefits of economic

reforms onto the surface, that is for whom the economy is being opened up. This may also lead to the re-emergence of nationalism once again. It will also be a big problem for the government to prevent the foreign influence over the economy and raise the issue of promotion of citizen investment in the economy. Another big problem may be the distribution of income. The government has to consider seriously about this problem of how to achieve appropriate income distribution or else social unrest will probably come again and this may lead to political upheaval in the future.

The general image of the private sector or private business is already explored above sections. Due to the improvement in the private property rights or more wider private property rights, the improvement of the private sector can easily be seen in terms of out put or the contribution to GDP.

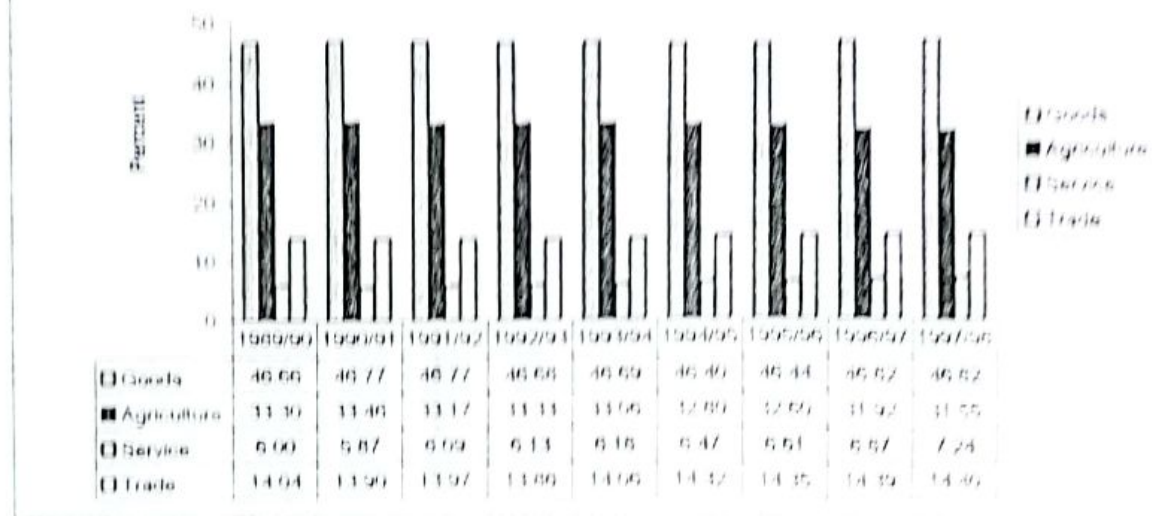
As shown in Figure (4.9), after the economic reform, the contribution of the private sector to the GDP climbs up throughout the years concerned from 55.5 percent in 1985/86 to over 75 percent the years, after 1993. It is very obvious that the expansion of the private sector contribution is mainly due to the reforms in the private property rights (or the relaxation of the regulations previously restricted to the private property rights). Without such reforms the private businesses are not likely to increase their investments or



expand their businesses operations, as it is hardly to believe that the marginal revenues will cover enough the marginal costs.

The structure of the private sector, which contributes to the GDP is shown in Figure (4.10). As may be seen in this Figure, the Goods Sector itself occupies nearly half of the whole private sector and the total of Goods and Agriculture Sectors is around 80 percent of private sector. Unlike with the state sector, which is favorable in the service sector the private business is operating less in the service sector. It conversely implies that this sector is more attractive to the private business, as it has a vast of potentialities. The out put of the private business in Trade Sector shows nearly constant rate, as the private property rights are more widely recognized by the government in this sector even under the socialist economic system and the private businesses have already occupied a large share.

Figure (4.10) Structure of Private Sector



5) Restructuring of Co-operative Societies

The rights and responsibilities of the co-operatives' members do not change significantly even after the economic reform started. Therefore the rules and regulations of the co-operatives are basically the same with those under socialist economic system. The significant changes can be seen only in the government control mechanism to the co-operatives, the relaxation of government control. Therefore the number of shares that have to be held by each member are not necessarily to be the same number. The limitation of the maximum number of shares to be held was also released. The number of members can also be limited according with the nature of the business and the membership is becoming voluntary rather than compulsory nature.

It is mentioned in chapter (3) that the survival of the co-operatives largely relies upon the several kinds of government supports. Without such supports, the business operations of co-operatives are hardly to continue. As mentioned previously, in the early 1980s it was becoming very apparent that the economy began to decline. In 1988, the

socialist government gave up the power due to the anti-government movements. The military came to power and introduced the market oriented economic system. Together with the economic reforms, the government cut off almost all the supports previously provided to the co-operatives in order to reduce its burden. The government gave strong pressure upon those co-operatives, which are operating their businesses at loss, to clear their accounts. The government actions cause the co-operatives to restructure their business organizations. Without any immediate actions, most the co-operatives are likely to be gone out. They become in great extent free from the control of government together with the plan of cutting-off government supports. Therefore the co-operatives have to stand as independent business organizations like public company with special privileges.

Restructuring is inevitable or unavoidable to the co-operatives. Therefore, it is not surprised that many co-operatives went into bankruptcy due to their heavy losses, when the restructuring started. As a result, after 1990, the number of members gradually decreased in a very short time. As shown in Table (4.9), the number of members decreased to 2148 in 1997/98 from 7361 in 1991/92. It was 70.82% decrease within seven years.

Table (4.9) No. of Primary Co-operatives and its Members

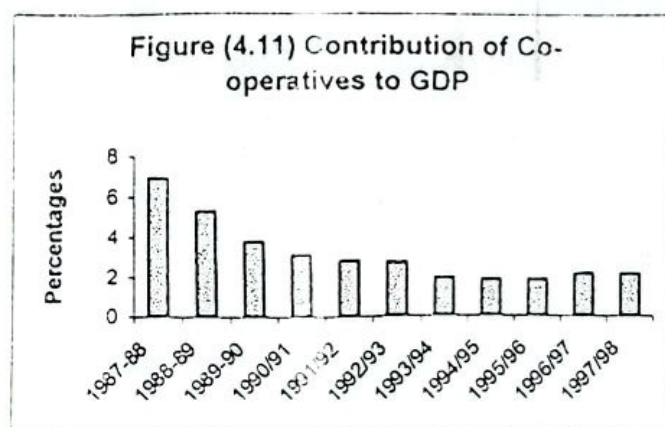
Years	No. of Societies	No. of Members	Turnover
		(thousand)	(kyats in Million)
1991-92	20257	7361	4920.7
1992-93	20193	6735	7887.5
1993-94	22341	5367	11085.6
1994-95	24258	3927	15548.9
1995-96	24629	3490	19268.9
1996-97	24274	3083	18441.6
1997-98	22720	2148	16849.9

Source: Ministry of Planning and Finance, Review of Financial, Economic and Social Conditions, Various Issues.

After 1988, the government introduced market-oriented economy and released many regulations previously imposed upon the private business. Therefore, the increased contribution of the private business to the economy is becoming a major source that can fill up a great portion of the shortage of commodities. Moreover, there is no need to rely on the co-operatives to get the necessary commodities because there are many alternative private businesses to get necessary commodities with the prices, which are not different with the co-operatives'. The dependency of the general public upon the co-operatives becomes less and less important. The distribution of the commodities produced by the SEEs is now handling by themselves, as SEEs also have to run their businesses on the commercial principles. As a result, the membership of the co-operatives becomes not to be a compulsory.

The government control over the co-operatives was also in great extent released. Therefore the co-operatives organizations are necessary to be restructured and several new co-operative societies emerged with a few members in order to run their businesses more efficient and competitive. As shown in Table (4.9), the number of co-operative societies shows a slight but gradual increase. It was 20257 in 1991/92 and increased to 24629 in 1995/96 (21.58%). After 1995/96, it shows a slight decrease. Although, there are decreases in the number of members and co-operative societies, the turnover shows an impressive increase. The turnover increased significantly by nearly 4 times between 1991 to 1996. After 1996, it again went down slightly. Therefore the restructuring of the co-operatives can be assumed that it produced some improvements in the businesses operations: i.e., the present co-operatives are more efficient than the previous ones.

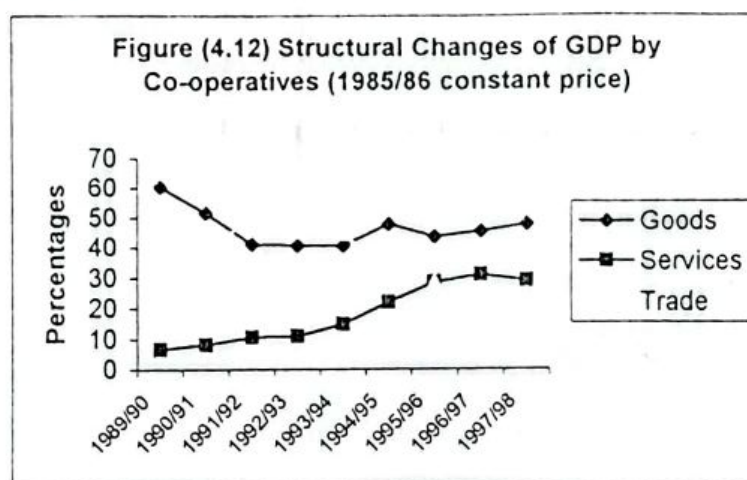
The great decrease in the number of members and the large-scale restructuring (or large-scale bankruptcy) in the co-operatives cause the co-operatives' share in the GDP down gradually throughout the years from 1987 to 1998, except during 1996-98, which shows a decimal increase of 0.4% [It is shown in Figure (4.11)]. The contribution of co-operatives to GDP reached 1.8 % at its lowest in 1994/95 and 1995/96, whereas it was 6.9% in 1987/88. For detail data, please refer to the Appendix (4.4).



As may be seen in Figure (4.11) the contribution of co-operatives is gradually going down during last ten years. The increase in Turnover with the decreases in number of members, number of co-operative societies and share of GDP contribution points out very clearly that the co-operative societies are trying to get the operating efficiency by restructuring their businesses. Under the competitive business world, the only thing that can guarantee the co-operative businesses' survival is economic efficiency, while without full supports from the government.

The structural changes of the co-operatives in the GDP are shown in Figure (4.12). After 1990, there is a rapid declination of the contribution of Goods-Sector from

co-operatives. It is very obvious that most of the co-operatives in Goods-sector¹⁵ are targeted in the restructuring or reorganization programme. They are hardly to encounter the competitions emerging from the private businesses under the market economic system with the lack of supports from government; for example, procurement of raw material at low cost.



The same is true in Trade-sector where the competition from the private business is very serious. Therefore the co-operatives have to shift their money to those businesses, which generate some profits and have some privileges still provided by the government. The Service Sector¹⁶ is the most favorable sector to the co-operatives, where the competition is less serious and limited. Moreover, the co-operatives have stable network (especially in the credit business) and special privileges in this sector (rental services

¹⁵ Goods-sector comprises of agriculture, livestock and fishery, forestry, mining, processing and manufacturing, power, and construction.

¹⁶ Service-sector includes transportation, communications, financial institutions, social and administrative services, and rental and other services.

where they have many real-estates properties provided previously by the government at the price of nearly free, which are now priced at current value).

At present most of the co-operatives are running their businesses by the way which deviates from the initial course of the co-operatives' objectives, previously mentioned in chapter (3); i.e., the main objective of the co-operatives is not for the profits but for the social and economic welfare of the members. A few members who hold majority of the shares have a strong influence upon the co-operatives and they directly involve in the management of the co-operatives. The remaining members seem to be virtually excluded from the co-operative societies, as they are informed nothing about the business operations or they have no power to challenge the management (Management Committee). Thus the management is nearly totally free from the control of the members and the members are also less interested in the co-operatives. Moreover, the former members have no right to withdraw their shares at current price or their shares are cleared by liquidation.

As mentioned above, the reforms in the property rights structure not only in private business but also co-operatives and the restructuring of the SEEs cause some significant improvements in the performance of the whole economy in terms of GDP Growth Rate. It represents at an average rate of 6.19% after 1989/90, shown in Table (4.10). But the inflation rate also is going up at an average rate of 21.4 percent. Besides, the exports continuously are lower than the imports, as the shortage of the all commodities resulted from the low productivity under socialist economic system calls for the immediate imports to step up the economy. Reviewing the data from Table (4.10), the whole economy of Myanmar seems to be a stable upward trend. But the controlling of

inflation rate is directly confronted with the policy makers, as it directly affects the value of private property.

Table (4.10) Economic Indicators (1988/89-1996/97).

	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
Real GDP Growth Rate %*	-11.4	7.4	5.1	5.3	5.6	6	6.9	6.7	6.5
Consumer Price Inflation (1986=100)	22.5	23.7	21.91	29.12	22.3	33.57	22.45	21.84	20.03
Exports f.o.b (\$ millions)	341	572	753	866	591	696	917	849	889
Imports f.o.b (\$ millions)	634	945	1324	1655	1010	1302	1547	1912	2105
Current Account (\$ millions)	-175.9	-68	-446	-572	-204	-194	-147	-551	-666
Reserves excluded Gold (\$ millions)	77.4	263.4	312.8	258.4	280	302.9	422	561.1	229.2
Total External Debt (\$ millions)	4414	4171	4500	4875	5355	5756	6555	5771	5553
Debt-Service Ratio %	34.9	30.4	26	13.1	6.2	11.8	14.5	16.7	18.1

Source: Asian Development Review, various issues.

