TDRI Quarterly Review
Published in *TDRI Quarterly Review*
Vol. 8 No. 4 December 1993, pp. 10-12
Editor: Anne Johnson

Myanmar: Rice Policy Reforms and the Potential for Export

Prabhu Pingali
Ammar Siamwalla

Myanmar, a major rice exporter in the mid-1960s, has witnessed a dramatic fall in its exports over the last two decades. Current exports amount to approximately 250,000 metric tons a year. This article argues that Myanmar's loss of rice exports was policy-induced and that corrective policies could lead to a significant increase in the country's rice exports. The authors believe that the liberalization of rice export policies could lead to Myanmar exporting over two million tons a year.

PRE-1988 INSTITUTIONS AND POLICIES

In Myanmar, agricultural institutions and policies in place until 1988 resulted in centralized control of land, crop choice, and input supply. The state had monopoly control on all internal and external trade in rice. Individual incentives for increasing productivity and output were minimal. Despite its historic exporter status, Myanmar re-oriented itself as a closed economy and the small amount of exports allowed were pre-determined, based on foreign exchange needs. The following is a brief description of production conditions prior to 1988:

Programming Agricultural Output. All of Myanmar's agricultural land was placed under two categories: program areas and non-program areas. Program areas had to grow crops specified by the government. Farmers in these areas had a limited role in crop choice decisions. The area under program crops, such as rice, cotton, pulses, etc., was determined on the basis of an aggregate demand vector. Crop location was determined in terms of agro-climatic suitability.

Program areas were provided with subsidized fertilizers, pesticides, tractor plowing, and pumping services. Subsidy elements included lower input prices and zero interest rates. Repayment could be in cash or paddy at harvest. There was no incentive for the private supply of these inputs.

Program area farmers were required to deliver crop quotas. Compulsory procurement was used as the primary means the state used to control land use. Rice procurement quotas ranged from 20-30 percent of output. Typically, quotas for a particular location would be determined in July each year and the procurement price would be announced at harvest time, usually in December. Although it took place furtively, private trade was generally not allowed. The implicit tax levied on the compulsory procurement policy is not clear.

Land and Labor Markets. While land use decisions and input supply allocations were centrally determined, agricultural production continued to be farm-household-based. Land theoretically belonged to the state. Individuals had the right to long-term leases and this right was inheritable. Land allocations were made by a committee of cultivators who systematically prevented landless households from acquiring land. Land rental was prohibited. Operating units, therefore, coincided with ownership units and tended to be large. Approximately 40 percent of all agricultural households were landless and depended on agricultural labor for their survival. A variety of labor contracts existed, before and after 1998. These ranged from casual seasonal to permanent labor contracts. Payments, depending on the contract, could be in a fixed amount of cash or output per day, or share of output for long-term contracts. It is also possible that land rental markets masqueraded as seasonal labor contracts, or even were acquired through marriage. One large land owner we met, for instance, had seven wives.

Trade. Prior to 1988, the government was the monopoly exporter of all agricultural products. Within the country, inter-regional-or inter-divisional-trade was also handled exclusively by the state. While private trade was allowed within a division, it was subjected to arbitrary restrictions, such as the rationing of milling capacity. Farmers were instructed to limit milling to only enough rice for home consumption. Sales to private traders had to come from this quota.

The state distributed rice obtained from its compulsory quotas to its military and civil personnel and for export. It also distributed rice through co-operatives for the general public, particularly in divisions that are chronically deficit. For rice obtained through cooperatives, households were subject to rationing.

POST-1988 POLICY REFORMS

Beginning in 1988, limited reforms were introduced to liberalize Myanmar's agricultural economy. These reforms were primarily in crop choice decisions, compulsory procurement, and internal trade. While these reforms improved producer incentives, productivity growth is still constrained because of restrictions imposed by macro-policies and centralized institutions.

Myanmar's total annual paddy production comes to 13-14 million tons. Of this 2-5 percent is exported.

Crop Choice. Large area programming of land use is now restricted only to rice. For areas programmed for rice, farmer choice is limited and land use is based on the criteria described above. Farmers are free to grow, or not grow, non-rice crops in the non-program areas. The biggest contention appears to be land use during the dry season. While the government is pushing for an expansion in the dry season rice program area, the farmers prefer to grow non-rice crops as these do not have a quota requirement.

