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Chapter 2  
**ECONOMIC REFORMS AND BUSINESS  
ORGANIZATION :**  
**Property Rights Approach**  
by  
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## 1. 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. These motives 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, as 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 state property and its management, agents for their private benefits can theoretically expropriate state property.

The main objective of this paper is to analyze the impact of Myanmar economic reforms initiated in the late 1980s upon the behaviour of economic organizations and the whole economy.

This paper 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 along with the designing of the structure of economy to search the proper and efficient designs for the economic development. The important role of the 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 paper, however, primarily stands on the importance of the 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, as this approach can fulfill the necessity of the study ranging from the individual to the whole economy.

This study is carried out in the form of comparative analysis of economic performances of SEE, cooperatives, 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. Unfortunately the time frame is bounded to the 1998, as no official data for national and enterprise level are available to the general public after 1998.

First, the property rights structure under socialism is reviewed and the externalities<sup>1</sup> produced by this structure are analyzed. An attempt is then made to check as to whether the changes of the property rights structure (the outcome of 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. First portion of this paper is an analysis of property rights and agency problems in the socialist economic organizations (both SEE and private businesses).

Economic reforms are discussed in second portion of this paper. 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

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<sup>1</sup> 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 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.

## Part One: Property Rights and Agency Problems under Socialism

### 1. Introduction

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 very limited possibility to establish and compete with the foreigners' big firms as they had lived as workers and tenants of *Chettyars* (moneylenders and landowners 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 redistribution<sup>2</sup>. This pattern of unbalanced income-distribution became 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, become the first priority in the strategies of the political parties. The introduction of the new ownership structure was implemented by restructuring the existing property rights related to 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 process of Burmanization<sup>3</sup>. 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 Social

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<sup>2</sup> Income redistribution here means wider aspects of tax system, minimum wage level, workers' welfare, and so on.

<sup>3</sup> 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).

ism<sup>4</sup> was first published on April 30. It proclaimed revitalization of the socialist goal and discarded away 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 (SEE) 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. 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, Appendix (1)]. Private businesses such as small-scale commerce and cottage firms traded in the free market or the black market.

## **2. Property Rights Structure in State Economic Enterprises**

After 1962, the socialist government abolished the private ownership of the means of production in almost every economic sector. 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 under the law.

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 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 consumption<sup>5</sup>. Unlike other socialist countries,

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<sup>4</sup> 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 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.

<sup>5</sup> 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.

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 determination by property relations of the production and distribution relations was not as automatic as the government expected. After private property was abolished<sup>6</sup>, 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.

In Myanmar SEE, the means of production are state property. 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 consumption<sup>7</sup>.

Although all kinds of socialist enterprises 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.

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<sup>6</sup> It was intensively implemented during 1962-63 by nationalization.

<sup>7</sup> On-the-job consumption may take various forms such as buying a car for their convenience, furnishing the office in a luxurious way, or staffing a nice secretary.

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 SEE. Under this system, it was mandatory for the SEE to place all their revenues into the UGCF and draw their expenses out of the state budget. The SEE prepared for their budgets in line with the short-term four-year plans. The plans outlined the output targets for the SEE, 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 SEE. The steady capital supply is guaranteed through the budgets previously planned regardless of their performance. Thus, the SEE were not very sensitive to profitability. In other words, the state-owned assets would not be used in a financially efficient manner. That is, the SEE 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.

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

Under UGCF system, the managers of SEE 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 compensation. Moreover, the bureaucratic hierarchies mean that the close supervision is impos-

sible. Shirking is the most serious problems for this system and it affects the performance of SEE.

This system continued until 1975. After experiencing failure for about a decade, the socialist government in 1975 changed their policies toward the SEE. The socialist government introduced commercial guidelines for SEE in order to lead them to operate their business activities on commercial basis rather than as a part of political mechanism. These 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 were 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 ensure that SEE operate on commercial basis with their own financial resources. These enterprises are to pay interest for capital investment and rent for the buildings.
- (4) In order to make profit, the SEE 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 system<sup>8</sup>. The restructuring of the SEE 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 SEE is used to be an indicator to determine compensations of the input factors (bonus apart from the wages), the

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<sup>8</sup> 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.

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 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 SEE, 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 the management can carry out only cost reduction measures. 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 impossible<sup>9</sup>. 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 random<sup>10</sup> or by fixed rates.
- (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 consisted of representative from 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 SEE.
- (5) Control of agency problems in the decision processes is important because the SEE managers who practically initiate and implement the decisions are not residual claimants and do not bear any risk of

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<sup>9</sup> 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.

<sup>10</sup> 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).



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 SEE 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 SEE 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 tiers the structure has, the more serious the problems of collusive activities. Negative effects of collusion in the SEE include the loosening of the monitoring mechanism and corruption in some cases. When the loosening is in terms of material basis, there is a possibility of expropriation of state's assets. The ideal situation for SEE 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 the composition of Board of Directors and the remaining central control in some areas of decision making eventually lowered the role of management and stewardship. With the decline of stewardship among 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 whatever 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 SEE, 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 sake". In these enterprises, there may be high rate of shirking and other forms of on-the-job consumption that the decision agent probably takes part in. These two factors result in low efficiency of SEE in general or under-utilization of resources.

In deed, everybody is an agent in the SEE, with the possible exception of the central leadership who might be assumed to be self-motivated because of political risk undertaking. 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 SEE 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 SEE, 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 government<sup>12</sup>.

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<sup>11</sup> 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.

<sup>12</sup> Although the government had delegated authority to the agents to have more autonomy, centralization was dominant in practice.

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 state apparatus therefore carried out the entire decision process (initiation, ratification, implementation, and monitoring). Nobody along 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 SEE 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 other reasons, the managers of the SEE did not have to bear the responsibility. As a result of economic risk, the whole society suffered by consuming less.

The data of SEE, 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 SEE can be analyzed with those available data, such as total revenue of SEE, total expenditure of SEE, and total deficit, to explore the differences in efficiency between different economic and management systems.

**Table 1 : Performance Indicators for the SEE**

| Particulars                             | 1985/86  | 1986/87  | 1987/88  | 1988/89  | 1989/90   |
|---|----------|----------|----------|----------|-----------|
| SEEs' Total Income(K,M)                 | 24,083.5 | 23,248.3 | 20,043.4 | 19,100.1 | 26,812.8  |
| SEEs' Total Expenditure(K,M)            | 28,044.1 | 25,864.4 | 23,861.0 | 23,998.3 | 29,977.5  |
| Total Deficit of SEEs(K,M)              | 3,960.6  | 2,616.1  | 3,817.6  | 4,898.2  | 3,164.7   |
| Total Deficit of Government Budget(K,M) | 3,008    | 2,593.8  | 3,958.0  | 6,314.0  | 8,019.0   |
| GOP at Current Price( K,M)              | 55,989.3 | 59,028.1 | 68,698.4 | 76,242.7 | 124,666.3 |
| 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 GOP            | 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 1 shows total income, total expenditure and total deficits of SEE, total deficit of Government Budget, GDP in current price, SEE deficits and

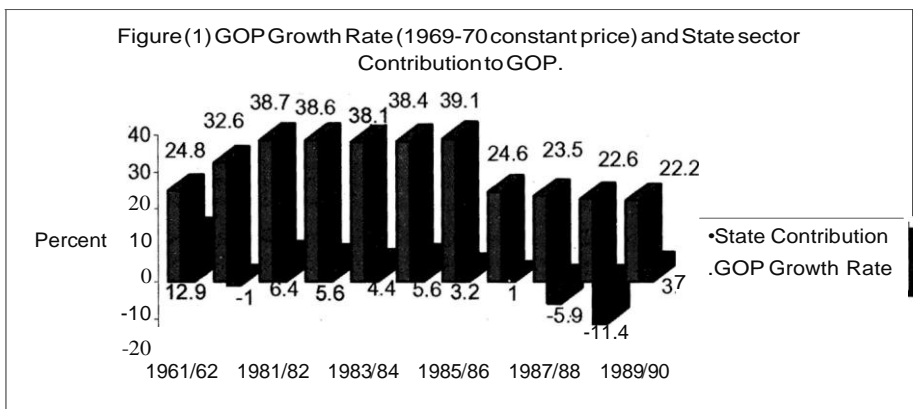
income ratio, SEE deficits to total Deficits of Government Budget, and ratio of SEE total deficits to GDP.

As shown in Table 1, from 1985/86 to 1988/89 (before the period of economic reforms) the large deficits of SEE continued throughout the years. Moreover, high ratios of SEE deficits to SEE 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 SEE stood at 131.67%, 100.86%, 96.45% and 77.58% of Consolidated Government Budget between 1985/86 to 1988/89. The ratios of SEE 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 rates (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 SEE became a driving force for the economic reform.