* There is a difference between the data from the Asian Development Review and Review of Financial, Economic and Social Conditions, which is shown in Table (4.11).

The Structural Changes of Growth Rate by Sector during the transitional period are shown in Table (4.11). As shown in Table (4.11), the growth rate of agriculture constantly goes up at an average rate of around 9 percent (except 1991/92, which shows minus 3.9 percent). Due to the significant improvement in the private property rights in agriculture, the production and sown acreage increase gradually throughout the years concerned. Its resulted outcomes can easily be observed from the growth rate of the agricultural sector even though the nature of the agriculture itself has great difficulties to promote the production. Together with the constant yield per acre, the growth rate can be considered as an important implication of the improvement in sown acre, which resulted from the improvement of property rights. That is the private property rights of cultivators are more widely recognized by the government. In additions, the output of the Services Sector has a continuous increase after 190/91 at an average rate of 8.83 percent whereas the Trade Sector is growing marginally at an average rate of 4.47 after 1989/90.

Table (4.11) Structural Changes of Growth Rate by Sector (1985/86 constant producer price.

Sr.		1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
1)	Goods	1.5	6.5	2.6	-1.5	11	6	6.9	6.7	6.5	4.3
	1.Agriculture	2.2	5.2	2	-3.9	12.4	4.7	6.7	5.5	3.9	2.9
	2.Livestock & Fishery	4.2	-4	-0.6	5.7	4.5	4.8	6	3	11.8	6.4
	3.Forestry	15.8	28.4	8.3	-1.7	-3.3	1	-14.3	-4.5	2.7	1.3
	4.Mining	-19.2	30.6	-1.2	10.9	20	2.4	14.8	27.4	9.9	39.2
	5.Processing & Manufacturing	-1.5	11.3	0.1	-4	10.8	13.8	8.5	7.6	5.5	5.3
	6.Power	12.6	14.1	5	6.7	31.1	9.4	4.8	6.6	7.7	6.4
	7.Construction	-17.4	32.7	35.8	17.1	11.2	24.4	15.7	27.2	24.6	9.3
2)	Services	-4.2	-7.5	4.2	5.1	6.1	11.7	10	9.3	8	7.4
	1.Transportation	-12.7	9.7	3.5	5.8	9.1	8	11.2	6.4	6.4	6.6
	2.Communication	-1.2	11.6	3.9	16.5	26	9.2	20.4	24.6	20.6	16.3
	3.Financial Institutions	6.9	-85.7	16.7	17.9	15.1	8.5	47.3	34.8	21.9	13.7
	4.Social & Administrative	-4.7	17.9	4.2	4.3	2.9	38.4	6.8	6.2	4.9	5.5
	Services										
	5.Rental & Other Services	-3.8	1.5	3.5	2.5	3.6	7.2	4	6.3	5.9	5.7
3)	Trade	1	5.3	2.4	-2.5	8.9	3.5	7	5.7	5	3.2
4)	Gross Domestic Product	0.2	3.7	2.8	-0.6	9.7	6	7.5	6.9	6.4	4.6

Source: Ministry of Planning and Finance, Review of Financial, Economic and Social Conditions, Various Issues.

There is a little difference with the empirical survey of private companies in chapter (5), where most of the private companies are trading companies and it represents 45 percent of the sample companies¹⁷. Although the trading company shares a large portion of private companies, it is hardly to get a higher rate of growth because the private businesses in this sector were allowed even under socialist economic system, though they were small-scale businesses. Therefore most of the trading companies have being existed under the socialist era. It is also observed in our survey that over 90 percent of the trading company have being existed since socialist era. They transformed later their businesses into private company limited after 1988 in order to reap the benefits of

¹⁷ This implication is also coincided with the findings of the survey carried out by Tun Aung in 1995. In his survey the trading companies occupies 70 percent of the sample companies (Tun Aung: 1995, 100).

limitation of liability. Therefore, there may be low possibility to get a higher rate in trade sector in the near future.

Chapter (5)

A Case Study on Private Business

The property rights structure of the private sector and its changes in the transitional period are already explained in chapter (4). The agency problems and predictable responsive behaviour of the private business are explored by the property rights theory from the macro-level point of view in that chapter.

This chapter is intended to give more information about the private businesses (both public and private company limited), concerning the ownership structure, the situation of control mechanism for the shareholders and the agency problems. A survey of twenty-four companies, four public companies and twenty private-companies, has been conducted with the assistance of Department of Commerce and Department of Management Studies, Institute of Economics, Yangon, Myanmar. A sample of four public companies _ two Banks, one investment company and one production and trading company _ generally seems to be very small, but it covers almost all public companies in Myanmar because there are only five public companies actively engaged in the business operations. Moreover, the sample of 20 private companies is rather too small to make a general conclusion for all private companies in Myanmar. However, it is believed that the study of these 20 companies can give us a general image of current situation of private companies in Myanmar.

1) Current Situation of Share-Trading in Myanmar

As mentioned in chapter (4), there is no authorized share-trading house (stock exchange market) in Myanmar. In late 1990s, there was a movement in the business

world to establish a Stock Exchange Centre. It was in 1996 that Myanmar Securities Exchange Centre Company Ltd. (MSEC) was founded between Myanmar Economic Bank (State-owned Bank) of Ministry of Finance and Revenue, and Daiwa Institute of Research Ltd., Japan in the form of Joint Venture with equal shareholdings. It intends to initiate the Securities Market in Myanmar and support marketization, privatization and internationalization of Myanmar economy.

MSEC is, now, handling only Forest Product Joint Venture Corporation's shares. MSEC is also selling Myanmar Treasury Bonds to the investors as an agent for the Central Bank of Myanmar. Its activities include: (1) brokering, dealing, underwriting, and distributing securities, (2) managing venture capital funds and acting as an agent for joint venture, (3) researching the national economy and companies and publishing investment information, and (4) providing consultancy service. Although MSEC is trying to pursue other public companies to trade their shares through MSEC or to get license for underwriting authority, this attempt is likely to be ended without any success (getting new customers) under current situation and for the near future. The main reasons may be of two kinds: (1) lack of any Securities Exchange Law, which is assumed to be the most serious barrier to get potential customers and (2) the impact of Asia economic crisis, which makes private business operations stagnant.

Without Securities Exchange Law, there will be high risk for those companies, which delegate share-trading authority to Brokerage Company (for example, MSEC in Myanmar). The customer companies may lose an alternative reliable-control or an

enforceable-instrument apart from the Burma Companies Act¹ to take actions against the Brokerage Company for undesirable transactions or frauds.

Managing Directors from the four sample public companies answered to our interview that they have no plans to trade their shares through MSEC, mainly because there is no Securities Exchange Law². They consider it as the most important prerequisite for the establishment and smooth running of Stock Exchange Market. They, except FPJVC, are currently issuing and trading their shares by opening trading-counters mainly in the company head offices. The market price for a share is determined by the supply and demand of the share concerned³. At present, the share market can be regarded as a seller-market; that is, buyers are more than the number of sellers in the market and all the public companies' shares are now trading with premium prices⁴.

Asia economic crisis (starting from the financial market crash in Thailand in late 1997) also has great impact upon the Myanmar economy in recent years. Most of private companies have to keep their operations at minimum level and are trying to run their businesses at marginal. Among them the real estate development and those companies, which operations deal with foreign exchanges suffer seriously. All the sample private companies answered to our interview that they have no plans to transform their companies into public companies in order to expand their business operations. They all

¹ The Burma Companies Act was amended by new laws in 1989 and 1990.

² One of the sample companies has interest to establish Brokerage Company.

³ It implies that the seller has to go or makes a contact to the share trading centre or counter to bid their offer-price after asking the price currently trading or to delegate to the companies for bidding best price. The same is true to the buyer of the share. The buyer has to go to the companies or to make a contact to the companies to give desired price or the price negotiated by the companies between the seller and buyer.

⁴ "Premium price" is simply calculated from the actual value of equity, not taking the expectation of future prospects.

think that their current capitals are reasonably enough for their current and immediate future business operations.

2) A Study on Public Companies

Our survey includes Four public companies out of total five public companies actively operating⁵ now in Myanmar. This study is taken to cope with the economic performance of them from 1994/95 to 1998/99. All these companies were established under Burma Companies Act. This Act is only the reliable and enforceable instrument to protect the shareholders' wealth as well as for the formation of company limited.

It is not unreasonable to assume that investments in public companies at present, can be considered as high-risk investments based on the following three reasons. The first one is lack of stock exchange market: as mentioned above, lack of stock exchange market implies lack of one kind of control mechanism for the shareholders, which can discipline the managers. The next one is inefficiency of information accessibility in an imperfect labour market (for top executives), so that any information of the performance of top executives (good or bad) is very difficult to be accessible in the current labour market. A perfect labour market can also be considered as one kind of control mechanism upon the managers because it may affect their future incomes. The last one is shortage of management labour. There are very limited professionals in the private sector, apart from the government staff who has some experiences of running large businesses, as private firms had inevitably run their businesses as family style management during socialist era,

⁵ The word "actively operating" is used to distinguish some public companies, which issue their shares at extremely high par value and are selling to the selected people only.

which lasted 26 years. Most of the private companies have to depend largely upon the extremely limited number of managers or professionals.

(a) Forest Product Joint Venture Corporation (FPJVC).

This company is a public company founded in 1993. Its shares⁶ are divided into A-shares and B-shares, A-shares are reserved only for the state-owned enterprises and B-shares are selling to the general public. All B-shares are trading through Myanmar Securities Exchange Centre Co., Ltd.

The state-owned enterprises hold 55% of authorized share-capital (Myanmar Timber Corporation and Forest Department hold 45% and 10% respectively). Only 45% of share are for the general public. Although the state holds majority of the shares, its representatives hold only one third of Board of Directors (5 seats out of 15 members of board of directors). The remaining 10 seats are elected from the shareholders, who are legitimate for the directors election, in the annual general meeting. At present, management of FPJVC seems to be greatly free from state intervention. Besides, it is observed that the state has little influence upon the policies of the business. Thus, FPJVC is operating as an independent public company⁷. The equity percentages of FPJVC and its subsidiary companies are shown in Figure (5.1).

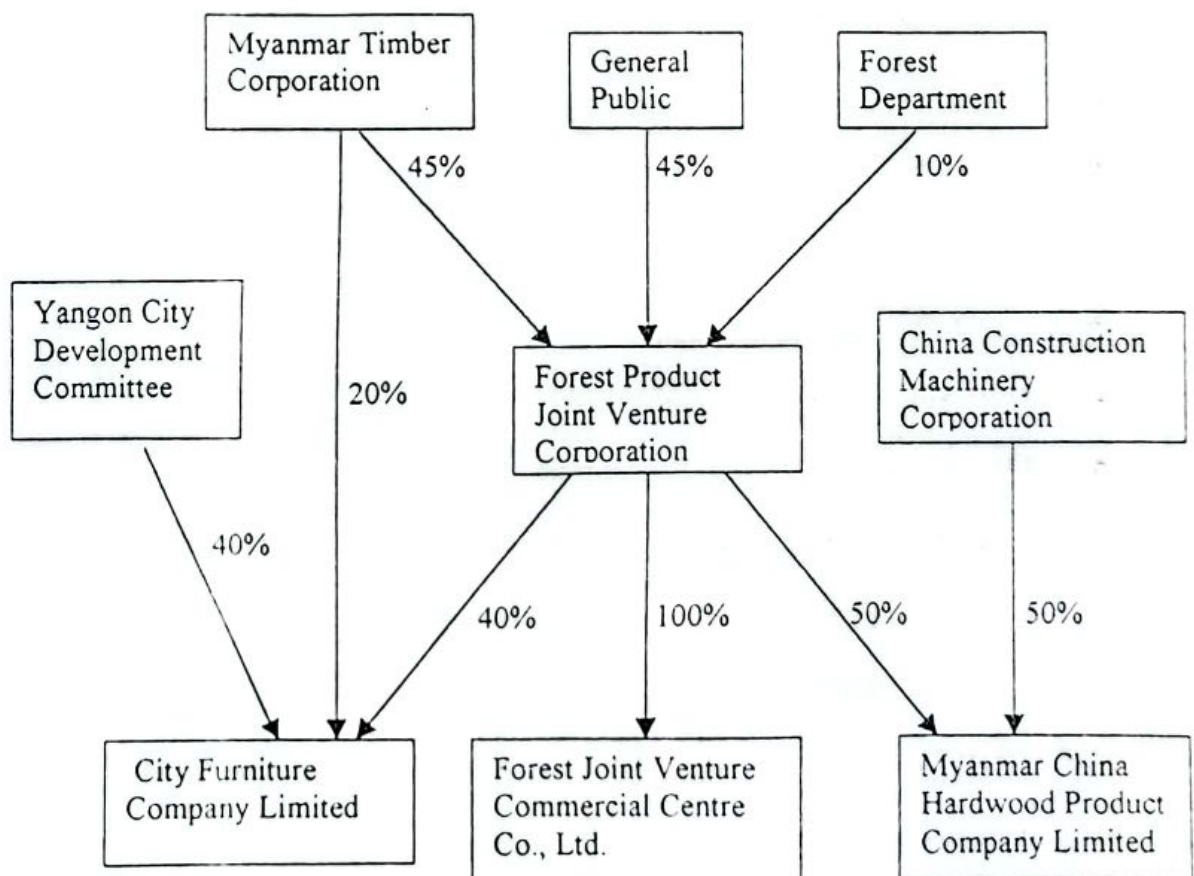
As may be seen in Figure (5.1), 55 percent of share capital is in the hands of Myanmar Timber Corporation and Forest Department. FPJVC has three subsidiaries: (1) City Furniture Company Limited (CFCL), (2) Forest Joint Venture Commercial Centre

⁶ The par value of a share is 10000 Kyats.

