

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/1658--

5 December 1961

Limited Distribution

CONTRACTING PARTIES
Nineteenth Session

REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS
ON THE CONSULTATION UNDER ARTICLE XVIII:12(b) WITH BURMA

1. In accordance with its terms of reference, the Committee conducted the consultation with the Union of Burma under paragraph 12(b) of Article XVIII. The Committee had before it (a) a basic document (MGT(61)6/Rev.2), and (b) documents supplied by the International Monetary Fund as referred to in paragraph 3 below.
2. In conducting the consultation the Committee followed the Plan of Discussion for Consultations recommended by the CONTRACTING PARTIES. The consultation was completed on 21 November 1961. This report summarizes the main points discussed.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with Burma. In accordance with the agreed procedure, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Burma. The statement made was as follows:

"With respect to Parts I and III of the Plan for Consultations, the Fund calls the attention of the CONTRACTING PARTIES to the Executive Board decision of March 13, 1961¹, taken at the conclusion of its last consultation with Burma, and particularly to paragraph 6, which reads as follows:

'The Burmese restrictive system continues to be stringent and there was very little relaxation during 1960. Some further simplification and relaxation of restrictions should be feasible. The Fund welcomes the progress made in reducing the use of payments arrangements and suggests that Burma should reconsider the need for the remaining bilateralism.'

"With respect to Part II of the Plan for Consultations, the Fund draws attention to the Executive Board decision of March 13, 1961. The Fund has no additional alternative measures to suggest at this time."

¹See Annex

Balance-of-Payments position and prospects

4. In discussing the balance-of-payments prospects of Burma, the Committee referred to the documentation supplied by the International Monetary Fund and the statement made by its representative quoted above. Account was also taken of the statement submitted by the Government of Burma on its general policy in using import restrictions, which is reproduced in Section VII of the basic document (MGT(61)6/Rev.2). On the basis of this material, the Committee discussed with the representative of Burma various factors affecting the country's balance of payments, particularly export earnings, the diversification of the economy and of exports, and the balance-of-payments implications of their current economic development plan.
5. It was noted from the material supplied by the Fund that in the first half of 1961 there had been a decline in exports and that this shortfall had resulted mainly from a sharp contraction in the volume of rice exports. Noting that the export of rice normally accounted for over two thirds of Burma's export earnings, a member of the Committee enquired whether there had been an improvement in the situation in the last few months and about the prospects in the future. The representative of Burma stated that the volume of exports of rice was normally determined by availability, that is the volume of domestic production minus consumption. The shortfall in 1961 was mainly due to bad weather and there might be some increase in production in 1962, although the volume available for exports, according to present estimates, was not likely to be significantly higher than in 1961. It was the principal purpose of the current Four-Year Plan to raise the production of rice available for export. This was currently at the level ranging from 1.8 to 2 million tons per annum and the aim was to raise it to 2.5 million tons by 1963/64. When this was achieved, it would, of course, contribute considerably to the balancing of payments.
6. Members of the Committee posed a number of questions on the Burmese policy regarding the diversification of production and exports. In particular, information was requested on the development of other agricultural products, the use of crop rotation, the place of cotton, timber, mineral products, oil and secondary industries in the economic development plan. The representative of Burma stated that his Government was fully aware that in so far as possible the country should reduce its reliance on rice for its export earnings. Accordingly, efforts had been made to develop and encourage other exports. Certain incentives had been given to the exports of beans and pulses, cotton, oil cakes etc. and there had been some increase in these exports. However, these exports could not, in the foreseeable future, be expected to expand to any significant extent. In view of the climatic conditions of the country, rice will continue to hold a predominant position in the country's exports and, consequently, plans have been adopted to increase the acreage and to raise the yield through modernization and the use of fertilizers. As for crop rotation, there had been no traditional practice of this kind in the rice growing areas. Only recently had there been introduced on an experimental basis the planting of ground nuts in rotation with rice. This experiment, while very successful, is as yet too early to be evaluated.
7. It was pointed out by a member of the Committee that there had been in the last few years a marked increase in the export of raw cotton. Asked to comment on the prospects of further developing the export of this item,

the representative of Burma pointed out that while there had been some increase in this export, the volume involved was still insignificant. The estimated increase in the foreseeable future is about 3,000 tons. The soil conditions in Burma were not such as to give much hope in this direction although there were definite plans for the development of cotton as well as of rubber and jute.

8. The representative of Burma noted that the prospects for developing the export of forestry products were also limited. At present exports consisted principally of teak for which production was insufficient to meet export needs. The present volume of exports was ranging between 70,000 and 90,000 cubic tons and the aim was to raise it to over 100,000 cubic tons per annum. Exports of other kinds of hardwood were negligible.

9. As regards oil, the destruction of installations during the war had changed Burma from a net exporter in pre-war days to a net importer since the war. Rehabilitation was not completed until 1952 or 1953. Oil production reached self-sufficiency by 1957/58 but owing to increased demand this product again had to be imported since 1960. The BOC (1954) Ltd. which was a joint enterprise between the Government and a British firm, had already started operations for exploration of oil in Burma.