Figure 1 reveals the comparison of the GDP Growth Rate and the contribution of the state sector to GDP. It can be seen 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 inevita-



ble 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 2 shows the structure of the State Sector, dividing into the following:

- (1) Goods Sector: It comprises Livestock and Fishery, Forestry, Mining, Processing and Manufacturing, Power and Construction
- (2) Agriculture: It is separated from Goods Sector to make this sector more distinct
- (3) Services Sector: It includes Transportation, Communication, Financial Institutions, Social and Administrative Services and Rental and other services
- (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 SEE 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 SEE, as it has a strong and stable network and it occupies 57.5% of total output of Service Sector in 1989/90 [Appendix 2].

**Table 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   | 2,299.9 | 2,212.5 | 2,435.0 | 4,028.7  | 3,490.4  | 2,785.0  | 3,567.9  |
| Agriculture | 0.0     | 6.2     | 17.4    | 13.7    | 28.0    | 28.4     | 25.3     | 18.6     | 44.1     |
| Service     | 782.7   | 1,695.5 | 3,170.8 | 3,377.0 | 3,641.6 | 5,213.0  | 5,378.2  | 5,153.6  | 3,943.5  |
| Trade       | 763.1   | 1,053.6 | 1,776.6 | 1,880.2 | 1,976.3 | 4,342.0  | 3,592.8  | 2,889.0  | 3,556.8  |
| Total       | 1,935.0 | 3,547.0 | 7,264.7 | 7,483.4 | 8,080.9 | 13,612.9 | 12,486.7 | 10,846.2 | 11,112.3 |

Source: Review of the Financial, Economic and Social Conditions - Various Issues.

Note: At 1969/70 constant producer price up to 1985/86 and thereafter at 1985/86 constant price.

### 3 Property Rights Structure in the Private Sector

The Burmese Way to Socialism (virtually from 1962-1988) reconfirms that

the state is according to the constitution, the ultimate owner of the means of production. 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 others<sup>13</sup>. 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 individuals<sup>14</sup> 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 are 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. The problems of ownership in the agriculture sector are of importance for understanding the Myanmar economy.

### 3.1 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 earnings from the colonial period to the parliamentary period and the prime engine of the economy up to present time. The agricultural sector housed 63.35% of total labour force and nearly 80% of population in 1985/86. Its contribution to GDP stood at 37.1% in 1985/86.

We shall discuss different property rights relations and agency problems

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<sup>13</sup> 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.

<sup>14</sup> 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.

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 property rights will also be discussed later.

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 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 Myanmar'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, 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 for these economic reforms. In East Europe and China in which the economy was in the hands of the state sector, the creation of the new private sector within the economy was first to be implemented. Assigning the identity or entitlement of ownership to the private i.e. transferring state-owned enterprises to the private was carried out. 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 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 ownership<sup>15</sup>.

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

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<sup>15</sup> 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).

The first Tenancy Law 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 many scholars believed was 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, live-stock, 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 capital<sup>16</sup>. 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 based on productivity. Burmese people were very sensitive with such equity problems because they suffered bitterly during 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

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<sup>16</sup> 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.



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 a fixed price (this was the quota fixed by the state).

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 later the fixed price did not cover even the cost<sup>17</sup>. Only the remaining rice after selling to the state and after leaving for family consumption was available to be sold in the free market<sup>18</sup>. The profit earned from sales of rice in the free market became a major source for consumption of other commodities.

The government and market prices of the paddy and rice are shown in Table 3. As may be seen in Table 3, the government procurement price increased 1.37 times from K149 to K204 whereas the market price increases 3.51 times from K166 to K582 during the 10 year period from 1962/63 to 1972/73. The most remarkable increase of government price was in 1973/74, which was two times. After that the government procurement price showed nearly constant or no significant changes. On the other hand, the market price rose 5.26 times during 1973/74 1988/89. In addition, the market price reached 8.12 times in 1988/89. It implied that the government explicitly expropriated the income of the cultivators, as they had no rights to sell their products in the free market. The retail price increased nearly two times from K222 to K427 whereas the market price showed 2.93 times from K378 to K1, 109 during 1962/63-72/73. From 1975/76 onwards the government price stayed constant up to 1987/88. In 1987/88 when the reform in agriculture started, the government raised the retail price from K894 to K3,998 (4.47 times within one year). The market price also increased steadily but slightly from 1972/73 to 19 6/ 87. After 1986/87 it jumped to K9,406 in 1988/89 from K2,139 in 1986/87 (4.4 times). It is very obvious that the government retail prices are consistently lower than market prices about 2 to 3 times throughout the years up to 1988/89. It seemed to be an attempt to implement a fair income distribution, but in reality the amount

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<sup>17</sup> The cost refers to total costs including imputed labour cost. Almost all the agriculture businesses were "family business" and labour was mostly family labour.

<sup>18</sup> The remaining amount of rice available to the free market was very small, as the amount of quota set by the government was high.

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 it is unquestionably and undoubtedly impossible in the practice.

**Table 3 : Price of Paddy and Rice**

(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    | 1,109  | 204         | 582    | 2.51            | 512          |
| 1982/83 | 894    | 1,500  | 472         | 1,986  | 5.32            | 2,510        |
| 1983/84 | 894    | 1,834  | 472         | 2,291  | 3.75            | 1,770        |
| 1984/85 | 894    | 2,022  | 472         | 2,444  | 3.34            | 1,577        |
| 1985/86 | 894    | 2,126  | 472         | 2,521  | 2.79            | 1,317        |
| 1986/87 | 894    | 2,139  | 472         | 2,597  | 3.01            | 1,421        |
| 1987/88 | 894    | 5,747  | 472         | 2,879  | 1.74            | 820          |
| 1988/89 | 3,998  | 9,406  | 472         | 3,834  | 2.98            | 1,406        |

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 (Table 4).

**Table 4: Sown Acreage, Production and Yield per Acre (in thousand)**

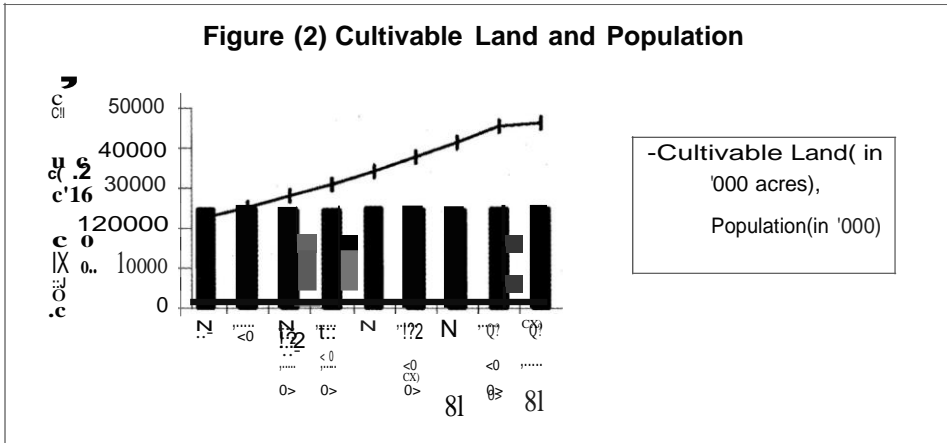
| Year    | Sown Acreage | Production      | Yield/Acre |
|---------|--------------|-----------------|------------|
|         | (Thousand)   | (Ton, Thousand) | Ton        |
| 1985/86 | 12114        | 14098.8         | 1.16       |
| 1986/87 | 11968        | 13903.9         | 1.16       |
| 1987/88 | 11531        | 13420.2         | 1.16       |
| 1988/88 | 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 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 lesser available consumption per head.

The negative effect of fixed government procurement price caused underinvestment in land development and consequently affected the productivity. The production and yield per acre in Table (4) shows no significant improvement during the last two decades.



When the land reforms were implemented in 1962, first priority for the reallocation of land was given 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 5 most of the farm sizes are within the range of under 20 acres (96.62% in 1961/62, 97.33% in 1971/72 and 97.31% in 1981/82) producing a constant yield per acre [Table (4)].