⁷ It is observed from the interviews with Managing Director of MSEC and Executive Director.

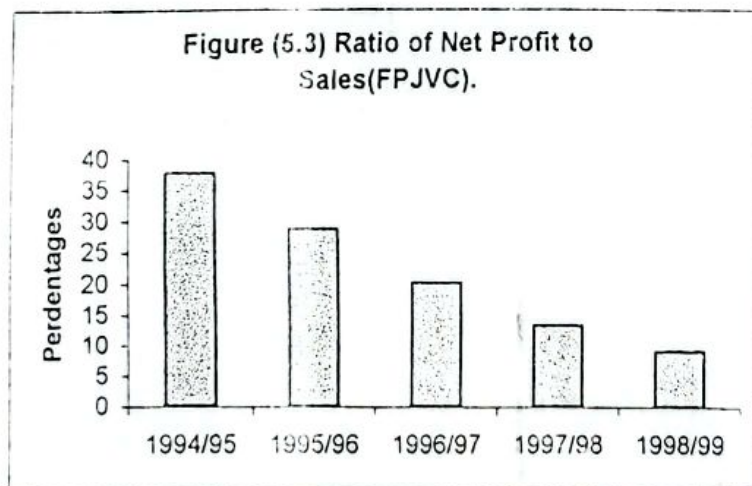
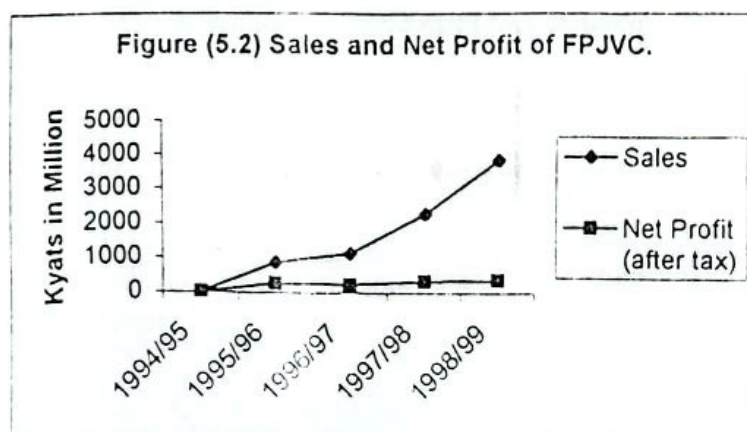
Co., Ltd. (FJVCC), and (3) Myanmar China Hardwood Product Co., Ltd. Among them, FJVCC is wholly owned by FPJVC. CFCL is jointly founded with two state-owned enterprises _ Yangon City Development Committee and Myanmar Timber Corporation _ where FPJVC holds 40% of share-capital. FPJVC also has 50% interest in Myanmar China Hardwood Product Co., Ltd., which is a joint venture company between China Construction Machinery Corporation and FPJVC.

Figure (5.1) Ownership Structure of FPJVC and its Subsidiary Companies



Source: Annual Report of FPJVC, 1998/99.

Sales and net profits of FPJVC during 1994/95-1998/99 are shown in Figure (5.2). It is observed that net sales have an upward trend throughout the financial years concerned whereas net profits increase at marginal rates. As a result, the ratio of net profit to sales shows a continuous downward trend as shown in Figure (5.3).

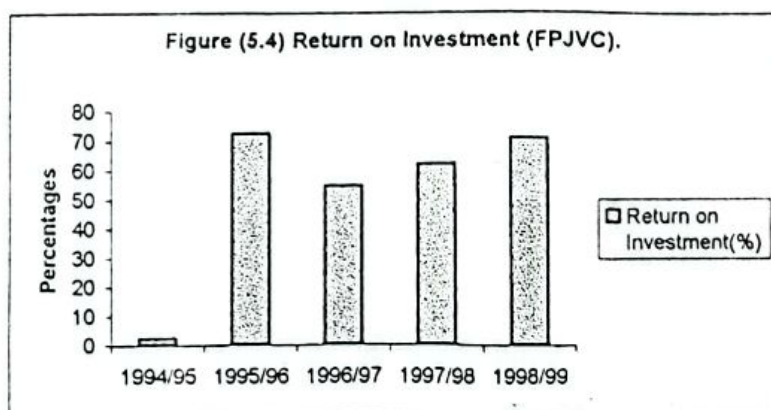


It is obvious that the increases in sales are less than the increases in total costs. However, Return on Investment⁸, as shown in Figure (5.4), increases greatly in 1995/96 and slightly downs in 1996/97. After then, it shows a steady upward trend. Moreover, it is

⁸ Return on Investment = (Net Profit / Share Capital) * 100.

running at an average rate of 64.81percent⁹ Return on Investment during last five years. This figure is very impressive and attractive to the investors where the rate of Bank Saving Account is 12% per annum.

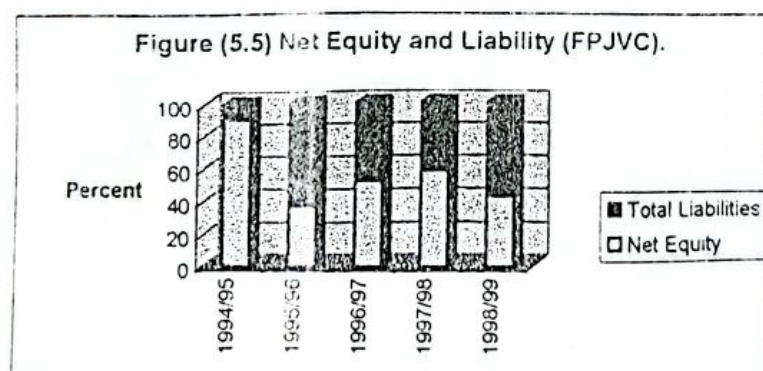
It is very common that all investors expect "high returns" for any high-risk investments. Investment in such organizations where the state holds majority interest may be considered as a high-risk investment because most investors consider State-owned enterprise as an inefficiently running business, and changes in government administrative hierarchies directly affect the business policies and its operations. State's involvement in the company ownership is not only a disadvantage, but there are also some advantages for the companies.



As Myanmar economy is a regulated market economy, there are always possibilities to get the state's supports, which often the main factors for the profit generations or the survival of the business mostly under the situation of economic crisis in the transitional economy.

⁹ 1994/95 financial year is excluded to avoid the influence of extreme value because the year 1994 is the year just after the starting business operations.

The percentages of Net Equity and Total liabilities that constitute the Total Assets are shown in Figure (5.5). It can easily be observed that the investment in this company is very attractive as it has reliable Net Equity ratio to the Total Assets together with an impressive average rate of Return on Investment (the most favorable rate, 64.81%). The demand of the shares is now increasing. It is hard to buy the shares immediately and the buyers are waiting or queuing in priority or in the favour of the highest bidding price. But the MSEC is negotiating between the buyers and sellers in order to control extreme jump up of the share price. MSEC is very aware of the sudden rise of the share price because they worry that it may lead to the market-crash. They are now handling the share-trading with great care, as negotiating between the buyers and sellers and making them understand about the market is not a easy task for MSEC.



FPJVC was jointly established between the Myanmar Timber Enterprise and general public by selling its shares to general public. Before Myanmar Timber Enterprise went into joint venture (or public company), it incurred continuous heavy deficits. Even after the establishment of FPJVC, Myanmar Timber Enterprise still has heavy losses as shown in Table (5.1). Although the data for capital receives are not available, there are no

possibilities to change these figures significantly, as the entire capital receive for the SEEs (34 enterprises) is less than the deficit of Myanmar Timber Enterprise, for example the capital receive for all the SEEs was 16.8 million Kyats where Myanmar Timber deficits itself had 426.3 million Kyats.

Table (5.1) Performance of Myanmar Timber Enterprise (Kyats in million)

	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Current receives	786.7	852.7	1451.2	1363.1	1467.7	1790.9	2150.8	2566.0	2783.7	2866.2	4250.3
Current Expenditures	886.1	832.4	1279.4	1594.1	1500.0	1628.1	2092.5	3237.3	3577.9	4925.3	7200.0
Current Surplus or (Deficit)	-99.4	20.3	171.8	-231.0	-32.3	162.8	58.3	-671.3	-794.2	-2059.1	-2949.7
Capital Expenditures	114.5	166.2	193.0	195.3	168.1	207.6	177.3	73.4	127.3	513.6	473.2
Surplus or (Deficits)*	-213.9	-145.9	-21.2	-426.3	-200.4	-44.8	-119.0	-744.7	-921.5	-2572.7	-3422.9

* before capital receives, as data for capital receives are not available

Source: Statistical Year Book, 1995 and 1998.

Reviewing overall performance of the FPJVC shows impressive results (the most attractive one among samples in terms of Return on Investment – an average rate of 64.81%) and proves that it got a great success in its business operations. It is very obvious that the reform of the property rights structure in the Myanmar Timber Enterprise (MTE) caused a significant improvement in its economic performance comparing the performance of MTE, which is still running as SEE. Myanmar Timber Enterprise established FPJVC in which the property rights are defined clearer than SEE (MTE) so that the externalities emerged from the ambiguous property rights have in great extent been internalized by sharing the ownership rights with the private investors. Moreover, in FPJVC the control rights of the enterprise are delegated to the management professionals so that the FPJVC can reap the benefits resulting from the specialization. In fact, it is also the result of separation of decision management from decision control, as the Board of Directors plays ratification and monitoring decisions (measurement of the performance of

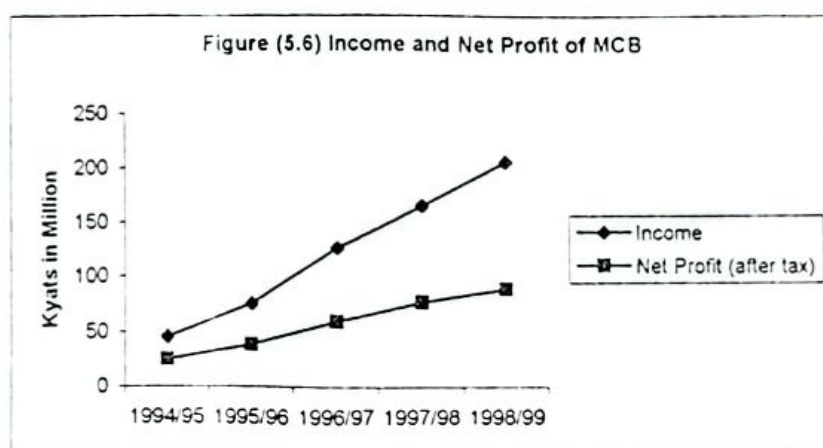
decision agents and implementation of rewards) and it is also an effective mechanism to solve the agency problems. In addition, FPJVC is largely supported by the Government with special privileges as its major shareholder and plays monopolistic in this sector

The most observable improvement can easily be seen in the incentive scheme. The members of Board of Directors including Managing directors are all compensated in the form of bonuses for the profits, for example, in 1999/2000 the bonus for 15 Directors is 3 million Kyats (200000 Kyats for each, nearly hundred times of the salary as they are in the MTE). The bonus system also concludes the employees (for 1999/2000, it is 10-13 million). The compensation for the management is more than one third of the bonus that is distributed to the whole employees. Therefore the incentive plan for the compensation of management is very attractive to the management. It is based only upon the profits so that the performance of the enterprise has direct influence on the private property (income) of the decision agents. It implies that the decision agents are bearing the value consequences of their decisions. It is also an effective control mechanism upon the management or to solve the agency problems.

It is also very apparent that there are great differences between the shareholding enterprise (FPJVC) and MTE because of the different property rights structure and incentive scheme. FPJVC shows significant improvement in its economic performance while MTE is poorly running at continuous deficits even after the FPJVC was established in 1993, as may be seen in Table (5.1)

b) Myanmar Citizens Bank Ltd. (MCB)

Myanmar Citizens Bank Ltd. was established in 1992. Like FPJVC, its shares¹⁰ are divided into A-shares and B-shares. A-shares are only for the Trade Enterprises (SEEs) and B-shares are selling to the general public. Trading of B-shares is carried out by opening share trading-section in its own office. A-shares occupies 45% of authorized share-capital, reserved for Trade Enterprises (SEEs), and B-shares are to be 55% of ownership. Four out of teen Directors come from Trade Enterprises and the remaining six are elected from shareholders at annual meeting. It has only one branch in Mandalay, which was opened in 1996.