10. Price fluctuations on the metal market had been the principal hindrance to the development of mineral production in Burma. Investors were generally inhibited from increasing their production capacity because of the uncertainty in prices. The Government had considered it necessary to intervene by way of encouraging foreign investment in this field. Previously, foreign investment had been hampered by the standing legislation concerning nationalization but this policy had recently been changed with a view to making investment in Burma more attractive for foreign investors. In the Investment Act of 1959, the previous provision limiting to ten years the period for which a newly established industry might be guaranteed immunity from nationalization had been replaced by a provision enabling the negotiation of terms guaranteeing such immunity for a longer period. For example, it might be agreed between the Government and a foreign investor that his firm would not be nationalized in any circumstances within a period of twenty years. This was among the principal steps taken to encourage foreign investment.

11. In answer to a question, the representative of Burma noted that past surveys had disclosed considerable deposits of tin, lead, tungsten and antimony and some deposits of iron ore in Burma. The Government was willing to enter into joint ventures with foreign investors and there had been some proposals by foreign concerns. For example, a joint venture enterprise with a Japanese firm was being negotiated for the mining of antimony. The surveys of mineral deposits that had been made were available to any interested foreign investors.

12. As for the diversification of secondary industries, there were plans for the establishment and development of small, principally consumer goods, industries. The aim was merely to produce for import substitution rather than for export.

13. Members of the Committee noted the current Four-Year Plan of economic development which was described in some detail in the IMF background paper. They invited comments on the financial requirements for the implementation

of this Plan and the sources from which external assistance might be obtained to meet any deficiency. The representative of Burma stated that the principal sources of finance at present were reparations, the IBRD, the ICA, and mainland China. The principal aims of the Four-Year Plan was to boost rice production, to diversify the economy by the introduction or enlargement of the production of rubber, cotton, beans and pulses, etc. One of the main subsidiary actions was the setting up of fertilizer plants. There was also going to be some development of spinning and weaving and tanning, as well as the production of sugar, cement and certain mineral products. Capital outlay in the public sector for the four-year period and availability of funds were as follows:

(In millions of Kyats)

<u>Year</u>	<u>Finance required</u>	<u>Finance available</u>
1961-62	661	496
1962-63	712	497
1963-64	676	444
1964-65	580	409

The total capital outlay in the public sector for the four years was K.2,629 million and of this K.1,846 had been provided for. The difference would have to be met from borrowing.

14. It was noted that in 1960 Burma had an overall balance-of-payments deficit of \$8.2 million and that the external payments position had deteriorated in the first half of 1961, there being an overall payments deficit of \$17 million. As a result Burma's foreign exchange reserves had fallen further by \$14 million in the first seven months of 1961, to \$127 million at the end of July. Requested to comment on the likely level of the reserves at the end of the year, the representative of Burma stated that present indications were that the reserves would remain at about \$127 million at that time.

15. He further explained that the seasonal patterns of both imports and exports were such that reserves should generally be at their highest towards the end of the year; earnings accruing in the last quarter of the calendar year were likely to be used up for import payments in the early months of the following year. In the view of the representative of Burma, the present level of reserves, amounting to about six and a half months imports (on the basis of actual imports during 1958-60) should not be regarded as very high. In judging the country's need for reserves account should be taken of the fact that, while Burma's exports went mainly to adjacent countries, its imports mostly came from away sources, notably Japan, the United Kingdom, Western Europe, and the United States.

Alternative measures to restore equilibrium

16. Attention was called to the decline in 1958-59 in the consumer price index in Rangoon and in the wholesale price index of agricultural products for the whole of Burma, by 15 and 10 per cent respectively, and to the subsequent rise in these indices in the first half of 1960. The material supplied by the Fund indicated that there had been no changes in the first half of the present year.

Asked to supply more recent data, the representative of Burma stated that the price indices had risen slightly in the second half of September this year but had since fallen by about 2 per cent. The changes mainly reflected modifications of the customs duty rates on imported consumer goods. A member of the Committee recalled that in 1956 the relaxation of import restrictions had contributed to mitigating inflationary pressures and to the stabilization of prices. At present, while there was again a tendency for prices to rise, consideration should be given to the liberalization of imports in order to reduce the pressure on prices. This should be possible having regard to the present level of foreign exchange reserves and the availability of other means of limiting imports such as the customs duty and the sales tax. The representative of Burma replied that, taking account of the seasonal factor, the present reserves were not such as to warrant immediate action in the liberalization of imports. Nevertheless, there had been action taken in this direction and there were definite plans for further action. For example, restrictions on imports of tyres and tubes had been removed and it was intended to transfer a number of industrial raw materials on to the Open General Licence in the near future. The basic policy of Burma was to liberalize imports whenever there was an improvement in the balance of payments enabling it to do so.