**Table 5 : Farm Size and Peasant Households**

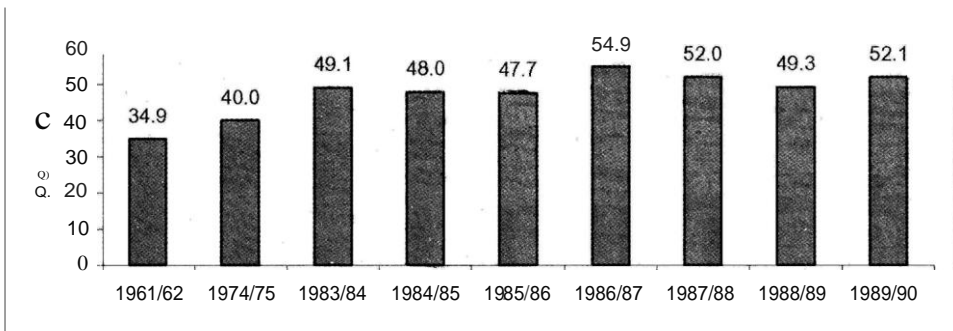
| Farm Size (Acres) | 1961/62  |        | 1971/72  |        | 1981/82  |        | 1985/86  |        | 1987/88  |        | 1988/89  |        |
|-------------------|----------|--------|----------|--------|----------|--------|----------|--------|----------|--------|----------|--------|
|                   | P.H      | %      | P.H      | %      | P.H      | %      | P.H      | %      | P.H      | %      | P.H      | %      |
| <5                | 0.00     | 0.00   | 2,785.51 | 63.80  | 2,622.46 | 61.09  | 2,612.60 | 61.25  | 2,637.90 | 61.45  | 2,622.61 | 61.11  |
| 5-10              | 2,337.96 | 83.93  | 1,003.83 | 22.99  | 1,051.97 | 24.50  | 1,051.04 | 24.64  | 1,058.58 | 24.66  | 1,064.44 | 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   | 0.67     | 0.01   | 0.99     | 0.02   | 1.43     | 0.03   | 1.37     | 0.03   |
| Total             | 2,785.62 | 100.00 | 4,366.19 | 100.00 | 4,293.05 | 100.00 | 4,265.20 | 100.00 | 4,292.92 | 100.00 | 4,291.68 | 100.00 |

Various Issues.

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

The agricultural sector is the most important sector not only for the private sector but also for the whole economy. Agriculture constituted more than 40% (Figure 3) of the private sector throughout the years up to 1989/90, except 1961/62. Moreover it can be easily seen that the degree of dependency of the private sector upon the agricultural sector increased during socialist era and it reached 52.1% in 1989/90 from 34.9% in 1961/62 [Table6].

Figure (3) Contribution of Agriculture to Private Sector.



**Table 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       | 1,374.9 | 1,733.1 | 2,312.8  | 2,506.1  | 2,677.4  | 7,233.7  | 7,502.2  | 6,951.9  | 7,190.2  |
| Agriculture | 2,028.0 | 2,956.6 | 5,253.5  | 5,311.3  | 5,464.6  | 20,874.2 | 19,249.8 | 16,628.8 | 19,685.0 |
| Services    | 928.6   | 1,095.5 | 1,419.0  | 1,498.2  | 1,565.5  | 3,169.9  | 3,266.6  | 3,172.2  | 3,269.2  |
| Trade       | 1,779.9 | 1,611.0 | 1,719.4  | 1,740.4  | 1,759.6  | 6,745.8  | 7,025.2  | 6,978.3  | 7,630.4  |
| Total       | 5,811.4 | 7,397.2 | 10,704.7 | 11,056.0 | 11,467.1 | 38,023.6 | 37,043.8 | 33,731.2 | 37,774.8 |

Note: At 1969/70 constant producer price up to 1985/86 and thereafter at 1985/86 constant price. Years between 1985/86 and 1986/87 is not included for the analysis

Agricultural output of the private sector in Table 6, shows only an increase of 1.7 times from K2,028 million in 1961/62 to K5,464.6 million in 1985/86. During 1986/87-1989/90, it showed a slight decrease from K20,874.2 to K19,685 million. It can generally be considered that the agricultural businesses were running under unfavorable conditions. Moreover, it can be regarded as evidence of the severity of the constraints imposed upon private agribusinesses. In other words, it represents the seriousness of the restrictions of private property rights not only in the ownership of land but also for the outputs generated.

### 3.2 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, (a limited company or a joint stock company) was practically prohibited.

The state recognized the private property rights in the private businesses apart from the agriculture, but they were small-scaled. 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.

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 become bankrupt, the creditors will claim the private property, 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. 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 embedded in the private property has a very weak incentive for the investors.

This regulation had also serious negative effects upon the growth of private businesses. It created limitations for business expansion as the number of factory establishments with more than 50 workers had decreased from 45 in 1983/84 to 13 in 1988/89 (Table 7).

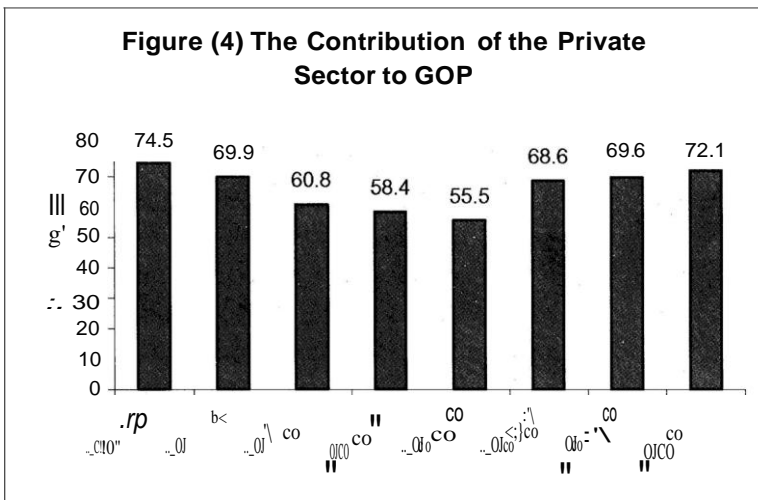
**Table 7 : Factories and Establishments by Number of Workers**

| No. of Employees | 1971/72 | 1983/84 | 1988/89 |
|------------------|---------|---------|---------|
| Below 10 workers | 10,630  | 37,533  | 37,965  |
| 10-50 workers    | 3,457   | 1,182   | 1,824   |
| 51-100 workers   | 137     | 39      | 9       |
| Over 100 workers | 22      | 6       | 4       |
| Total            | 14,246  | 38,760  | 39,802  |

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

Table 6 shows the structural changes of the private sector, Goods Sector increases 1.95 times from K1,374.9 million in 1961/62 to K2,677.4 million in 1985/86, which is little 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



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

of the business. For any business, it undoubtedly needs vertical and horizontal business relations to run its operations 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 4, the 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 increased gradually.

### 3.3 Property Rights Structure in Co-operative Societies

During this 1962 period, 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-operative 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 5,331 co-operative societies, which engaged in actual business operations, out of 14,407 registered co-operatives (BSPP: 1974-b, 38). It was only 36.17 percent of total number of co-operatives.

The Revolutionary Council ordered 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) was allowed to be established according to the reorganization plan. All other kinds of co-operative society had to be liquidated. Due to this reorganization plan, the number of co-operatives decreased to 10,627 and the number of members to 1,215,597. However the share capital increased to K231 million.

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-op-

eratives, 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 The: 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:

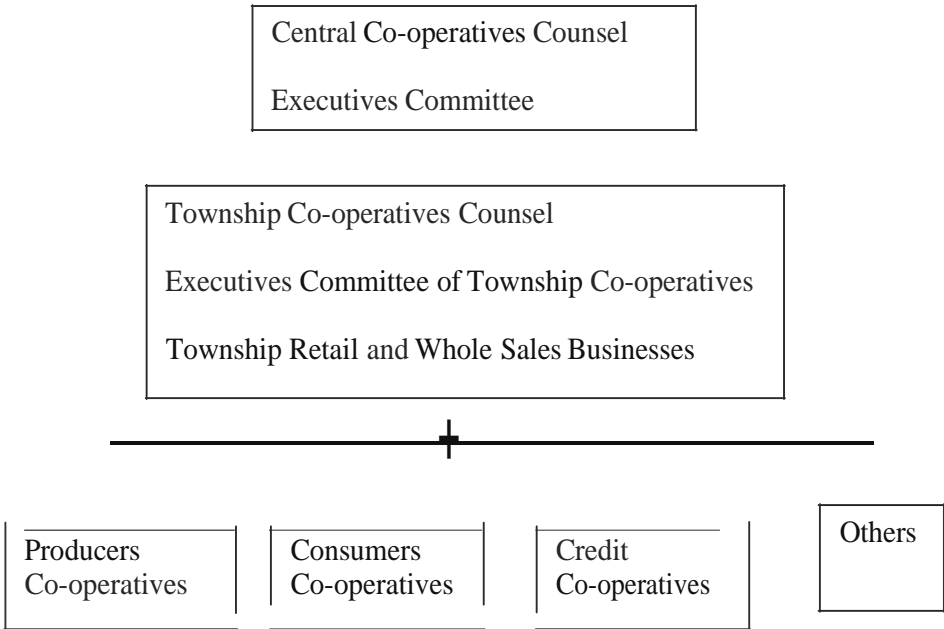
- (1) Consumers' Co-operatives
- (2) Agricultural Co-operatives
- (3) Industrial Co-operatives
- (4) Village Track Co-operatives
- (5) Tailors' Co-operatives
- (6) Credit Co-operatives
- (7) Fishing Co-operatives
- (8) Police Co-operatives
- (9) Ferry Co-operatives
- (10) Food and Brewery Co-operatives

The organization structure of the co-operative societies in 1970 is shown in Figure (5). 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 Wholesales 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. 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.