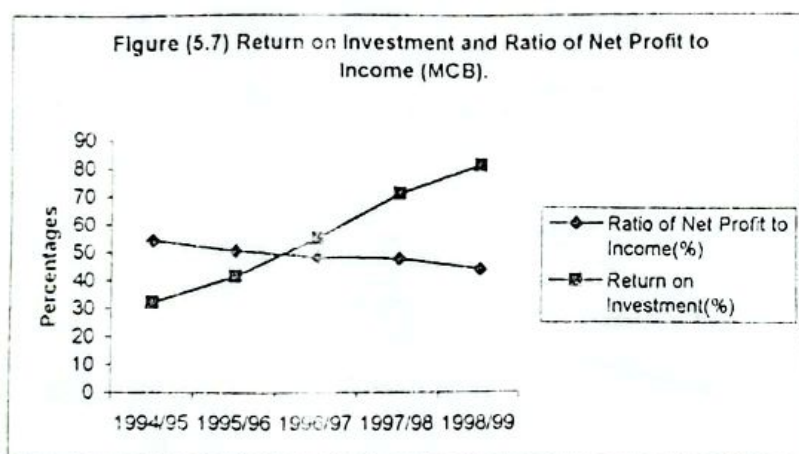


Income and net profit during 1994_1999 are shown in Figure (5.6). Both income and net profit show a gradual increase throughout the years from 1994 to 1999. Income increases nearly 5 times (4.62 times) where profit also goes up nearly 4 times (3.65 times) from 1994 to 1999. In contradiction, Ratio of Net Profit to Income, as shown in Figure (5.7), goes down slightly and gradually during 1994-99. This trend also reflects an increase in total cost. It can be considered that Myanmar Citizens Bank is trying to keep

¹⁰ Nominal share value is 5000Kyats.

its business operations at minimum operation level while earning reasonable profits rather than injecting more money to boost the business operations under the current condition of stagnant economy¹¹

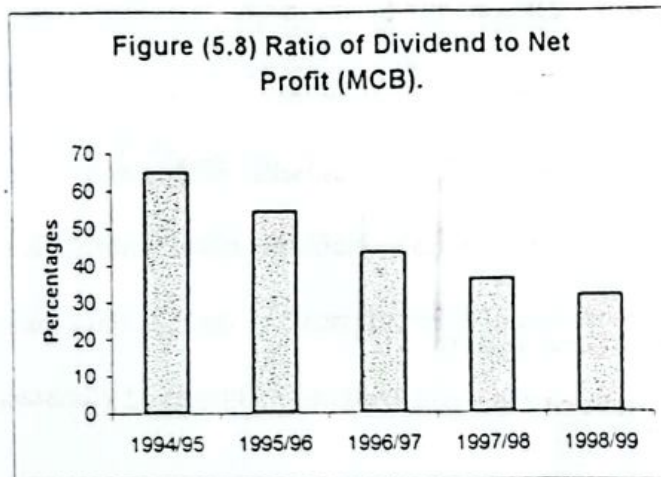
It is the "Rate of Return on Investment" that supports this proposition as Figure (5.7) shows that Rate of Return on Investment has a steady upward trend throughout the years at an average rate of 55.5%. Although, MCB has a favorable situation in its business operations from the point of view of sales, profits and return on investment, it opened only one branch during last five years.



The management's prediction of unfavorable business condition for the near future reflexes not only in its dividend policy but also business expansion policy. As shown in Figure (5.8), Ratios of Dividend to Profit decrease steadily throughout the years though the profit increases marginally. It seems to be an attempt to keep more reserved funds for uncertain future profits [as shown in Figure (5.8)] while securing the rate of

¹¹ Managing Director answered to our interview that they have no plans to expand the business operations until near future.

dividend for the investment at around 25%, rather than for the expansion of business operations.

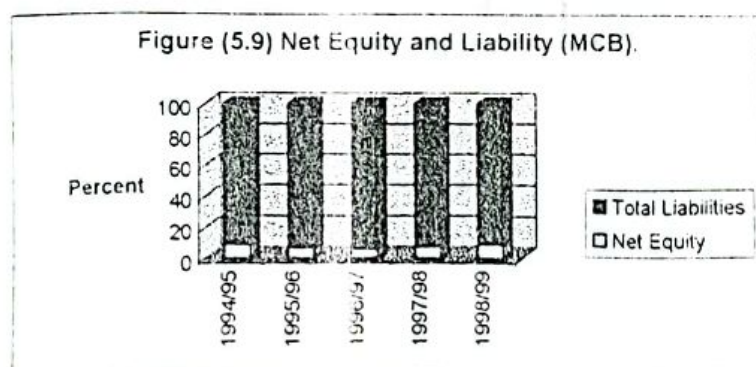


As may be seen in Figure (5.9), the ratio of Net Equity to the Total Assets shows around 9 percent and the lowest point among the sample companies. Due to the nature of the business, the degree of importance for this ratio can be different. As MCB is a bank, the lower rate of Net Equity ratio is very common. The seriousness of this ratio can be negligible because the MCB still has sufficient financial ability for all liabilities and the low equity ratio itself represents the nature of bank business.

All the banks in Myanmar have to operate according to the Financial Institutions of Myanmar Law. According to the Act No. 31 (a) and (b), the ratio of Net Equity to the doubtful debts (assets)¹² is strictly controlled to 1:10 (doubtful debts cannot be more than ten times Net Equity). Moreover, the Liquidity Ratio has to be at least 20 percent [Central Bank Instruction No. (4)], it is also strictly limited. All the Banks have to report their

¹² Ratio of Net Equity to Doubtful Assets = (Every Assets * Co-efficient) / (Share Capital + Reserved Funds).

financial situations to the Central Bank with the determined forms at every three months, so that the Central Bank can monitor all banks more closely and timely. Therefore, the ratios of Net Equity to Total Assets can be considered as favorable ratios and most of the investors give their emphasis on the dividends and Return on Investment rather than that of equity ratio. Although the bank has not plan for the immediate business expansion, recently the bank is thinking and preparing to issue next lot of shares, as there is a reasonable demand for the shares.



The same observations can also be extracted from the viewpoint of changes in property rights to explain the improvements of the economic performance of MCB. Its average rate of Return on Investment follows second next to FPJVC, which stands at 55.5%. But the scale of its business operations is rather too small among the samples. It has only one branch while First Private Bank (another sample bank) expanded to 12 branches. Table (5.2) shows the performance of Trade Enterprises from 1987/88 to 1997/98. As shown in Table (5.2), the Trade Enterprises are inefficiently running at heavy deficits though the MCB shows very favorable conditions in its performance before and after MCB was founded.

The most distinct difference between the FPJVC and MCB, in which the state hold majority of shares, may be of competition. MCB has to encounter fierce competition from the private banks while FPJVC is operating under less competition or monopolistic condition. Although MCB is less favorable than FPJVC, MCB is still running at impressive profits and with high rate of Return on Investment. Trade Enterprises established MCB sharing ownership rights with the individual investors, and the management holds significant degree of control rights, so that the separation of decision management from decision control is implemented. The reform in the property rights can generally be considered as the main cause that leads the efficient performance.

Table (5.2) Performance of Trade Enterprises (Kyats in million).

	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Current receives	2879.0	2418.6	5946.1	7340.4	8179.9	10703.9	10384.8	20791.1	11417.0	11723.7	17801.8
Current Expenditures	2432.7	3476.4	5995.6	8721.7	10028.9	11216.8	15958.9	25917.4	16341.5	20529.1	42958.4
Current Surplus or (Deficit)	446.3	-1057.8	-49.5	-1381.3	-1849.0	-512.9	-5074.1	-5126.3	-4924.5	-8905.4	-25166.6
Capital Expenditures	169.9	76.8	225.2	230.1	504.3	489.2	366.1	547.3	757.8	567.4	657.1
Surplus or (Deficits)*	276.4	-1134.6	-274.7	-1611.4	-2353.3	-1002.1	-5440.2	-5673.6	-5682.3	-9472.8	-25823.7

* before capital receives, as data for capital receives are not available.

Source: Statistical Year Book, 1995 and 1998.

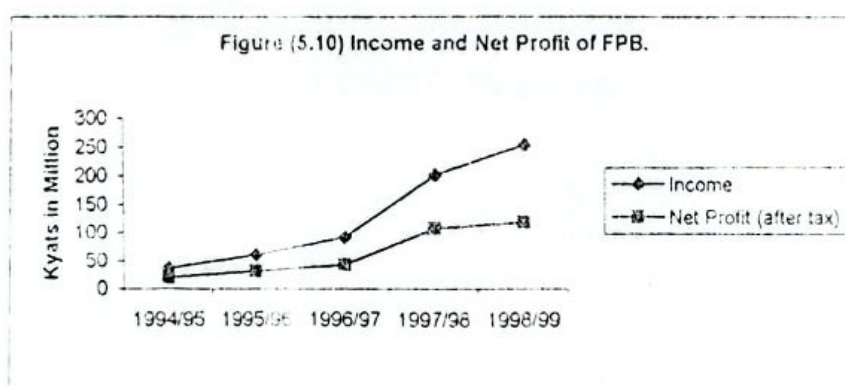
c) First Private Bank Ltd. (FPB)

First Private Bank was opened in 1992. Its shares are openly selling to the general public at 10,000 Kyats, nominal-share value, through its own share trading section. Any individual or organization can buy the company shares up to 1000 shares¹³. The maximum number of shares is limited in order to prevent a few people from grasping power to control the management. In addition, there is a compulsory minimum

¹³ In the year 2000, they are going to change the limit of maximum shareholding up to 100,000 shares.

shareholding system¹⁴ exercised in this company to induce the company employees' self-commitments in the business operations. This can be considered as a method of risk distribution among the employees.

Anybody who holds at least 10 shares has the right to participate in the director's candidacy race. All the members of board of directors are elected from shareholders by voting at the annual general meeting. Its business operations are gradually expanded during 1992_99. As a result, at the end of January in year the 2000, it has 12 branches in the whole country. The performance of FPB during last five years may send a positive imagination to the potential investors, as its Income and Net profit [as shown in Figure (5.10)] show a favorable upward trend during last five years. Even under the stagnation

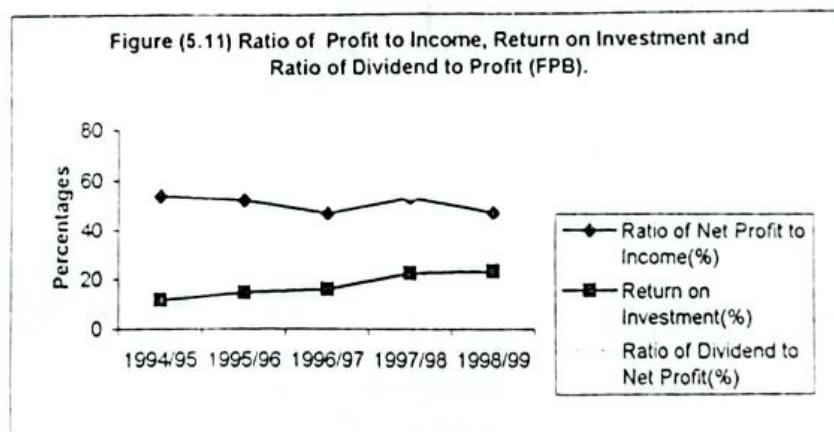


of private businesses during 1997-99, its income goes up significantly

Together with the increases in Income and Profit, Return on Investment also increases steadily during last five years at an average rate of 17.24%, as may be seen in Figure (5.11). The average rate of Return on Investment itself looks pretty good return,

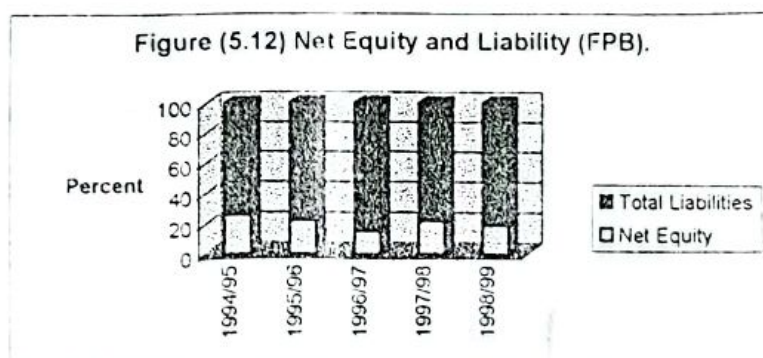
¹⁴ According to this system every employee has compulsorily to buy at least one share

but it will be less attractive while making a comparison with the Bank Rate of Saving Account, which is less risky than investments in any company. Moreover, Ratio of Net Profit to Income decreases slightly but continuously from 1994 to 1999, except 1997/98, which shows a slight increase of 13.77% from 46.1% in 1996/97 to 52.45% in 1997/98 [please see Appendix (5.3)]. Therefore, there is a possibility that intensive cost control will be an important issue necessary to be discussed in the near future for this bank.



The ratio of Net Equity to Total Asset for FPB is shown in Figure (5.12) As already explored above, all the banks have to follow the strict instructions of Central Bank and the Financial Institutions of Myanmar Law. The financial conditions of all the banks are closely monitored by the Central Bank. It is true for all the banks that their equity ratios are lower than those of other kinds of businesses. It can also be seen that the equity ratios of the banks in our sample are all lower than the remaining two companies. The most important factor is the power of income generating and reasonable rate of

return on investment. But the Return on Investment (an average rate of Return on Investment is 17.24%) shows only a little higher than the rate of bank saving account.