Fertilizer and Other Inputs. For the program areas the government continues to provide subsidized fertilizers, agro-chemicals, and mechanical services. Since 1992, private import of machines has begun to emerge. The problem now is that the sharp fall in foreign aid to Myanmar has led to reduced supplies of fertilizers and other inputs. How the increasingly sparse allocations are rationed across program areas is still unclear. Despite the disappearance of subsidies for non-program crops, private fertilizer importers did not emerge until 1992. Observers noted, however, large scale diversion of fertilizer and other input supplies from rice to non-rice crops during the period before the removal of import restrictions in 1992.

Compulsory Procurement of Rice. After 1988, quota deliveries were no longer required for non-rice crops and, for the main season rice quota, deliveries declined to about 15 percent. Myanmar Agricultural Product Trading Company (MAPT) provides 30 kyats per basket of the procurement quota as advance payment in July. Another 20 kyats per basket is paid on delivery. The 50 kyats the farmers receive from the government compares poorly with the 150 kyats they receive from private traders. The calculated implicit tax on rice production works out to (percent quota requirement times percent price shortfall) 10 percent of gross revenue. Quota requirements are apparently revised according to the previous years' yield figures. So in the long term, tax applies at the margin as well. The main contention now is summer rice, which the government is promoting as a new program crop. Although officials claim they do not wish to have quota requirements, farmers believe that quota requirements will still apply.

Internal Rice Trade. After 1988, inter-divisional trade was opened to the private sector. MAPT share in this sector is now conducted through a joint-venture company (50 percent MAPT share). Because the export trade is not yet open to them, private traders' main interest is in moving rice into Yangon and from lower to upper Myanmar. Consequently, traders look to Mandalay as the price-forming center. Supplying rice to government personnel still exists-one basket per employee each month at one-quarter the market price.

Rice distribution through co-operatives has been discontinued. As the compulsory procurement system does not specify quality requirements, the rice in the government system is consistently of poorer quality than private rice.

Myanmar's rice, like Thailand's, varies in quality and is graded accordingly. The current (June 1993) milled rice and paddy prices are 20 to 30 percent below corresponding prices in Thailand. We attribute this difference to the export ban. With the margin being higher for paddy prices, this indicates a higher internal marketing margin as well.

Exports and Foreign Exchange Transactions. Since the end of 1988, only rice exports are still monopolized by the government. The government has joint ventures for exporting other products, but these ventures are not state monopolies. Private traders must obtain licenses for each export shipment. Officially, these traders can freely use foreign exchange earnings. We understand, however, that the government requires exporters to use part of this foreign exchange to import, on their own account, items currently in short supply in domestic markets. This measure has lead to complaints that it tends to discourage exports.

The official exchange rate currently stands at 5.5 kyats per US$1, and the parallel market rate stands at 112 kyats. It is unclear just which transactions are made at the official exchange rate. In any case, all visitors have to show that they have changed at least two hundred dollars at the official rate.

POST-LIBERALIZATION EXPORT PERFORMANCE

Despite attempts at liberalizing its agricultural sector, since 1988 Myanmar's rice exports have declined (Figure 1). Myanmar, unlike Vietnam, has not used the liberalization process as a means of boosting exports. Exports continue to be a state monopoly, unresponsive to world market signals. Rice production and exports are discriminated against vis-a-vis other crops (Figure 2) because of compulsory procurement and the ban on private rice exports. Farmers appear to prefer to grow non-rice crops where they have a choice, especially during the dry season.

Fertilizer supplies have dropped drastically due to the decline and then cessation of foreign aid. Only in 1992 did the government make a consistent attempt to partially improve supplies by allowing private imports. The productivity growth that has taken place has helped boost domestic rice supplies. This has occurred through privatization and improvement in the domestic market's infrastructure.

Potential for Future Exports. Myanmar's domestic price is one-third to one-quarter lower than the world rice price. Assuming a supply elasticity of 0.6 (from previous studies), the production impact of a complete liberalization of rice exports would be of the order of 2.25 million tons. We have not included the effect of the government's implicit tax on compulsory procurement because we have not been able to determine the implicit subsidization through the provision of various inputs. We expect it to be smaller than the effect of the export ban.

CONCLUSIONS

This article argues that the complete liberalization of Myanmar's rice sector would lead to a boost in the country's rice exports. Myanmar has spare rice land capacity, both in terms of absolute area and in intensification, that can be drawn into production once "the prices are right."

Although we are certain that Myanmar could export over 2 million tons of rice per year, it is difficult to predict when this extra supply would be available. Improving price incentives has to be complemented by increased infrastructural investments, especially for milling and small scale irrigation. The question we have not addressed is: Can the depressed world rice market handle Myanmar's additional supplies?