III 1988- 9 when the economic reform started, there were 20,882 co-operative societies in total - one Central Co-operative, 313 Township Co-operatives and 20,568 Primary Co-operatives (including 137 Primary Co-operative Syndicates).



**Figure 5 : The Organization Structure of Co-operatives in 1970**



Source: Atmg Than Ttm: 1971, 18

**3.3.1 The Rights of the Members and Formation of Management**

As mentioned previously, the capital of Primary Co-operatives had to be contributed by the members of the respective co-operatives at 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 held by the member but based on head count. Moreover, the voting right could not be assigned to a proxy. The member who was absent in the general meeting would lose his voting right. The co-operatives thus resemble the democratic system, where each citizen can have only one vote regardless of other things. This system was primarily intended to curb the influence of some minority wealthy members upon the management.

As the shareholding among members was 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 stipulate.

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

The responsibility of the co-operatives' liabilities towards their members was also limited to the total amount of their shares. Therefore the co-operatives were essentially 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 dependent on 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 where there were no possibility for 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 (re-

serve). 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 government for their business operations throughout the socialist era supported the co-operatives. 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 though they were running at heavy losses. This is done through providing bank loans and 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.

### 3.3.2 Acquisition of Share Capital and Profit Distribution

According to the 1970 co-operatives plan, the necessary capital 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 on behalf of other members.

In the Primary Co-operatives, all share-capital was collected from the members. Payment of shares for each member could be divided into installments, as there were many poor members who could not afford to pay the full amount 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 other 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 8.

Table 8 : No. Of Primary Co-operatives **and** its Members.

| Years   | No. of Societies | No. of Members | Turnover           |
|---------|------------------|----------------|--------------------|
|         |                  | (thousand)     | (Kyats in Million) |
| 1979-80 | 20,150           | 6,998          | 3,553.5            |
| 1980-81 | 20,652           | 7,004          | 3,844.4            |
| 1981-82 | 20,726           | 7,105          | 4,314.1            |
| 1982-83 | 20,801           | 7,122          | 4,411.6            |
| 1983-84 | 20,818           | 7,129          | 4,578.5            |
| 1984-85 | 20,631           | N/A            | N/A                |
| 1985-86 | 20,730           | 7,490          | 5,390.0            |
| 1986-87 | 20,763           | 7,671          | 5,684.2            |
| 1987-88 | 20,851           | 7,697          | 5,733.4            |
| 1988-89 | 20,882           | 7,705          | 4,219.6            |

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 and not for generating 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 revenue and expenditure.

The profits after tax had to divide into 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 for 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 to obtain their best efforts and distributed into bonus and social welfare. Members' Portion was of 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 as in Table 9.

Table 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 Fund           | 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.

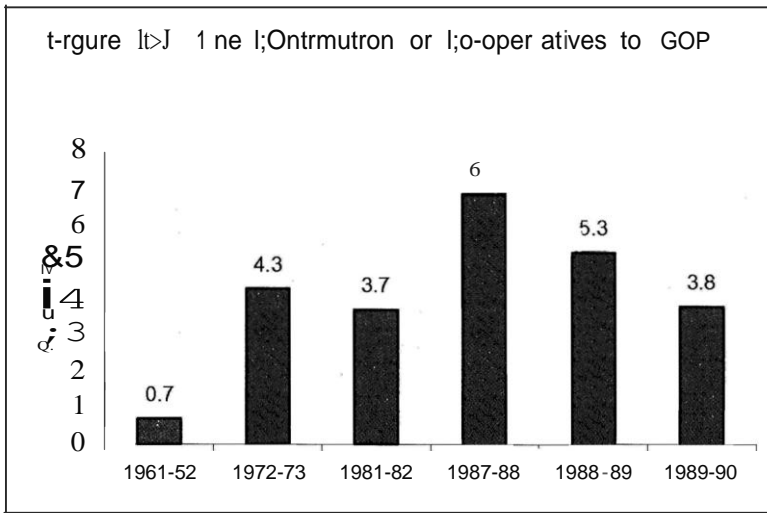
- (1) Tax Fund: It was reserved for the payment of income tax timely without exceptions.
- (2) Depreciation Fund: The depreciation of the assets was calculated and reserved for the replacement and repair of assets.
- (3) Social and Cultural Fund: It was a provision aiming basically for the improvement 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: Reserved for the casual cases of the employees such as injuries at job, leave 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 used in the business operations (Mu Mu Thet: 1989, 45-48).

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 become a member of the co-operatives due to 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 a lower price than the market place. Most of the economic sectors, except agricultural sector, were predominantly managed by the state-owned enterprises in the socialist economy. Inefficiency of these state-owned enterprises and serious limitations of private business resulted in the scarcity of lowly priced daily necessities in the market. Therefore nearly all people were heavily dependent on these co-operatives to obtain commodities at affordable prices.

Survival of these co-operatives was ensured with full support from the government under the slogan of socialism. Co-operatives were operating at very favorable conditions and could easily expand their operations. Contribution to GDP increased from 0.1% to 4.3% within ten years (over six times) since 1962. (Figure 6) and reached its peak at 6.9% in 1987/88. After 1987-88, the rapid decrease was due to reorganization of the co-operatives where direct government support was cut off. Consequently, co-operatives were given more freedom to operate as independent business concerns.



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

## Part Two: Property Rights and Agency Problem in the Transition Period

### 1. Introduction

Although Myanmar adopted a centralized socialist economic management, it was never integrated into the international socialist system. In most aspects, it closely resembled nationalist, inward-looking economic strategies elsewhere in the developing world (World Bank, 1995; Radelet and Hamid: 1995,9). The economic policy implemented during 1962-1988 period was primarily inward looking, and the economy grew at a low rate marked by relatively high inflation, low investment and saving rate (M. Aung Mye Thaw and Tan: 1990).

The Burmese Way to Socialism with inefficient property rights structure failed to achieve sustainable economic growth. The collapse of the Myanmar economy was evident in the mid-1980s. Low or negative growth rates, unfavorable balance of payments, rising debt service ratios and inflation rates (Table 10) proved that Myanmar's economy was on the decline.

This state of economic conditions came to be one of the important factors associated with the political unrest in 1988. In late 1988, the socialist government resigned and a new military government (State Law and Order Restoration Council) took power.

toration 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 reform measures and liberalizing the economy for all round development.

Table 10: 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)     | 3,091   | 3,792   | 4,387   | 4,414   |
| 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 that gave 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 1989<sup>19</sup>. The objectives are to decentralize state control, to encourage 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.

## 2. Reforms of State Economic Enterprises (SEE)

Since Myanmar gained her independence, Myanmar has invariably had

<sup>19</sup>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 exports 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 lease and utilize fallow and cultivable waste land up to 5900 acres for the enhancement of agriculture, livestock and fishery production. (Ministry of National Planning and Economic Development: 1999, 3 - 8).



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 SEE had been set up with a mixture of political, social and economic objectives. The establishment of SEE 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 SEE (Aung Myint: 1997, 92-93).

The main objectives of the SEE, 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 SEE were rather badly managed due to lack of experience and too much political nepotism and interference.

The performance of the SEE began to improve, as they became familiar with sound management practices and pragmatic financial principles. During this period (1948-1962), SEE operated as corporations with autonomy in financial and managerial matters. Therefore they were running on sound commercial principles and practices. Thus many SEE 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 SEE were also established and Revolutionary Council tried to manage all SEE by strict administrative rules and regulations. Then highly centralized and inflexible management was responsible for their poor performance in 1976/77.

Since 1977/78, SEE were not confined any more to the state budget and they were converted to limited commercial enterprises as part of the administrative apparatus. SEE had to run their businesses through their own financing and the required funds had to be borrowed from Myanmar Economic Bank. With commercialization initial performance seemed pretty good. However the situation deteriorated day by day with mounting defi-

cits covered up through bank borrowings. In 1987/88, SEE consist of 5 financial and 47 non-financial institutions, including 11 trade corporations. Out of 36 non-financial enterprises, 23 incurred losses.