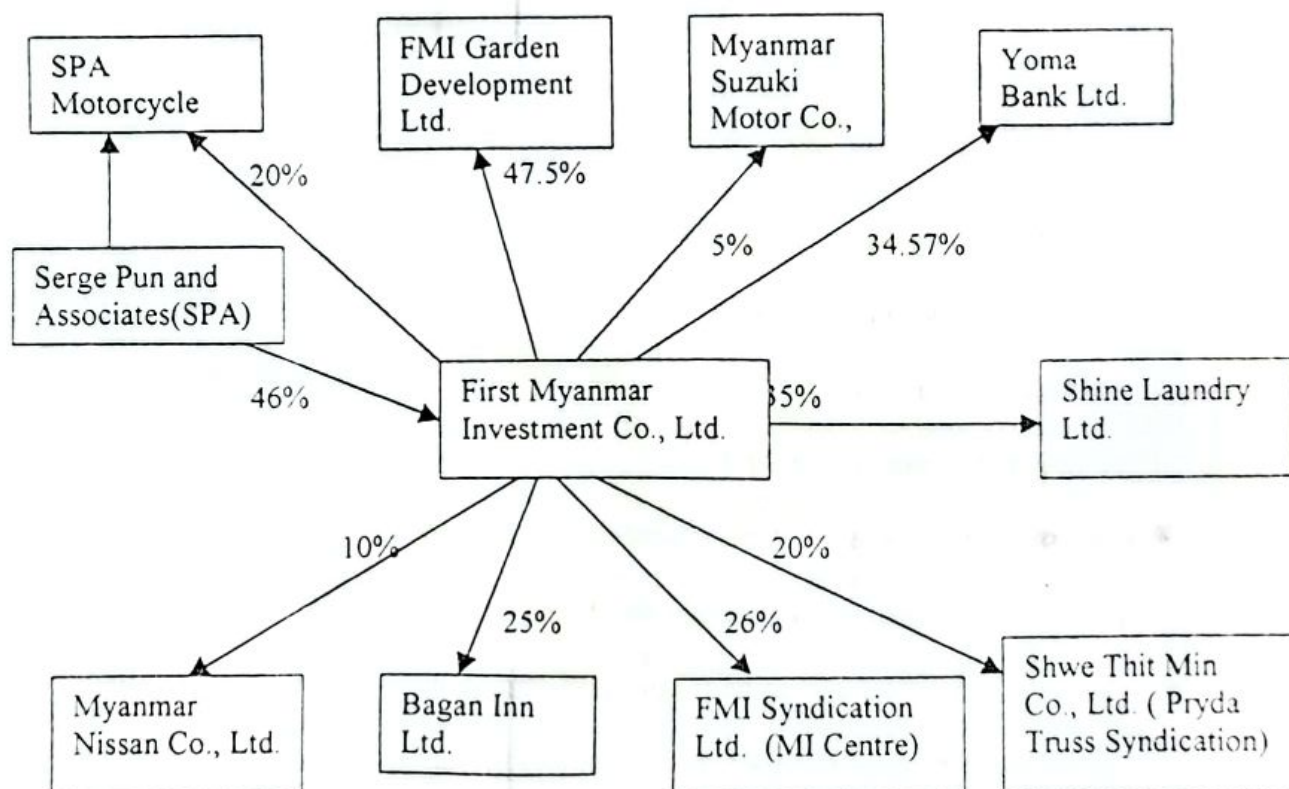
d) First Myanmar Investment Company Ltd. (FMI)

First Myanmar Investment Company Ltd. was opened in 1992 and its shares are selling to the general public at the nominal value of 10,000 Kyats per share. Anybody who holds at least 30 shares has the right to join in the directors' election for a director seat. It limits 200 shares to individual investors and 500 shares to organizations as maximum numbers of shareholding. All its shares are trading through its own share trading counter.

As FMI is an investment company, it has interests in nine companies and it is better known as a holding company currently in Myanmar. Its shareholdings are shown in Figure (5.13). As seen in Figure (5.13), Serge Pun and Associates (SPA, Hong Kong) owned by Serge Pun family holds 46% of share-capital in FMI Company. Thus, FMI itself seems to be a subsidiary of SPA.

Although "Serge Pun and Associates" owns 46% interests in FMI, there is no one from SPA in the directors-list. In contrast, Serge Pun who is a professional in the field of investment portfolio and also a founder of FMI holds Managing Agent Post. He is paid up by 10% of annual profit as salary. The incentive compensation system for the top executive in this company is a very distinct nature as there is no example in the sample companies.

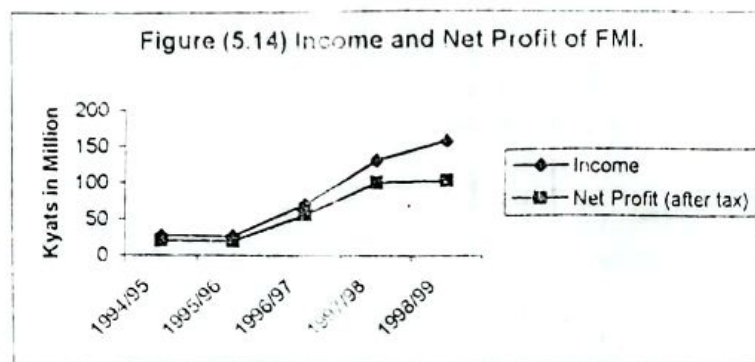
Figure (5.13) FMI's Shareholdings in its Subsidiaries.



Source: Annual Report of FMI, 1998-99.

From the viewpoint of corporate control mechanism, this system is one of the most effective methods to solve the agency problems. However, there is always a dangerous tendency for this company to go into the one-man management, because the shareholders are hardly to challenge the management, where SPA holds 46% of FMI's

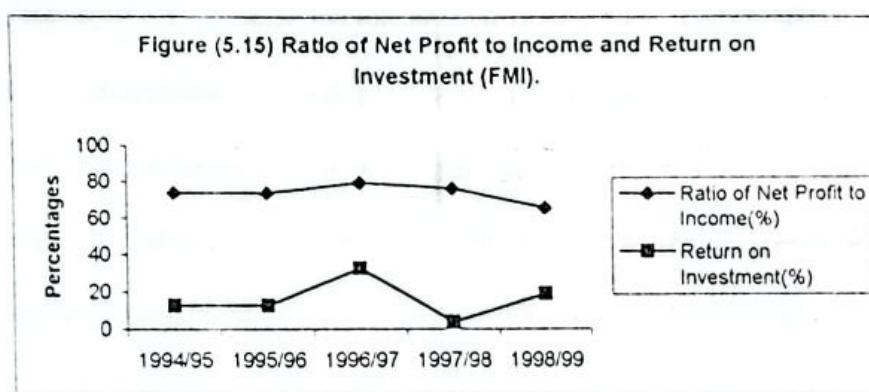
shares. It can simply be observable that the management is virtually away from the control of shareholders. There is a very weak control mechanism for the shareholders apart from the facts explained previous sections. Therefore, it will get less benefit resulted by the separation of decision management from decision control.



FMI's Income and Profit for the last five years are shown in Figure (5.14). Steady and rapid increases in Income and Profit, except in 1995/96, where it was stagnant, can be seen during last five years. Moreover, Ratio of Net Profit to Income also gives a good message about the control of expenditure, where an average figure stands at 75.61% (Ratio of Net Profit to Income) during 1994-98 and it decreases to 65.51% in 1999. The decrease in 1998-99 should be taken as an important factor for the calculation of future investments because most of the companies generally forecast the business situation unfavorable until near future.

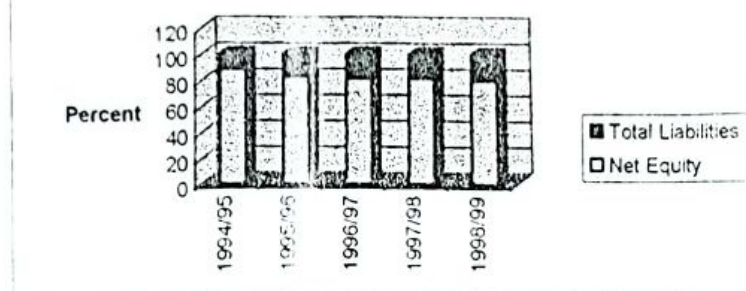
In general, it seems to be attractive to the investors. However, there still exists a more important indicator that should be taken into account to judge whether FMI is using shareholders' money in an efficient way, or whether it is really attractive for the future investments. The indicator, Return on Investment, is pointed out in the Figure (5.15),

together with Ratio of Net Profit to Income. As shown in Figure (5.15), Return on Investment can be seen as unstable and comparatively lower rates during 1994-1999. Its average rate of Return on Investment stands at 15.74% where Bank Rate for Saving Account, which is a nearly risk-free investment and the quickest asset, is 12% per annum. The average rate of return on investment is also the lowest among the sample companies



As this company is an Investment Company, it is not surprised that its equity ratios reveal the highest rates among the samples. The company considers itself the company as Investment Company though the company is indeed a holding company where it holds a large or major share of the companies in which it has interests. Therefore, the equity ratios of its subsidiaries may be more important than its ratios. Due to the nature of this company the rates of return on investment are the most important factor that can attract the potential investors but its rates of return on investment show unfavorable compared with the risk of investment.

Figure (5.16) Net Equity and Liability (FMI).



All the public companies have annually distributed dividends at around 25% of par value. It was mostly over 70% of net profit to pursue potential shareholders at the beginning of their businesses. They still attempt to maintain this rate because almost all Myanmar investors are very aware of dividends rather than that of the capital gains generated from the rise of share prices. Generally speaking, Myanmar investors are less interested in capital gains or they may have a very limited knowledge about stock market and capital gain, as there was no source for them to get such knowledge until now¹⁵. To meet the needs or demands of their clients (potential and existing shareholders), all companies have to give their emphasis more upon the stable annual dividends than the enlargement of their business scale, which can also lead to the increase of share prices. To maintain the stable rate of dividends, the companies have to retain more reserved funds primarily not for further investments, but for the future dividends when the profits are not enough to cover the dividends, 25% of par value.

¹⁵ Recently, Institute of Economics, Yangon and other private entities (for example, Myanmar Securities Exchange Centre, as mentioned previously) are trying to introduce about financial markets

The rate of 25%¹⁶ is not "must" prescribed by any law and regulation but all companies consider this rate as a reasonable rate to be attractive to the potential investors. As shown in Table (5.3), the rates of Return on Investment of First Private Bank and First Myanmar Investment Company are far more less than 25%, but they gave annual dividends at around 25% of share value (as the same in the remaining two). It is true that using both the capitals, which are legitimate and illegitimate to get dividends¹⁷ in the early years, they generate profits and accumulate reserved funds (which are retained profits). During last two years, almost all the shares became to be legitimate for dividends. Maintaining the rate of round 25% dividend will, from now, challenge the ability of dividend-distribution of all these public companies.

Table (5.3) Average Rates of Return on Investment.

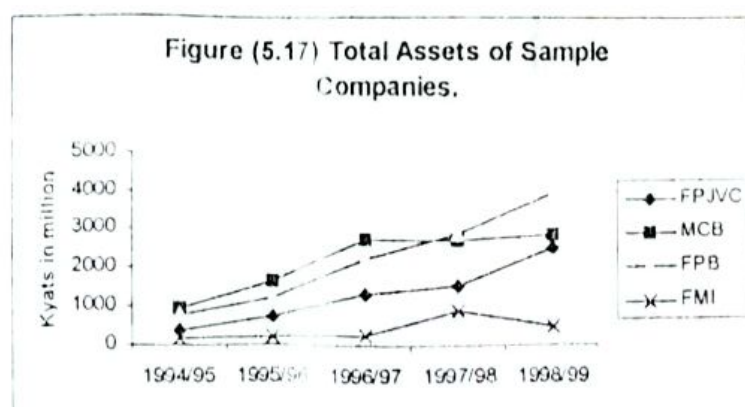
Company	Percentage
Forest Product Joint Venture Corporation	64.81%
Myanmar Citizens Bank Ltd.	55.5%
First Private Bank Ltd.	17.24%
First Myanmar Investment Co., Ltd.	15.74%

¹⁶ It is observed in our interview that the Managing Directors from sample companies are very aware of other companies' rate of dividends and they are trying to keep follow to other companies. Thus, all the four sample companies gave dividends accidentally at 25% of par value during last three years.

¹⁷ Only fully paid up shares are legitimate for dividends.

As may be seen in Table (5.3), the Average Rates of Return on Investment in Forest Product Joint Venture Corporation (FPJVC) and Myanmar Citizens Bank (MCB) show the most favorable rates among the samples. It can generally be said that they are running more efficiently than the others are from the viewpoint of financial aspects. The state owns majority of ownership in these two companies. Thus, there are also some postulates that under the imperfect or controlled market economy with monopolistic political system, there will always be some privileges only for those who have close relations or contacts with the governing authorities.

There is also a prominent feature in Myanmar that some members of top executives in all these companies as well as in many big private companies are former government officers. They all are expected not only for their professional expertise but also for getting a channel to get close contacts with the authorities in order to maintain their business operations. The smooth and speedy transactions in the legal procedures are, more often, more important than the professional expertise under the transitional economy, where the distorted resource allocation and unfair economic competition are common characteristics. In general, it is also a very promising way for the business survival.



Total Assets for the sample companies are shown in Figure (5.17). The figure of Total Assets can be used as an indicator for measuring the size of companies. In terms of value of Total Assets, FPB is the biggest and MCB follows next. The last in the ranking is FMI Company. But according to the number of employees, FPVJVC tops in the list with 754 employees and the next is FPB with 397 employees, and MCB has 118 employees accordingly. It is hard to get or determine the number of employees in FMI, as it does not engage in the actual operations and is carrying out only investment in other companies. The number of employees in company office itself is rather meaningless.

3) A Study on Private Company Limited

A survey on 20 private companies was also conducted during December 1999 and January 2000. They are mainly trading and manufacturing companies, which stand 45% and 40% of the sample companies respectively [as shown in Table (5.4)]. Since the sample size is too small to make generalizations for all the private companies, it is better to be considered as a case study. It is however believed that this survey can portray the general features of management style and ownership structure for all private companies. Although it is a case study, the explanations are taken with the group concern.