Recurring problems of poor performance and increasing deficits [Table 11] called for urgent reforms to the state enterprise system. These reforms could be summarized as (a) the introduction of a new financial system called State Fund Account (SFA) system<sup>20</sup> in order to replace the unsuccessful Working Capital system<sup>21</sup> and (b) reallocation of decision processes among the state administrators giving more authority to the SEE managers.

With the introduction of the State Fund Account system, SLORC cleared all the liabilities of SEE through the state budget and set the inter-SEE liability accounts to zero in 1989. The liabilities included the interlocking liabilities incurred among the SEE and outstanding-debts borrowed heavily from the state banks. It implied that all internal-debts of SEE were converted into government equity.

According to the new financial system the SEE are allowed to keep a separate fund account called the Revolving Fund Account, aimed at facilitating the operations of the State Fund Account. The Revolving Fund was set up to act as a buffer for the SEE who were in urgent need of funds. SEE could draw down necessary funds from the Revolving Fund Account while waiting for their budget allotments.

Revolving Fund Account were to be topped up when SEE get their allotted funds. Profits earned must be ploughed back into the Revolving Fund Account. Thus the Revolving Fund will act as a facilitating source of funds for SEE as they operate within the framework of the State Fund Account and the budget.

However the SEE became over dependent on the Revolving Fund. Moreover, no reliable mechanism was available to make the SEE adhere to the original regulations in respect of the Revolving Fund Account although many guidelines and instructions have issued. As a result, SEE were found to be operating virtually outside the budget system (Hla Myint: 1998,14).

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<sup>20</sup> 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)

<sup>21</sup> 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.

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 the Revolving Fund. Under this situation the SEE 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 SEE 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 organization<sup>22</sup>. 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 SEE deficits or lesser profit or income.

This system produces complicated property relations (the relationship between Revolving Fund and the state property) between the state and the SEE. Complicated property relations can generate two types of collusion, one exists between the SEE and the state on the issue of profit distributions. The other is between the management personnel for the allocation of Revolving Fund and distribution of compensation from the Revolving Fund.

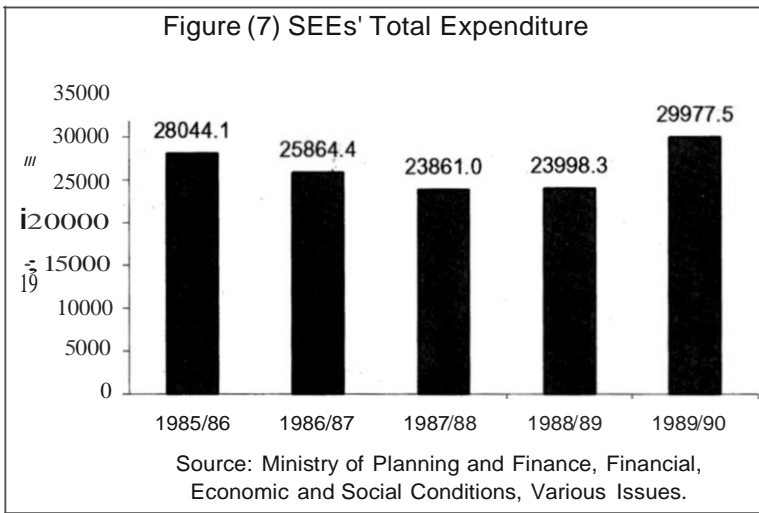
It also implies that there will be conflicts between the SEE who have incentives to get more funds (because the allotted budget funds for expenditure have no direct relation with the performance of SEE) and the state who tries to exercise the tight control over SEE expenditure. Thus, the availability of funds greatly depends on the negotiating power of SEE 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 possible collusion.

The state has released some rights retained previously from the management body of SEE. 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 manage professionally by reducing the role of government representatives in the Management Committee (Board of Directors).

These changes in the contents of control rights have negative and positive

<sup>22</sup> 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).

effects on the behaviour of SEE 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 strict control over expenditure, SEE can practically demand the necessary expenditures regardless of their performance. Annually increased expenditures are shown in Figure 7.



Effective reward-penalty system or incentive-control system cannot be found yet in the reform program<sup>23</sup>. The management of SEE probably has more incentive to on-the-job consumption and free-riding because the management has more authority in business operations than before but bear no personal risk over the enterprise performance. In other words, the managers of SEE bear no risk of value consequences of their decisions<sup>24</sup>.

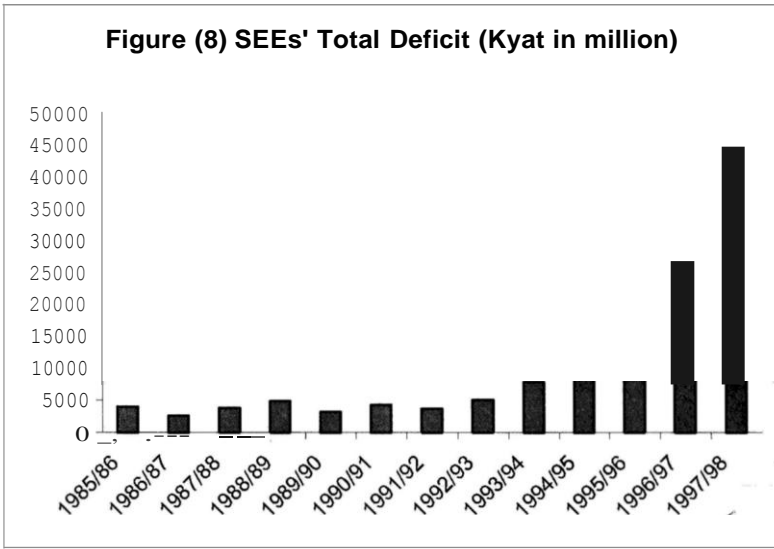
Several adjustments to transform SEE to be more profitable are shown in Figure 8. SEE have continued to suffer deficits even after the reform program had started. It can be regarded as evidence that these reforms had failed to solve the agency problems.

<sup>23</sup> Reward/ penalty systems or incentive/ control systems are only reliable tools to control the agency

problems where close supervision is impossible for practical use.

<sup>24</sup> 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.

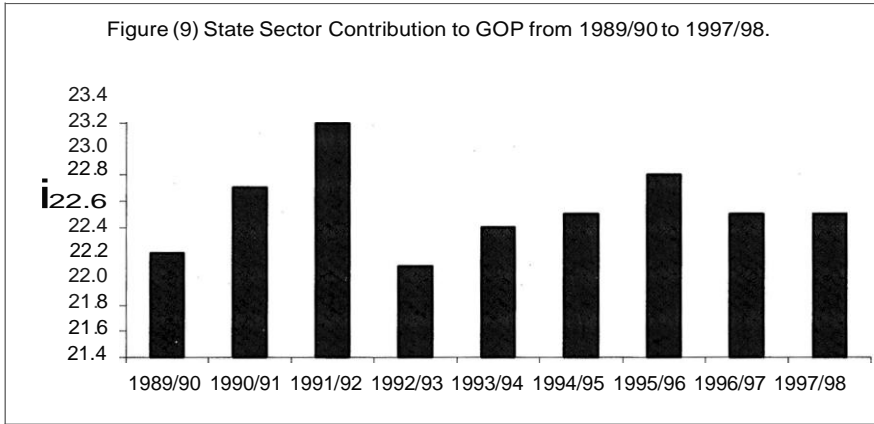
The economic performance of SEEs from 1989/90 to 1997/98 is shown in Table 11. As may be seen in Table 11, the total deficit of SEE to GDP was over 2 percent from 1989/90 to 1995/96, which reveals a rapid decrease from 7.07 percent in 1985/86. But it rises to over 4 percent after 1996/97 again. It is responsible not only for the increase of SEE deficit but also a slight decline of private sector after 1997, which is largely due to the impact of Asia economic crisis.

**Table 11 : Economic Performance of SEE 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)                 | 26,812.8  | 32,041.7  | 36,399    | 43,548    | 52,044.5  | 73,444.1  | 88,182.9  | 118,788.2 | 213,192.2   |
| SEEs' Total Expenditure(K.M)            | 29,977.5  | 36,361.4  | 40,110.8  | 48,624.0  | 60,723.8  | 87,373.3  | 101,853.6 | 145,343.6 | 257,663.4   |
| Total Deficit of SEEs(K.M)              | 3,164.7   | 4,319.7   | 3,711.8   | 5,076.0   | 7,779.3   | 13,929.2  | 13,670.7  | 26,555.4  | 44,471.2    |
| Total Deficit of Government Budget(K.M) | 8,019.0   | 11,204.0  | 12,311.0  | 12,096.0  | 15,518.0  | 29,648.0  | 38,819.5  | 54,469.8  | 65,308.6    |
| GDP at Current Price( KM)               | 124,666.3 | 151,941.4 | 186,802.4 | 249,394.7 | 360,320.7 | 472,773.7 | 603,601.8 | 715,437.7 | 1,067,521.9 |
| 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        |

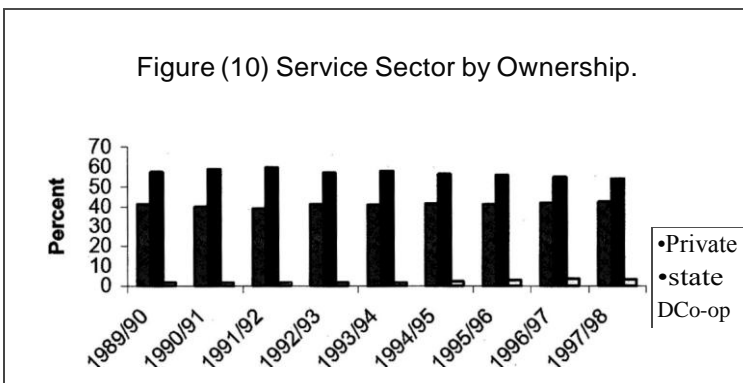
Source: Review of Financial, Economic and Social Conditions, Various Issues. The percentages are calculated.

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



The contribution of State Sector to GDP also occupies only around 23 percent, which previously stood at 39.1 percent in 1985/86. As may be seen in Figure 9, it significantly increases after 1989/90 until 1991/92 and after that it declines at marginal rates. Therefore even after the economic reform, the SEE 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 10, 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 2].



### 3. Privatization and Joint Ventures (State-Owned Enterprises)

The most effective way to solve the agency problems of the SEE is to transfer state property rights to the private businesses or individuals, the

Privatization<sup>25</sup>. Privatization is an important aspect of the economic reforms. The government has planned to privatize SEE by piecemeal depending on their performance. The Privatization of SEE 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, [97% in Czechoslovakia, 96.55% in East Germany, 65.2% in Hungary, 81.7% in Poland, and 80% to 90% in USSR in selected years (Rana: 1995,146)], Myanmar's state sector accounted for only 21.6% in 1988/89 when the economic reforms were 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 only 10.9% to the GDP. Privatization is thus a matter of urgency for containing or reviving the deteriorating economy.

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

1. 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
2. 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.
3. 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 (e.g. a cinema has to be a cinema even after leasing out or transferred).
4. Privatization depends upon the performance. Profit-making SEE should be given priority for privatization rather than those running at a loss, which are less attractive for the investors. But in the privatization programme, SEE with poor performances are slotted for privatization.
5. Employment problem is the most critical to the government. It may

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<sup>25</sup> Privatization here means any operation that shares or transfers the state property rights partly or wholly to the private businesses or individuals.



be one of the main factors that deter the speed of privatization. Massive privatization in a short period will probably create a very risky situation, which can lead to a political upheaval, as it will generate unemployment for which the private sector has no capability to absorb.

Another factor that is responsible for the slow speed of privatization is the method used. Privatization experts from ASEAN and Japan, who met in Thailand (September 1994) have suggested five methods of privatization<sup>26</sup>; Myanmar applied all these methods except corporatization.

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

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

Shareholding system or corporatization for "Speedy Privatization", is not practiced in Myanmar except in the case of Myanmar Timber Corporation which issues and sells share to the public. This method 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 indeed a shareholding system between government and public or can also be considered as a kind of joint ventures.

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

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<sup>26</sup> They are corporatization, divestment, built-operate-transfer, contractualization and establishment of new companies.

of rate of dividend, for example, the investors are implicitly promised dividends at an annual rate of about 25%<sup>27</sup>.

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. SEE have also set up joint ventures with foreign and local 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- partner (Myanmar or foreign investor) has to contribute his share capital in cash and the state contributes enterprise property as share capital, sometimes with some amount of capital and profits re shared upon the agreed rate, mostly 65% to the private and 35% to the state .
- (2) Product-sharing - partner has to contribute his share portion in cash and the state gives the partner the rights to use 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 method used to transfer state-owned enterprise to the private sector.

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

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<sup>27</sup> Annual rate. of bank saving account is 12% in 1997/98.

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 tendency to shirk and the private enterprise staff who is motivated by reward i.e. between stodgy management and flexible management. Negotiation cost for these conflicts also have negative effects upon the performance of the 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 SEE. Privatization makes the management more sensitive to the profitability as there will always be a possibility for their SEE enterprises to be privatized. The Privatization itself may discipline the management to compromise their personal goals with the objectives of the enterprises.

## **4. Deregulation in the Private Sector**

### **4.1 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. Farmers were free to deal in their produces i.e., the farmers have the right to sell their produces in the free market, to store, and to transport to where they choose.

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 behaviour<sup>8</sup>. With short tenancy, the farmer has little incentive to put his money to the development of land because there is no possibility to get agree-

<sup>28</sup> Although annual tenancy practice is not compulsory one, the local authorities can enforce it when necessary.

ments 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 the next season. It also has negative effects on the capital investment of land development for long-term perspective 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.

As a consequence of these situations, sown acreage and yield per acre will probably not get 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 revenue can cover the marginal cost.

However, it is 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 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 rights, which can be exercised 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 12 shows sown acreage, production and yield per acre after economic reform. As may be seen in Table 12 sown acreage and production increased slightly but continuously after economic reforms, whereas yield per acre indicates no significant difference before and after economic reform.

**Table 12 : Sown Acreage, Production and Yield per Acre**

| Year    | Sown Acreage<br>(Thousand) | Production<br>(Ton, Thousand) | Yield/Acre<br>Ton |
|---------|----------------------------|-------------------------------|-------------------|
| 1989/90 | 12,057                     | 13,585.6                      | 1.13              |
| 1990/91 | 12,220                     | 13,748.3                      | 1.13              |
| 1991/92 | 11,935                     | 12,992.9                      | 1.09              |
| 1992/93 | 12,684                     | 14,603.0                      | 1.15              |
| 1993/94 | 14,021                     | 16,495.0                      | 1.18              |
| 1994/95 | 14,643                     | 18,695.0                      | 1.28              |
| 1995/96 | 15,166                     | 17,953.0                      | 1.18              |
| 1996/97 | 14,518                     | 17,676.0                      | 1.22              |
| 1997/98 | 14,665                     | 17,308.0                      | 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 for cultivators to reap the benefit of economies of scale. As a result, the land holding of each household does not show any recognizable changes.

**Table 13 : 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 | 61.62   | 2804.2 | 61.9    | 2804   | 61.7    |  |
| 5-10      | 1091.6 | 24.8    | 1107.9 | 24.8    | 1119.8 | 24.9    | 1133.6 | 25.15   | 1132.4 | 25      | 1139.4 | 25.1    |  |
| 11-20     | 485.9  | 11      | 488.6  | 11      | 491.4  | 10.94   | 493.6  | 10.95   | 489.7  | 10.8    | 493.4  | 10.9    |  |
| 21-50     | 99.8   | 2.3     | 100.3  | 2.25    | 100.4  | 2.3     | 100.3  | 2.22    | 100.2  | 2.2     | 101    | 2.2     |  |
| 51-100    | 1.4    | 0.03    | 1.5    | 0.03    | 1.7    | 0.04    | 1.8    | 0.04    | 1.8    | 0.04    | 1.9    | 0.04    |  |
| >100      | 0.8    | 0.02    | 0.8    | 0.02    | 0.8    | 0.02    | 0.9    | 0.02    | 1      | 0.02    | 1.1    | 0.02    |  |
| Total     | 4401.1 | 100     | 4462.5 | 100     | 4487.3 | 100     | 4507.6 | 100     | 4529.3 | 100     | 4540.8 | 100     |  |

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

As may be seen in Table 13, most of the cultivators are still working on the farm size of less than 5 acres<sup>29</sup> (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 (thou-

<sup>29</sup> One acre equals to 4050 square metres.

sand of acres) of agricultural lands, so the rapid increase in cultivable land may be expected from now onwards. But some problems remained to be solved. Most of the companies, which obtained this special permit, are construction companies whose 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 subsidy or privilege for the real estate companies. But these companies have in reality no interest in agro-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.

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 hind, mostly operated by cultivators). There is one possible reason to be pointed out for giving this special permit only to the companies and not to the cultivators directly. This permit is given for only those lands called "Ye-net-Kwin"<sup>30</sup>, 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 11 gives some comparison of sown acreage and cultivable wasteland and fallow land from 1988/89 to 1997/98.



<sup>30</sup> 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.

As may be seen in Figure 11, after 1988/89 there is a steady increase in net sown acreage, which increases faster than fallow land after 1992/93. But large areas remained and the net sown acre occupies only 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 of the agriculture sector. Without the private property rights it is difficult to expect a rapid increase in sown acreage and production.