As they are the private businesses, it is understandable that they do not want to reveal their any financial data. There are a few companies, who answered the questions relating to the financial data, but it is observed that the answers are not enough, usable and reliable to be analyzed.

Table (5.4) Type of Business Operations

Type	No.	Percent
Trading	9	45
Manufacturing	8	40
Constructions	1	5
Hotel and Tourism	1	5
Computer Related	1	5
Total	20	100

The present situation of the private businesses in Myanmar can generally be considered as proprietorship-based businesses (or owner-manager firms) characterized with limited liability. It is observed that there is no evidence that indicates a separation of ownership from management in the sample companies. It is also found that all the Managing Directors in the sample companies are the members of the families. They also hold the majority of the company shares. As may be seen in Table (5.5), 60 per cent of the Managing Directors (M.D) own over half of the shares¹⁸. Moreover, almost all the shareholders are immediate family members or relatives, where seven companies include the shareholders who are not family members but they all are the close friends of their family members [please see in Table (5.7)].

It is observed that most of the Managing Directors tend to have decision power over the business affairs because most of them are the founders or pioneers of the companies. At the preliminary stage of introduction of market economy with insufficient protection mechanism for the investors, most of the investors are interested more in those

¹⁸ Even for those Managing Directors who hold less than 50% of shares, the total shareholding of their families, whom they have strong influence, exceed 50%.

companies, which can generate quick-profits rather than in those businesses, which are intended for the long-term prospects and a stable and low rate of profit.

Table (5.5) Managing Directors' Shareholdings

Shares Hold by M.D.(%)	No. of Co.	Percent
10 - 20	3	15
21 - 30	5	25
31 - 40	0	0
41 - 50	6	30
51 - 60	4	20
61 - 70	2	10
Total	20	100

Under the unstable politico-economic condition, it may probably be the way to reduce the risk of investments. Many potential investors are keen to join the company only after the companies are getting stable in their business operations, but most them have desire to participate in the management if possible. It is greatly different from those investors in the well-developed market economy, who are more interested in capital gains. Therefore, most of Managing Directors try to sustain their major shareholdings not only to protect their wealth but they do not want to share the management power to the new comers whom they think lack of experience in business practices.

The outcomes of the Managing Directors' endeavor to hold at minimum shareholders reflect in the lists of number of shareholders¹⁹ as shown in Table (5.6). The companies who have less than 20 shareholders occupy 85 % of the sample companies, where less than 10 shareholders of companies indicate 40%. Only there are three

¹⁹ According to the Burma Companies Act, the maximum number of the shareholders is limited to 50 for any private company limited.

companies whose shareholders are more than 20. It can generally be assumed that the private sector in Myanmar is overwhelmingly running by the family-business-style companies, which have no indications to transform into modern corporations in the near future. Therefore there is an urgency to create atmospheres with which the private business can develop itself and which guarantee those investors, who are interested in long term prospects.

Table (5.6) No. of Shareholders in the Sample Companies

No. of Shareholders	No. of Co.	Percent
<10	8	40
11-20	9	45
21-30	2	10
30>	1	5
Total	20	100

Fifteen companies employed professionals, mostly Accountants and Engineers. The remaining five are all handling their business operations by themselves (with family members) [please see Table (5.7)]. Although the remaining five do not have any professional employees²⁰, all private companies usually employ those persons who have some knowledge about the accounting, whether they hold government-recognized certificates or not. The companies have to employ them because most of the business owners have little knowledge about the company accounting practices. All professionals mentioned here have some certifications from some Institutes, or they are Graduates of

²⁰ Some family members are, of course, professionals.

University with the specialization in the specific fields. The demand of management professionals does not come onto the surface yet. Most of the respondents also admit that there are a few professionals in current labour market, but they think they need not recruit professional managers as they consider their companies as family businesses.

Table (5.7) Source of Capital and Employment of Professionals

	Source of Capital		Employment of Professionals	
	F/R	F/R/F	Yes	No
No. of Co.	13	7	15	5
Percent	65	35	75	25

Note: F/R = Family Member and Relatives

F/R/F = Family Member, Relatives and Friends.

As mentioned above, almost all the sample companies are more likely to be family businesses, so that all of them recruit their employees using mainly personal relations²¹. Over half of them [55% of the sample companies, as may be seen in Figure (5.8)] also use newspapers for recruitment together with the method of personal relations and they all have some professionals. It may be considered that those companies who want professionals usually use newspapers for the recruitment, otherwise they do not.

²¹ "Personal relations" refers to the employment through the personal relations or contacts; i.e., recruitment through the introduction of the existing employees, family members and friends.

Table (5.8) Ways of Recruitment

	No. of Co	Percent
Personal Relations	9	45
Personal relations, Newspapers	11	55
Total	20	100

This survey also includes a question of about the race of Managing Directors. It is reasonable to ask only to the Managing directors because they own the majority of the shares. Combining with the shares of their immediate relatives, it is also appropriate to consider them as the owners who can represent the companies concerned. The race is also an important factor to figure out the management style because it can significantly influence upon the management culture. It can also point out which races are generally more prominent figures in the real business world. As shown in Table (5.9), 60 percent of the Managing Directors are Myanmar and the remaining are Chinese²². It is observed that there is a high possibility for some Managing Directors who answered as Myanmar to be mixed race with Chinese. They answered as Myanmar for their convenience or they appreciate to answer as Myanmar²³. Unfortunately there is no Indian people included in this sample companies, though they have their stable business networks and have some recognizable shares in the private business world. It is also our weakness in this survey as it is very hard to us for getting contacts to the Indian society

²² Chinese here means those Chinese people who hold Myanmar citizenship, regardless of whether they are born in Myanmar or not.

²³ This observation is also supported by the results of survey conducted by Tun Aung for his Master Thesis (Tun Aung: 1995, 103).

Table (5.9) Managing Directors by Race.

Race	No. of M.D	Percent
Myanmar	12	60
Chinese	8	40
Total	20	100

For measuring the scale of business, the number of employees is commonly used as one of the indicators. Table (5.10) reveals the number of employees in the sample companies. As may be seen in Table (5.10), most of the private companies are in small scale. They are concentrated in less than 50 employees-companies, which represent 65% of total companies. There is 20%, which represent those companies more than 100 employees, and over 300 employees-business shows only 10 %. Most of the companies are yet small-scale businesses and almost all of them are trading companies, which share 45% of total companies. The companies, which have over 100 employees, are mainly manufacturing companies representing 40% of the samples. The comparison of the scale of business by the number of employees is often difficult to make conclusions, especially where the type of the businesses is different. In fact, more employees are necessary in the manufacturing company than trading company. Making a comparison between different type of businesses, there are many alternative indicators that can make a measurement of scale of businesses, for example financial indicators. Unfortunately, these kinds of data cannot be available, as most of the company owners are very sensitive to unforeseeable consequences.

Table (5.10) Scale of Business by Number of Employees (in December, 1999)

No. of Employees	No. of Companies	Percent
Less than 20	4	20
21 – 50	9	45
51 – 100	3	15
101 – 200	1	5
201 – 300	1	5
Over 300	2	10
Total	20	100

As mentioned above it is very obvious that most of the private companies are small-scale businesses. For making more clear view of the great different scales between SEEs and private companies, the number of employees in SEEs are shown in Table (5.11). More details are shown in Appendix (5.6).

Table (5.11) No. of Employees in SEEs

No. of Employees	No. of Enterprises	Percent
Less than 500	9	16.98
501 – 2000	15	28.30
2001 – 4000	10	18.87
4001 – 6000	3	5.66
6001 – 8000	5	9.43
8001 – 10000	3	5.66
10001 – 12000	1	1.89
12001 – 14000	4	7.55
Over 14000	3	5.66
Total	53	100

Nine enterprises are excluded in Table (5.11), because data is available only in total of nine enterprises (Ministry of Commerce. It is very obvious that the gap between the scale of the SEEs and private enterprises including public companies is still incomparably big. Therefore it can be considered that the growth of the private business is still limited though the private property rights are widely recognized by the government. The average number of employees of the SEEs is 4734 (all SEEs) whereas the private companies have only 126 including public companies. Making a system or creating an atmosphere, which encourages the private business, is becoming critical for the government (for example, urgent approval of Securities Exchange Law).

Conclusion

In this thesis, different property rights structures in socialist economy and transitional economy in Myanmar are explained, basing on the property rights theory. The positive and negative effects of these different property rights structures upon the economic organizations, such as the state-owned, co-operatives and private organizations including the agriculture sector, are analysed.

According to the 1973 constitution, the state is the ultimate owner of means of production (except labour) in Myanmar. The state constricted private property rights, generally control rights and income rights. The property rights structures define the risk and the responsibility of decision making and also generate agency problems through the incentive and control schemes. These agency problems influence the efficiency of the economic organizations. Myanmar governments assigned the property rights to the different economic actors during the different periods, using different methods.

Firstly, as the state constrained most of the control rights from the management of the SEEs during socialist era, the management of the SEEs would be impossible to take the role of stewards of the state. Hence, the SEEs operated the business operations as agents rather than the stewards who can look after the business affairs in stead of the state. The agents were externally motivated by incentive payments and needed a closed supervision while stewards were motivated by their commitments to the business operations. The agents thus took a opportunistic behaviour. The managers of the SEEs had a strong incentive to try to maximize their utility; the mangers had tendency to use the

state property for their private benefits, for example, on-the-job-consumption, and take intensive free-riding. As a result, these agency problems became a very important factor that produced negative effects upon the SEEs' economic performance.

In the agriculture sector under socialism, the private property rights were assigned to the individuals but constricted some rights from the ownership rights. The state constrained some disposable rights of outputs, for example, the fixed price of rice by which government bought from farmers, but the farmers had the right to sell the surplus rice which remained after selling the predetermined quota to the government, in the free market. When the gap between the government procurement price and free market price became wider, the farmers tried to keep the rice for free market and left some land uncultivated where marginal value did not cover marginal cost. The externality generating from this property rights structure had negative effects upon the agricultural businesses.

In other sectors, more private property rights were recognized but it could not be assumed that the private businesses were doing very efficiently because the state still regulated the exercise of some private property rights. Some rights from the control rights _ for example, the right to distribute the risk of investment _ was limited by the state; i.e., the state allowed the private organizations only in the form of unlimited liability. This constriction of control rights had a negative effect upon the growth and development of private businesses as the necessary capital for the expansion of businesses is hardly to be acquired.

The economic reforms which aimed to transform the centrally planned economic system to market economic system, started in 1988/89. In the transitional period, the SEEs have been delegated more authorities _ control rights. Two major changes have

already been carried out in the state enterprise system. First, the Working Capital system was replaced by the State Fund Account system and second, the separate enterprise fund account was allowed by the state. The increased control rights simply produce the positive effects on the behaviour of the manager because it widens the scope of stewardship. We may thus assume that the manager will increase their commitment in the business operations. But the complicated property relations which exist between state property and Revolving Fund and the vagueness of the risk and responsibility relations to the managers' decisions can have serious negative effects upon the behaviour of managers. That is the agency problems _ free-riding and on-the-job-consumption, which existed in the past _ continue to be critical issues under the transitional period too.

In the agriculture sector, more private property rights in relation with the control rights are now recognized by the state. It has been implemented by deregulation of the restriction of the property rights, imposed previously upon the farmers, such as the fixed government procurement price, quota system and choice of crops except the ownership of land. The state is, according to the suspending 1973 constitution and the new constitution being drawn up, the ultimate owner of all kinds of land. Due to the lack of changes in the ownership right and prevailing short tenancy period, there are negative effects upon the capital investment of land development in agriculture sector.

The changes in other private businesses would be seen as allowing the private businesses in those sectors previously prohibited and the establishment of new economic organizations of limited liability. These changes have positive effects on the investment behaviour, and encouraged the investors to expand the private businesses. As a result, the private sector grows very rapidly after 1988.

The relationship between the economic reforms and the property rights has already been explained above. We also examined the problems of externality of each economic system, which emerged from the vagueness of property rights relations and improper property rights assignment by the state. This thesis highlights that it is extremely important not only to make clear the relationship between the delegation of control rights (authority) and the responsibility but also recognition of wider private property rights in the private sector if it is decided that the economic reform is to be successful.

Changes in mega environment (i.e., international and/or regional and global situations), off course, have impacts on the individuals and the state, the study of which is left out for future researches and explorations.

Appendices:

Appendix (3.1) Contribution to GDP by Ownership.

	1961/62	1972/73	1973/74	1981/82	1985/86	1986/87	1987/88	1988/89
State	24.8	32.63	21.8	38.7	39.1	24.6	23.5	22.6
Co-op	0.7	4.3	2	3.7	5.4	6.8	6.9	5.3
Private	74.5	63.07	69.9	57.6	55.5	68.6	69.6	72.1

Source: Ministry of Planning and Finance, Review of the Financial, Economic and Social Conditions, Various Issues.

Appendix (4.1) Structural Changes of GDP Contribution by Ownership (1985/86 constant price) (Goods Sector)

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
State	3398.5	3599.0	3705.9	4014.8	4361.1	4766.6	5273.2	5546.7	5875.7
Co-operatives	1111.9	806.5	578.7	595.2	451.1	518.0	524.0	671.0	725.5
Private	25318.5	26199.6	25739.0	28834.7	30639.7	32624.7	34653.5	36858.5	38322.7
Total	29828.9	30605.1	30023.6	33444.7	35451.9	37909.3	40450.7	43076.2	44923.9

Appendix (4.1) Continued. (Service Sector).

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
State	4563.6	4857.4	5136.8	5218.4	5742.3	6166.0	6675.5	7078.6	7543.2
Co-operatives	117.6	123.7	146.3	158.3	162.6	238.0	341.1	455.5	438.9
Private	3255.2	3288.7	3349.6	3785.0	4058.2	4552.2	4931.4	5409.6	5924.0
Total	7936.4	8269.8	8632.7	9161.7	9963.1	10956.2	11948	12943.7	13906.1

Appendix (4.1) Continued. (Trade Sector).

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
State	2890.6	2960.0	2769.6	2816.3	2921.9	3135.0	3254.5	3324.1	3345.3
Co-operatives	611.5	637.5	688.4	713.1	499.6	334.0	343.4	367.2	369.3
Private	7615.7	7787.1	7688.1	8557.8	9227.4	10071.6	10707.4	11330.8	11784.1
Total	11118	11385	11146.1	12087	12649	13540.6	14305.3	15022.1	15498.7

Source: Ministry of Planning and Finance, Review of Financial, Economic and Social Conditions, Various Issues.

Appendix (4.2) FDI by Sector between 1990 and 1999 (US \$ in million).

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	Cumulative Amount
1. Agriculture	—	—	2.69	—	—	—	5.99	5.67	—	—	14.35
2. Fishery	77.31	—	5.85	7.60	148.21	13.07	17.50	5.82	4.755	—	280.11
3. Mining	55.10	—	33.38	20.87	0.50	155.78	178.30	3.33	4.885	1.00	507.25
4. Oil and gas	19.05	—	44.50	19.50	1039.53	14.80	695.60	172.10	—	—	2303.12
5. Manufacturing	42.71	5.89	13.34	17.75	76.70	21.29	923.56	319.22	43.296	3.73	1483.34
6. Transport	—	—	1.00	—	1.30	118.92	47.87	106.30	—	—	275.39
7. Hotel and Tourism	86.40	—	3.03	311.46	86.06	79.19	114.92	274.89	1.460	3.50	1042.41
8. Real Estate	—	—	—	—	—	251.45	623.50	122.19	—	—	997.14
9. Industrial Estate	—	—	—	—	—	12.00	181.11	—	—	—	193.11
10. Construction	—	—	—	—	—	—	17.27	—	—	—	17.27
11. Others	—	—	—	—	—	1.67	8.62	3.40	—	—	13.69
Total	280.57	5.89	103.79	377.18	1352.30	668.17	2814.25	1012.92	54.396	8.23	7127.17

Source: Statistical Year Book, 1995, 1997 and 1998.

Appendix (4.3) FDI by Country (Region) (US \$ in million, up to March, 1998).

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	Cummulative
										Total
Singapore	3.492	5.38	0	23.187	228.797	55.063	287.378	603.465	137.731	1344.431
U.K.	12.145	7.5	0	4.625	8.1	599.848	158.396	512.187	24.908	1327.709
Thailand	64.1	96.87	0.6	8.261	41.308	199.767	10.212	613.49	130.36	1164.968
Other Asia Countries	51	17.645	4.641	22.942	78.764	30.188	159.64	455.085	376.8	1199.155
USA.	80	93.24	0	29.5	19.5	4.025	14.8	341	0	582.065
Australia	25.2	0	0	2	0	1	1.806	10.055	42.019	82.08
Japan	40	60	0.652	0.49	0	0	19.383	72.148	26.85	219.523
China	0	0	0	0.38	0.715	4.404	0.15	23.11	0.5	29.259
Canada	22	0	0	0	0	0	3.031	7.5	5.3	37.831
Europe	151.55	59.935	0	12.4	0	458	13.37	176.205	32.926	904.386
Total	449.487	280.57	5.893	103.785	377.184	1352.295	668.166	2814.245	777.394	6829.022

Source: Statistical Year Book, 1995, 1997 and 1998.

Appendix (4.4) Contribution to GDP by Ownership.

Year/Ownership	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
State	23.5	22.6	22.2	22.7	23.2	22.1	22.4	22.5	22.8	22.5	22.5
Co-op	6.9	5.3	3.8	3.1	2.8	2.7	1.9	1.8	1.8	2.1	2.1
Private	69.6	72.1	74	74.2	74	75.2	75.7	75.7	75.4	75.4	75.4

Source: Ministry of Planning and Finance, Review of the Financial, Economic and Social Conditions, Various Issues.

Appendix (5.1) Performance of FPJVC from 1994/95 to 1998/99.
(Kyats in milliion)

	1994/95	1995/96	1996/97	1997/98	1998/99
Sales	22.59	873.64	1136.00	2277.30	3835.16
Net Profit (after tax)	8.55	253.18	232.30	308.45	353.50
Share Capital	345.45	350.35	425.58	500.00	500.00
Dividend	4.96	97.67	111.33	143.76	154.11
Total Assets	386.66	737.65	1319.24	1561.69	2539.06
Total Liabilities	38.52	247.10	632.08	658.57	1459.29
Net Equity	348.14	490.55	687.16	903.12	1079.77
Ratio of Net Profit to Sales(%)	37.85	28.98	20.45	13.54	9.22
Return on Investment(%)	2.46	72.26	54.58	61.69	70.7
Ratio of Dividend to Net Profit(%)	58.01	38.58	47.93	46.61	43.60
Net Equity to Assets (%)	90.04	37.18	52.09	57.83	42.53

Appendix (5.2) Performance of Myanmar Citizens Bank Ltd., from 1994/95 to 1998/99.
(Kyats in million)

	1994/95	1995/96	1996/97	1997/98	1998/99
Income	44.56	74.28	126.07	166.11	205.73
Net Profit (after tax)	24.23	37.53	59.25	76.97	88.41
Share Capital	75.82	90.78	110.00	110.00	110.00
Dividend	15.69	20.39	25.51	27.50	27.50
Total Assets	952.02	1632.23	2763.63	2750.79	2899.01
Total Liabilities	862.91	1513.12	2595.49	2537.19	2631.61
Net Equity	89.11	119.11	168.14	213.60	267.40
Ratio of Net Profit to Income(%)	54.38	50.53	47.00	46.34	43.00
Return on Investment(%)	31.96	41.33	53.86	69.97	80.37
Ratio of Dividend to Net Profit(%)	64.75	54.33	43.05	35.73	31.11
Net Equity to Assets (%)	9.36	7.30	6.08	7.77	9.22

Appendix (5.3) Performance of First Private Bank Ltd., from 1994/95 to 1998/99.
(Kyats in million)

	1994/95	1995/96	1996/97	1997/98	1998/99
Income	35.96	59.41	91.11	200.38	252.35
Net Profit (after tax)	19.25	30.68	42.00	105.10	116.67
Share Capital	166.74	213.34	267.40	478.26	515.95
Dividend	14.00	20.00	27.00	57.39	78.94
Reserves & Retain earnings	8.48	19.15	34.15	81.85	119.57
Total Assets	767.27	1185.74	2245.44	2944.50	4002.43
Total Liabilities	571.04	925.92	1908.37	2298.2	3255.82
Net Equity	196.23	259.82	337.07	646.30	746.61
Ratio of Net Profit to Income(%)	53.53	51.64	46.10	52.45	46.23
Return on Investment(%)	11.54	14.38	15.71	21.98	22.61
Ratio of Dividend to Net Profit(%)	72.73	65.19	64.29	54.61	67.66
Net Equity to Assets %	25.58	21.91	15.01	21.95	18.65

Appendix (5.4) Performance of First Myanmar Investment Co., Ltd.
(from 1994/95 to 1998/99).

	1994/95	1995/96	1996/97	1997/98	1998/99
Income	26.24	26.16	70.53	132.17	157.64
Net Profit (after tax)	19.28	19.21	55.95	100.72	103.27
Share Capital	158.10	158.10	171.92	3000.00	560.00
Dividend	15.81	18.97	39.53	75.00	140.00
Total Assets	186.02	198.36	243.28	887.48	480.27
Total Liabilities	22.43	34.27	46.42	166.54	97.57
Net Equity	163.59	164.09	196.86	720.94	382.70
Ratio of Net Profit to Income(%)	73.48	73.43	79.33	76.20	65.51
Return on Investment(%)	12.19	12.15	32.54	3.36	18.44
Ratio of Dividend to Net Profit(%)	82.00	98.75	70.65	74.46	135.57
Net Equity to Assets (%)	87.94	82.72	80.92	81.23	79.68

Appendix (5.5) Profile of Private Companies Limited.

Company Name	Type of Business	No. of Shareholders	Share/ (MD)	M.D by Race	Source of Capital	Professionals	Way of Recruitment	No. of Employees
1. Myanmar Computer Co., Ltd.	Computer Related	15	50	Myanmar	F/R	Accountant	P/N	30
2. Ninn Ninn Khai Co., Ltd.	Trading	10	70	Chinese	F/R/F	—	P	20
3. Kyaw Trading Co., Ltd.	Trading	22	70	Myanmar	F/R/F	—	P	30
4. Shine Trading Co., Ltd.	Trading	8	60	Chinese	F/R	Accountant	P/N	30
5. Myanmar Golden Star Co., Ltd.	Trading	20	60	Myanmar	F/R	Accountant	P/N	40
6. Aung Enterprise Ltd.	Trading	16	50	Myanmar	F/R/F	Accountant	P/N	30
7. Soe & Brother Co., Ltd.	Trading	7	50	Myanmar	F/R	Accountant	P/N	15
8. Sandi Brothers Trading Co. Ltd.	Trading	8	60	Myanmar	F/R	Accountant	P/N	20
9. Myat Thi Ha Co., Ltd.	Trading	5	30	Myanmar	F/R/F	—	P	25
10. Sin Pyan Co., Ltd.	Trading	10	30	Chinese	F/R/F	—	P	30
11. May Htay & Associate	Manufacturing	15	20	Chinese	F/R/F	—	P	15
12. Pioneer Venture Ltd.	Manufacturing	20	30	Myanmar	F/R	A.G./Accountant	P/N	77
13. Maggin Fish and Fishery Co..	Manufacturing	16	30	Myanmar	F/R/F	Accountant	P	148
14. Chinsu Myanmar Co. Ltd.	Manufacturing	25	50	Chinese	F/R	Accountant	P/N	200
15. Win Oil Mill	Manufacturing	10	10	Chinese	F/R	Accountant	P	20
16. Popular Plastic Industry	Manufacturing	7	30	Chinese	F/R	Accountant	P	100
17. Aung Thiha Rice Mill	Manufacturing	15	50	Myanmar	F/R	Accountant	P	75
18. Peace Myanmar Group Co., Ltd.	Manufacturing	35	10	Chinese	F/R	Accountant	P/N	250
19. Mya Kyuntha Co. Ltd.	Hotel and Tourism	15	50	Myanmar	F/R	Accountant	P/N	45
20. A-One Construction Co., Ltd.	Construction	18	60	Myanmar	F/R	Engineer/accountant	P/N	60

Note: F/R/F = Family, Relatives and Friends;

P/N = Person to Person and Newspaper

M.D = Managing Directors

P = Person to person

Appendix (5.6) Number of Employees in SEEs as of 1998.

Sr.	Enterprise/Ministry	No. of Workers	
1	Ministry of Industry (1)		
	1. Inspection	680	
	2. Myanmar Textile Industries	13000	
	3. Myanmar Paper and Chemical Industries	4200	
	4. Myanmar General and Maintenance Industries	2800	
	5. Myanmar Foodstuff Industries	5400	
	6. Myanmar Pharmaceutical Industries	3500	
	7. Myanmar Ceramic Industries	7000	36580
2	Ministry of Forestry		
	8. Myanmar Timber Enterprise	3000	3000
3	Ministry of Agriculture and Irrigation		
	9. Myanmar Sugarcane Enterprise	3300	
	10. Myanmar Cotton and Sericulture Enterprise	1900	
	11. Myanmar Agriculture Service	13000	
	12. Myanmar Farms Enterprise	1300	
	13. Myanmar Perennial Crop Enterprise	1700	
	14. Myanmar Jute Industries	7500	
	15. Myanmar Agricultural Development Bank	3100	31800
4	Ministry of Co-operatives		
	16. Enamel Ware Factory (1)	280	
	17. Duct Feather Goods Factory	70	
	18. Co-operatives Export Import Enterprise	100	450
5	Ministry of Transport		
	19. Inland Water Transport	7000	
	20. Myanmar Port Authority	6900	
	21. Myanmar Five Star Line	660	
	22. Myanmar Shipyards	490	
	23. Myanmar Airways	1000	16050
6	Ministry of Commerce		
	24. Myanmar Agricultural Produce Trading		
	25. General Merchandise Trading		
	26. Myanmar Department Stores		
	27. Stationary, Printing & Photographic Stores Trading		
	28. Medicine & Medical Equipment Trading		
	29. Vehicles, Machinery & Equipment Trading		
	30. Construction & Electrical Stores Trading		
	31. Inspection & Agency Service		
	32. Myanmar Export & Import Service		15000
7	Ministry of Hotels & Tourism		
	33. Myanmar Hotel & Tourism Service	1600	
	34. Restaurant & Beverage Enterprise	3500	5100
8	Ministry of Labour		
	35. Social Security Board	2000	2000

Appendix (5.6) Continued.