#### **4.2 Private Businesses in Other Economic Sectors**

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

The government has permitted private business organizations in the form of limited liability e.g. 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 not 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, risk is not so great in the limited liability companies compared to the unlimited liability type. This form of business has a significant positive effect upon the investment behavior and stimulates accumulation of more capital than if it were under unlimited liability. As may be seen in Table 14, the number of private businesses increases remarkably (nearly 17 times) from 1,776 in 1989/90 to 29,868 in 1997/98.

Table 14: 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     | 1,777   | 2,102   |         |         |         |         |         |         |
| Importer                     | 216     | 900     | 1,503   | 4,813   | 6,032   | 4,277   | 5,510   | 7,410   | 8,931   |
| Business Representatives     | 183     | 480     | 768     | 947     | 1,225   | 1,509   | 1,805   | 1,981   | 2,076   |
| Myanmar Co. Ltd.             | 174     | 816     | 1,308   | 2,269   | 3,401   | 4,784   | 6,672   | 8,814   | 10,844  |
| Partnership Firms            | 376     | 565     | 727     | 850     | 949     | 1,055   | 1,108   | 1,166   | 1,214   |
| Foreign Co. Branches         | 39      | 80      | 133     | 183     | 296     | 442     | 658     | 984     | 1,184   |
| 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     | 1,283   | 1,562   | 1,642   |
| Hotel Businesses             | 0       | 0       | 0       | 27      | 72      | 112     | 179     | 266     | 302     |
| Lodging-House                | 0       | 0       | 0       | 19      | 62      | 102     | 177     | 229     | 19      |
| Tour Guide Businesses        | 0       | 0       | 0       | 87      | 247     | 600     | 1,407   | 2,124   | 2,767   |
| Total                        | 1,776   | 4,655   | 6,610   | 9,413   | 12,810  | 14,097  | 19,426  | 25,315  | 29,868  |

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 in 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 15 during last ten years (1988-1998), after the gradual decrease throughout the years from 1971 to 1988.

Table 15: Factories and Establishments by No. Of Workers

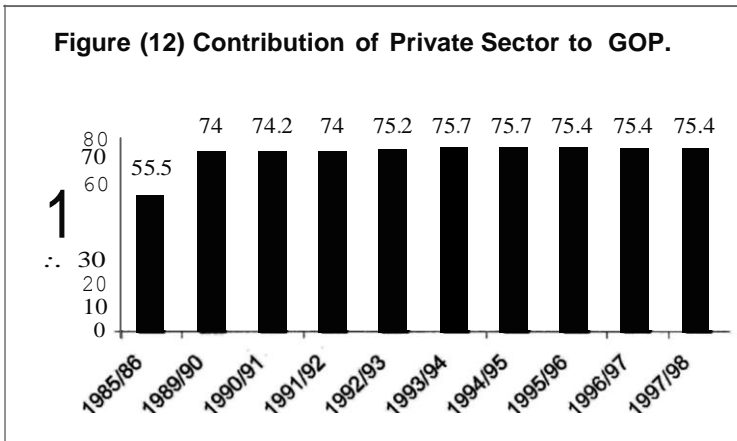
| No. Workers | 1971/72 | 1983/84 | 1988/89 | 1989/90 | 1990/91 | 1991/92 | 1992/93 | 1993/94 | 1994/95 | 1995/96 | 1996/97 | 1997/98 |
|-------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <10         | 10,630  | 37,533  | 37,965  | 30,615  | 31,050  | 33,463  | 34,649  | 38,189  | 42,925  | 44,358  | 44,845  | 48,898  |
| 10-50       | 3,457   | 1,182   | 1,824   | 1,511   | 1,534   | 1,954   | 1,897   | 1,870   | 1,863   | 1,846   | 1,911   | 1,978   |
| 51-100      | 137     | 39      | 9       | 26      | 746     | 11      | 67      | 62      | 81      | 86      | 108     | 124     |
| >100        | 22      | 6       | 4       | 5       | 5       | 14      | 19      | 24      | 43      | 68      | 91      | 101     |
| Total       | 14,246  | 38,760  | 39,802  | 32,157  | 33,335  | 35,548  | 36,632  | 40,145  | 44,912  | 46,358  | 46,955  | 51,101  |

Source: Statistical Year Book 1995, 1997, 1998

Due to the improvement in the private property rights or wider private property rights, the improvement of the private sector can easily be seen in terms of output or the contribution to GDP.

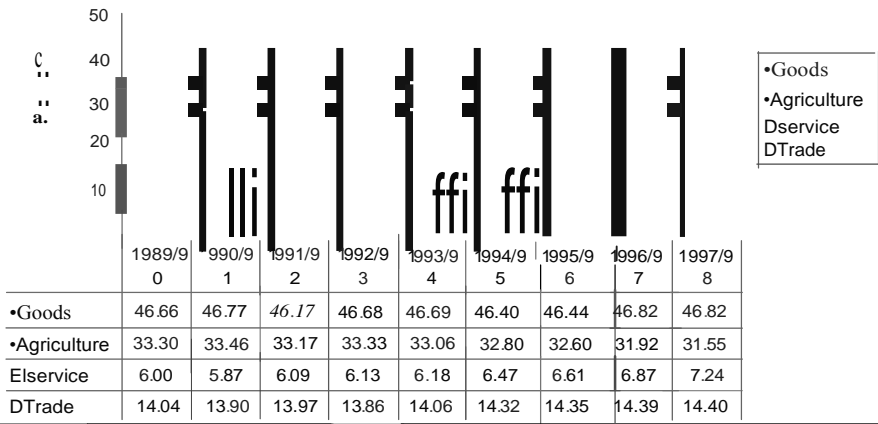


As shown in Figure 12, after the economic reform, the contribution of the private sector to the GDP climbs up over the years concerned from 55.5 percent in 1985/86 to over 75 percent after 1993. It is very obvious that the expansion of the private sector contribution is mainly due to the reforms in the private property rights (or the relaxation of the regulations previously restricting the private property rights). Without such reforms the private businesses are not likely to increase their investments or expand their businesses operations, as the marginal revenues will not cover the marginal costs.



The structure of the private sector, which contributes to GDP is shown in Figure 13. 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 vast potentialities. The output of the private business in Trade Sector shows a 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 (13) Structure of Private Sector.



### 4.3 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 over the co-operatives. Therefore the number of shares that have to be held by each member need not necessarily be the same. The limitation on the maximum number of shares that can be held was also released. The number of members can also be limited according to the nature of the business and hence membership becomes voluntary rather than compulsory.

Survival of the co-operatives largely relies upon several kinds of government support, without which the business operations can hardly continue. Together with the economic reforms, the government cut off almost all support previously provided to the co-operatives in order to lessen its burden. The government gave strong pressure to co-operatives operating at a loss to clear their accounts. Government actions cause the co-operatives to restructure their business systems. They become free operating units.

Restructuring is inevitable or unavoidable for the co-operatives. Therefore, it is not surprised that many co-operatives went into bankruptcy due to accumulated 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 16, the number of members decreased to 2,148 in 1997/98 from 7,361 in 1991/92. It was a 70.82% decrease within seven years.

**Table 16 : No. Of Primary Co-operatives and Members**

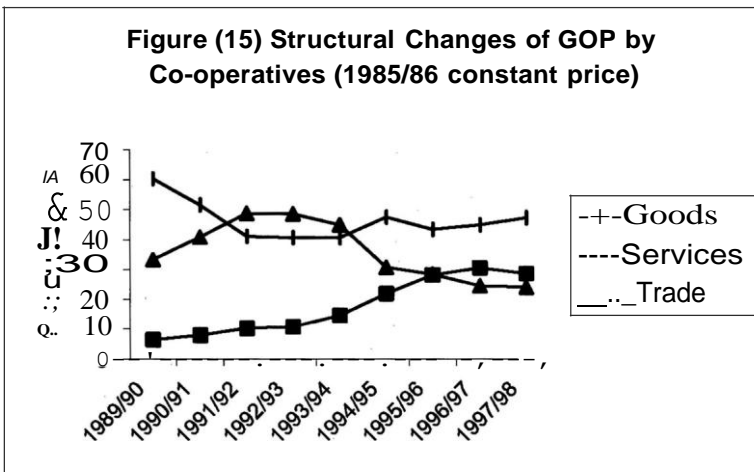
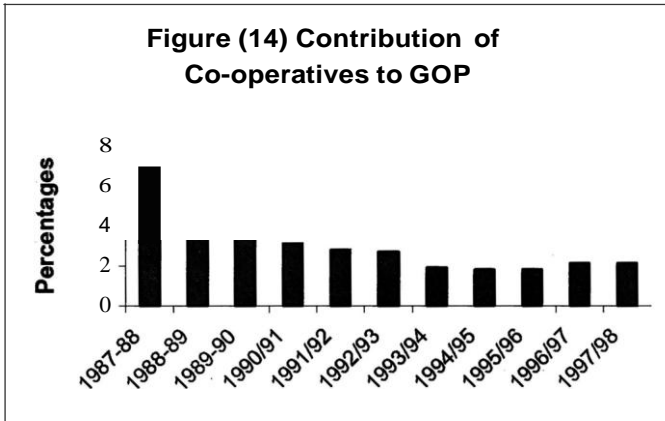
| Years   | No. of Societies | No. of Members | Turnover           |
|---------|------------------|----------------|--------------------|
|         |                  | (thousand)     | (kyats in Million) |
| 1991-92 | 20,257           | 7,361          | 4,920.7            |
| 1992-93 | 20,193           | 6,735          | 7,887.5            |
| 1993-94 | 22,341           | 5,367          | 11,085.6           |
| 1994-95 | 24,258           | 3,927          | 15,548.9           |
| 1995-96 | 24,629           | 3,490          | 19,268.9           |
| 1996-97 | 24,274           | 3,083          | 18,441.6           |
| 1997-98 | 22,720           | 2,148          | 16,849.9           |