Sr.	Enterprise/Minstry	No. of Workers	
9	Ministry of Mines		
	36.No.(1) Mining Enterprise	6000	
	37.No.(2) Mining Enterprise	3500	
	38.No.(3) Mining Enterprise	3000	
	39.Myanmar Salt & Marine Chemical Enterprise	400	
	40.Myanmar Peral Enter	370	
	41.Myanmar Gems Enterprise	800	14070
10	Ministry of Finance and Revenue		
	42.Myanmar Economic Bank	9000	
	43.Myanmar Foreign Foreign Trade Bank	580	
	44.Myanmar Insurance	1200	
	45.Myanmar Small Loans Enterprise	1600	
	46.Myanmar Investment & Commercial Bank	350	12730
11	Ministry of Information		
	47.Information & Public Relations Department	1000	
	48.Printing and Publishing Enterprise	2300	
	49.News and Periodicals Enterprise	900	
	50.Myanmar Motion Picture Enterprise	3100	7300
12	Ministry of Livestock, Breeding and Fisheries		
	51.Bee Keeping Division	200	
	52.Livestock, Feedstuff & Milk Product Enterprise	1300	1500
13	Ministry of Energy		
	53.Myanmar Oil & Gas Enterprise	13400	
	54.Myanmar Petrochemical Enterprise	9300	
	55.Myanmar Petroleum Products enterprise	5300	28000
14	Ministry of Electric Power		
	56.Myanmar Electric Power Enterprise	14500	
15	Ministry of Rail Transportation		
	57.Myanmar Railways	26900	
	58.Road Transport	7500	34400
16	Ministry of Industry (2)		
	59.Technical Services	500	
	60.Myanmar Heavy Industry	11100	11600
17	Ministry of Construction		
	61.Public Works	19500	19500
18	Ministry of Communications Posts & Telegraphs		
	62.Myanmar Post & Telecommunications	12900	12900
	Total		293480

References:

1. Alchian, A. (1965), "Some Economics of Property Rights", Il Politico, 816, 30.
2. -----, 1967, "Pricing and Society", Westminster: The Institute of Economic Affairs, Occasional Paper No. 17, September, pp. 2-3.
3. Alchian, A. and Demsetz, H., (1972), "Production, Information Cost and Economic Organization", American Economic Review. LXII, No.5, pp.777-795.
4. Alchian, A. and Kessel, R., (1962), "Competition Monopoly and the Pursuit of Money" in National Bureau of Economic Research. Aspects of Labour Economics. Princeton: Princeton University Press.
5. Andrus J. R., (1948), Burmese Economic Life, Stanford University Press, U.S.A.
6. Aung Myint, Chit So, Nu Nu Yin, Myo Myint and Than Tun, (1997), A Study on Trade and Investment Policies in Developing Countries: The Case of Myanmar, Submitted to the Institute of Developing Economies, Tokyo, Japan.
7. Aung Than Tun, (1971), Cooperative Laws for the People (in Myanmar), Paw Oo Press, Rangoon, pp. 39-61.
8. Barzel, Y. (1997), Economic Analysis of Property Rights, Cambridge University press, pp. 3-15.
9. Bays, Carson. (1979), "Cost Comparisons of Forprofit and Nonprofit Hospitals.", Social Science and Medicine, 13C, pp.219-225.
10. Becker, Edmund R., and Sloan, Frank A. (1985), "Hospital Ownership and Performance.", Economic Inquiry, 23, pp.21-36.
11. Boardman, A., (1989), "Ownership and Performance in Competitive Environments: A Comparison of the Performance of Private, Mixed, and State-owned Enterprises", Journal of Law Economics, Vol.32, April.
12. Buchanan, J. and Tullock, G., (1962), The Calculus of Consent, Ann Arbor: University of Michigan Press.
13. BSPP (Burma Socialist Programming Party), (1974-a), Burma Co-operative Societies, Vol. (1), Party Head office Printing, Yangon.

14. BSPP (Burma Socialist Programme Party), (1974-b), Burma Co-operative Societies, Vol. (2), Party Head office Printing, Yangon.
15. Cheung, Steven N.S., (1970), "The Structure of Contract and the Theory of a Non-Exclusive Resources", Journal of Law Economics, April, 13.
16. Clarkson, Kenneth W., (1972), "Some Implications of Property Rights in Hospital Management.", Journal of Law Economics, Oct., pp. 363-384.
17. Coase, R., (1937), "The Nature of the Firms.", Economica, Nov., 4, pp.386-405.
18. -----, (1959), "The Federal Communication Commission", Journal of Law Economics, Oct., 2.
19. -----, (1960), "The Problem of Social Cost", Journal of Law Economics, Vol. 3.
20. Collins, John, and Downes, Brian, (1977), "The Effect of Size on the Provisions of Public Services: The Case of Solid Waste Collection in Smaller Cities.", Urban Affairs Quarterly, 12, pp 333-345.
21. Crawford J., (1829), Journal of an Embassy from the Governor-General to the Court of Ava in 1827, London.
22. Davies, David., (1971), "The Efficiency of Public versus Private Firms: The Case of Australia's Two Airlines.", Journal of Law and Economics, 14, April, pp.149-165.
23. -----, (1977), "Property Rights and Economic Efficiency: The Australian Airlines Revisited.", Journal of Law and Economics, 20, April, pp.223-226.
24. De Alessi, Louis., (1974), "An Economic Analysis of Government Ownership and Regulation: Theory and the Evidence from the Electric Power Industry.", Public Choice, 19, Fall, pp.1-42.
25. -----, (1977), "Ownership and Peak-Load Pricing in the Electric Power Industry.", Quarterly Review of Economics and Business 17, Winter, pp 7-26.
26. Demsetz, H., (1967), "Toward a Theory of Property Rights", American Economic Review, May, 57, pp.347-359.
27. -----, (1988), Ownership, Control, and the Firm: The Organization of Economic Activity, Vol. I, Basil Blackwell Ltd., UK.
28. Economic Intelligent Unit, (1997/98). Country Report: Myanmar.

29. -----, (1990). "Ownership Control and The Firm". (paperback). Basil Blackwell Ltd. UK, pp. 13-27.
30. Fama, E., (1980), "Agency Problems and the Theory of the Firm", Journal of Political Economy, vol 88, pp.288-306.
31. Fama, E. and Jensen, M, (1983a), " Separation of Ownership and Control", Journal of Law Economics , 26, pp. 301-304.
32. Fama, E. and Jensen, M, (1983b), "Agency Problems and Residual Claims", Journal of Law Economics, vol26, pp.327-633.
33. Frech, H. E., III., (1976), "The Property Rights Theory of the Firm: Empirical Results from a Natural Experiment.", Journal of Political Economy, 84, February, pp.143-152.
34. -----, (1980), "Property Rights, the Theory of the Firm, and Competitive Markets for Top Decision-Makers.", In Research in Law and Economics, Vol. 2, edited by Richard O. Zerbe, Greenwich, Conn.:JAI, , pp. 49-63.
35. Frydman, Roman, Andrzej Rapaczynski, and Joel Turkewitz. (1997). Economies in Transition: Comparing Asia and Eastern Europe, ed. Wing Thye Woo, Stephen Parker, and Jffrey D. Sachs, UK, MIT Press, pp. 40-59.
36. Funkhouser, Richard, and MacAvoy, Paul W., (1979), "A Sample of Observations on Comparative Prices in Public and Private Enterprises.", Journal of Public Economics, 11, June, pp.353-368.
37. Furnivall J. S., (1938), Political Economy of Burma, Rangoon.
38. Furubotn, E. and Pejovich, S., (1970), "Property Rights and the Behaviour of the Firm in a Socialist State; The Example of Yugoslavia", Z fur nationalokon, Winter, 30, pp.431-454.
39. -----, (1972), "Property Rights and Economic Theory: A Survey of Recent Literature", Journal Economic Literature, Dec, pp.1137-1157.
40. Hla Myint, Daw, (1988). "State Economic Enterprise Reforms", Working Paper, Submitted to the Institute of Developing Economies, Tokyo.

41. Jordan, William A., (1982), "Performance of North American and Australian Airlines.", In Managing Public Enterprises, edited by William T. Stanbury and Fred Thompson, New York: Praeger, pp.161-199.
42. Junker, J.A., (1975), "Economic Performance of Public and Private Utilities: The Case of U.S. Electric Utilities.", Journal of Economics and Business, 28, Fall, pp.60-67.
43. Kim, Kwan S.,(1981), "Enterprise Performances in the Public and Private Sectors: Tanzanian Experience, 1970-75.", Journal of Developing Areas, 15, April, pp.471-484.
44. Lee, Keun.(1991). Chinese Firms and State in Transition: Property Rights and Agency Problems in the Reform Era. M.E. Sharpe Inc., London.
45. Lewin, Arie Y., (1982), "Public Enterprise, Purposes and Performance.", In Managing Public Enterprises, edited by William T. Stanbury and Fred Thompson, New York: Praeger, pp.51-78
46. Mann, Patrick C.. (1970), "Publicly Owned Electric Utility Profits and Resource Allocation.", Land Economics 46, November, pp.478-484.
47. Marx, Karl, (1968), Critique of The Gotha Programme, In Selected Works. New York: International Publishers, (originally 1859).
48. McManus, J.C., (1975), " The Costs of Alternative Economic Organizations", Canadian Journal of Economics, 53, Aug., pp.334-350.
49. Ministry of National Planning and Economic Development, The Union of Myanmar.(1996), Economic Development of Myanmar, Yangon, Hlaing Offset Printing Press, 33-38.
50. -----, Review of the Financial, Economic and Social Conditions., Various issues, Yangon, Printing and Stationary.
51. -----, (1995), Statistical Year Book (1995), Yangon, Central Statistical Organization.
52. -----, (1997), Statistical Year Book (1997), Yangon, Central Statistical Organization.

53. Monsen, R.J and A. Downs, (1965) "A theory of large managerial firms", Journal of Political Economy, June, pp.221-236.
54. Moore, Thomas G. "The Effectiveness of Regulation of Electric Utility Prices.", Southern Economic Journal, 36, April, pp.365-375.
55. Morgan, W. Douglas., (1977), "Investor Owned vs. Publicly Owned Water Agencies: An Evaluation of the Property Rights Theory of the Firm.", Water Resources Bulletin, 13, August, pp.775-781.
56. Murari, Krishna., (1985), Cultural Heritage of Burma, Inter-India Publication, New Deli, India.
57. Mu Mu Thet, (1989), An Analysis of Financial Indicators and Financing of Township Co-operatives Societies (in Myanmar), Master Thesis, Institute of Economics, Yangon.
58. Myan Than and Nishizawa N., (1990), "Agricultural Policy Reforms and Agricultural Development", ed. By Myan Than and Tan , Joseph L. H., Myanmar Dilemmas and Options: The Challenge of Economic Transition in the 1990s, Singapore, Institute of Southeast Asian Studies, pp.89-115.
59. Myan Than and Tan , Joseph L. H., (1990), "Introduction: Optimism for Myanmar's Economic Transition in the 1990s", Myanmar Dilemmas and Options: The Challenge of Economic Transition in the 1990s, Singapore, Institute of Southeast Asian Studies, pp.1-17..
60. North, Douglass. C.,(1980), Structure and Change in Economic History, W. W. Norton and Company, pp.23.
61. Pejovich, S., (1972), "Towards an Economic Theory of the Creation and Specification of Property Rights", Review of Social Economy, No.3, Sept., 309-325.
62. Peltzman, Sam., (1971), "Pricing in Public and Private Enterprises: Electric Utilities in the United States.", Journal of Law and Economics, 14, April, pp.109-147.
63. Pryor, Frederic L.,(1973), Property and Industrial Organization in Communist and Capitalist Nations, Indiana University Press.

54. Rana, Pradumna.B. and Naved Hamid. (1995) From Centrally Planned To Market Economies: The Asian Approach, Vol.1, Ana Overview, Hong Kong, Oxford University Press, pp.9-10.
65. Savas, E. S., (1977), "Policy Analysis for Local Government: Public vs. Private Refuse Collection.", Policy Analysis, 3, Winter, pp.49-74.
66. Shepherd, William G., (1966), "Utility Growth and Profits under Regulation.", In Utility Regulation: New Directions in Theory and Practice, edited by William G. Shepherd and Thomas G. Gies., New York: Random House.
67. Silver, M. and R. Auster, (1969), "Entrepreneurship, profit and limits on firm size", Journal of Bussiness, 42, July, pp.277-281.
68. Spann, Robert M., (1977), "Public versus Private Provisions of Governmental Services.", In Budgets and Bureaucrats, edited by T. E. Borcharding, Durham, N. C.: Duke University Press, pp.71-89.
69. Steinberg D. I., (1982), Burma: A Socialist Nation of Southeast Asia, Westview Press Inc.
70. Stevens, Barbara J., (1978), "Scale, Market Structure, and the Cost of Refuse Collection.", Review of Economics and Statistics, 60, August, pp.438-448.
71. Tin Thaung, Mg, (1980), The Role of Finance in Agricultural Development in Burma, Mcom. Thesis, Institute of Economics, Rangoon.
72. Tirole, J., (1986), " Hierarchies and Bureaucracies: On the Role of Collusion in Organization.", Journal of law, Economics , and Organization, 2, Fall, 181-214.
73. Tullock, G., (1971), The Logic of the Law, New York: Basic Books.
74. Tun Aung, (1995), A Study of the Profile of Managers of Private company Limited, Master Thesis, Institute of Economic, Yangon, Myanmar, pp. 80-105.
75. Tun Wai, U. (1961), Economic Development of Burma: from 1800 to 1940, Rangoon University Press, Rangoon, Burma.