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

On the other hand, 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. There is no need to rely on the co-operatives to get the necessary commodities because there are many alternative private businesses to go to, at reasonable prices. Dependency of the general public upon the co-operatives becomes less important. SEE now handles distribution of commodities produced by the SEE, as SEE also have to run their businesses commercially. As a result, membership with co-operatives becomes not necessary.

Government control over co-operatives was released. Several new co-operative societies emerged with a few active members to run their businesses more efficiently against the competition. As shown in Table 16, the number of co-operative societies shows a slight but gradual increase. It was 20,257 in 1991/92 and increased to 24,629 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. 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 contribution to GDP to decline throughout the years from 1987 to 1998, except during 1996-98, which shows a decimal increase of 0.4% [Figure 14]. 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 (Appendix 3).

As may be seen in Figure 14, the contribution of co-operatives has gradually declined over the 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 achieve operating efficiency through restructuring.

The structural changes of the co-operatives in the GDP are shown in Figure 15. After 1990, there is a rapid decline of the contribution of Goods-Sector from co-operatives. It is very obvious that most of the co-operatives

in Goods-sector<sup>31</sup> are targeted in the restructuring or reorganization programme. They hardly encountered competition from private businesses under the market economic system with the lack of support from government e.g. procurement of raw material at lower 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 continue to receive privileges from the government. The Service Sector<sup>32</sup> seems to be 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 where they have many real-estates properties provided previously by the government at the price of nearly free, which are now rented out at market value).

Most co-operatives operate contrary to their main objective of providing for the social and economic welfare of its members. A few distinguished members holding majority shares have strong influences 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 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 else their shares will be liquidated.

As mentioned above, the reforms in the property rights structure not only in private business but also co-operatives and the restructuring of the SEE 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 17. 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 14, 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.

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<sup>31</sup> <sup>1</sup> Goods-sector comprises of agriculture, livestock and fishery, forestry, mining, processing and manufacturing, power, and construction.

<sup>32</sup> Service-sector includes transportation, communications, financial institutions, social and administrative services, and rental and other services.

**Table 17 : 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 GOP Growth Rate%*                | -11.4   | 7.4     | 5.1     | 5.3     | 5.6     | 6       | 6.9     | 6.7     | 6.5     |
| Consumer Price Inflation<br>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     | 1,324   | 1,655   | 1,010   | 1,302   | 1,547   | 1,912   | 2,105   |
| 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)      | 4,414   | 4,171   | 4,500   | 4,875   | 5,355   | 5,756   | 6,555   | 5,771   | 5,553   |
| 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.

**Table 18 : 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                                 | <b>1.5</b>  | <b>6.5</b> | <b>2.6</b> | <b>-1.5</b> | <b>11</b>  | <b>6</b>    | <b>6.9</b> | 6.7        | 6.         | <b>4.3</b> |
|     | 1.Agriculture                         | 2.2         | 5.2        | 2          | -3.9        | 12.4       | 4.7         | 6.7        | 5.5        | 3.8        | 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                              | <b>-4.2</b> | <b>1.5</b> | <b>4.2</b> | <b>5.1</b>  | <b>6.1</b> | <b>11.7</b> | <b>10</b>  | <b>9.3</b> | <b>8</b>   | <b>7.4</b> |
|     | 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<br>Services | -4.7        | 17.9       | 4.2        | 4.3         | 2.9        | 38.4        | 6.8        | 6.2        | 4.9        | 5.5        |
|     | 5.Rental & Other Services             | -3.8        | 1.5        | 3.5        | 2.5         | 3.6        | 9           | 4          | 6.3        | 5.9        | 5.7        |
| 3)  | Trade                                 | <b>1</b>    | <b>5.3</b> | <b>2.4</b> | <b>-2.5</b> | <b>8.9</b> | <b>3.5</b>  | <b>7</b>   | <b>5.7</b> | <b>5</b>   | <b>3.2</b> |
| 4)  | Gross Domestic Product                | <b>0.2</b>  | <b>3.7</b> | <b>2.8</b> | <b>-0.6</b> | <b>9.7</b> | <b>6</b>    | <b>7.5</b> | <b>6.9</b> | <b>6.4</b> | <b>4.6</b> |

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

The Structural Changes of Growth Rate by Sector during the transitional period are shown in Table 18. The growth rate of agriculture constantly goes up at an average rate of 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 increased gradually throughout the years concerned. Its outcome can easily be observed from the growth rate of the agricultural sector even though the nature of agriculture presents itself as difficult to promote. Together with the constant yield per acre, the growth rate can be considered as an important implication of the improvement in sown acreage, which resulted from the improvement of property rights. That is because the private property rights of cultivators are more widely recognized by the government. In addition, the output of the Services Sector has a continuous increase after 1990/91 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.

## 5. CONCLUSION

In this paper, different property rights structures in socialist economy and transitional economy in Myanmar are explained. 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 analyzed.

According to the 1973 Constitution, the state is the ultimate owner of all means of production (except labour) in Myanmar. The state restricted private property rights, general control rights and income rights. The property rights structures define the risk and the responsibility of decision making and also generate agency problems. 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 SEE during socialist era, the management of SEE would be impossible to take the role of stewards of the state. Hence, SEE operated the business operations as agents rather than the stewards who can look after the business affairs for the sake of the state. The agents thus took an opportunistic behaviour because the agents were externally motivated by incentive payments and needed close supervision while stewards were motivated by their commitments to the business operations. The managers of the SEE had a strong incentive to try to maximize their utility; the managers had tendency to use the state property for their private benefits e.g. 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 SEE economic performance.

In the agriculture sector under socialism private property rights were assigned to the individuals but constricted some rights from the ownership rights. The state constrained some disposable rights of outputs e.g. fixing price of rice the government purchased from farmers. Now the farmers had the right to sell the surplus rice 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 e.g. the right to distribute investment risk was limited by the state i.e. state allowed 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 cannot be readily obtained.

The economic reforms that aimed to transform the centrally planned economic system to market economic system started in 1988/89. In the transitional period, the SEE have been delegated more authority to the SEE' manager for 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 that existed between state property and Revolving Fund and the vagueness of the risk and responsibility relations to the managers' decisions can have serious negative impacts upon the behavior 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 the ultimate owner of all 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 to allow private business to venture into previously prohibited areas, and the establishment of economic units with limited liability. These changes have positive effects on investment behaviour, and encouraged the investors to expand the private business. As a result, the private sector grew very rapidly after 1988.

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 paper 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. This will ensure that the economic reform will be more successful.

## APPENDICES

### Appendix 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 2 : 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         | 3,398.5  | 3,599.0  | 3,705.9  | 4,014.8  | 4,361.1  | 4,766.6  | 5,273.2  | 5,546.7  | 5,875.7  |
| Co-operatives | 1,111.9  | 806.5    | 578.7    | 595.2    | 451.1    | 518.0    | 524.0    | 671.0    | 725.5    |
| Private       | 25,318.5 | 26,199.6 | 25,739.0 | 28,834.7 | 30,639.7 | 32,624.7 | 34,653.5 | 36,858.5 | 38,322.7 |
| Total         | 29,828.9 | 30,605.1 | 30,023.6 | 33,444.7 | 35,451.9 | 37,909.3 | 40,450.7 | 43,076.2 | 44,923.9 |

### Appendix 2 : 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 2 : 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 3 : 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.      | 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.

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