System and method of restrictions

17. On the basis of the information contained in the "basic document" the Committee discussed with the representative of Burma the present restrictions in Burma and changes in the past year. Members of the Committee welcomed the action taken by Burma in June 1959, to place individual licensing on a global basis, thus virtually eliminating discrimination against imports from dollar area countries. They noted with satisfaction that the residual dollar discrimination in the administration of Open General Licences had also been removed in the past year. The representative of Burma explained that the differential treatment for imports from the dollar area which had existed until recently had been adopted mainly for administrative purposes and did not amount to discrimination. The representatives of the dollar area countries expressed gratification nevertheless at the progress in removing such differential treatment.

18. The Committee noted that there had been a substantial reduction in the past year in the use by Burma of bilateral arrangements. In this connexion attention was called to the fact that the decision of the Executive Board of the Fund on 13 March 1961 had been taken prior to the elimination of some of the bilateral arrangements. The representative of the Fund agreed that, had this decision been taken at a later date, even greater emphasis might have been placed on the progress made in this field.

19. A member of the Committee noted that whereas there had been a decline in the use of bilateral arrangements, imports under barter arrangements seemed to have risen in the last few years and enquired about the reasons behind this phenomenon. The representative of Burma explained that in earlier years credit balances in favour of Burma had accrued from bilateral arrangements owing to the inability of certain bilateral partner countries to deliver adequate exports to Burma and that the high figure for imports from these bilateral countries in the last two years reflected transactions which served to liquidate these credit balances. At present most bilateral agreements had

been terminated and payments were being placed on a cash basis, as credit balances were liquidated. The only remaining bilateral trade and payments agreement was the one with mainland China.

20. In answering various questions concerning the import control system, the representative of Burma stated that, as described in the "basic document", products were divided into four categories (unrestricted, Open General Licence, quota restriction, and prohibited). The allocation of products into these four categories was based principally on the criterion of essentiality; goods which were considered by the authorities to be essential for the economy in current circumstances were generally included in the OGL lists. From time to time, goods on the restricted list were transferred to the OGL lists, and such changes would continue to be made as far as it was permitted by the balance-of-payments position. The seven open general licences at present in force had been introduced at different times and they reflected the progress that had been made since 1958-59 in the liberalization of imports.

21. The statistics available to the Committee showed that in 1959-60 less than 10 per cent of total imports was admitted under Open General Licence and that there had been a substantial increase in private imports subject to licensing restriction. Some members of the Committee thought that this would seem to indicate that licences were being granted either freely or liberally for some products. They considered that, if that was the case, it should be feasible to transfer those products to the Open General Licence. Such a move would reduce the administrative burden imposed by the licensing system without involving additional pressures on the balance of payments. One member drew attention to the fact that, since 48 per cent of total imports were made under arrangements described as State trading, the proportion of imports subject to licensing control was in fact only 46 per cent. The representative of Burma stated that it was the consistent policy of his Government to reduce to the minimum licensing control in private trade; under this general premise the possibility of dispensing with licensing control was continuously under consideration. The number of products on the prohibited list was very small.

22. It was noted that in the description of "State trading and government monopolies" in the basic document, reference was made to the Joint Venture Corporations. On the question whether these were indeed governmental agencies, the representative of Burma explained that the Joint Venture Corporations were State-controlled enterprises with about equal capital participation by the Government and the public. The Government controlled 52 per cent of the stock and private interests 48 per cent. The Government exercised a general control over these corporations but day-to-day administration was left to the managing boards of the corporations on which representation was predominantly of the private sector; there would normally be only two governmental representatives, but six or seven representatives of the private sector. Transactions of the Joint Venture Corporations were conducted on the basis of commercial considerations. Big orders were normally placed through the use of tenders but smaller transactions were done in the usual manner as in ordinary commercial firms.

23. In answer to a question, the representative of Burma confirmed that along with allocations for imports in the private sector by industries, by the Joint Venture Corporations and by the Civil Supplies Managing Board, which is a true State-trading agency, there were also allocations available for imports by co-operative societies.

24. In answer to a question, the representative of Burma stated that imports of free samples into Burma were admitted free of licensing control up to a value of K100. Imports of samples of a value exceeding K100 were admitted liberally on application where no foreign exchange expenditure was involved.

25. The Committee also discussed with the representative of Burma, the purpose and effects of the Export Incentive Plan under which Burmese exporters were given import licences in proportion to their export earnings. Members of the Committee noted that although it was understandable that Burma, in the interests of diversifying its exports, would want to make use of such devices, the Government should bear in mind the distortionary effects involved which might be damaging to the long-term interests of the country. They expressed the hope that the Government of Burma would keep the Plan under review with a view to securing its eventual elimination. The representative of Burma explained that his Government was fully aware of these considerations and had no interest in issuing such special licences; it had been compelled to adopt the system because of the predominant interest of traders in securing imports and the lack of interest in promoting exports. The system, despite its disadvantages, might have to be continued for a number of years to come.

Effects of the restrictions

26. Members of the Committee noted that the Export Incentive Plan referred to, as well as the restriction of imports in general, might give impetus to the establishment and development of industries which were not efficient or economical for the country. They expressed the hope that the Government of Burma would keep this in mind in the administration of its import restrictions maintained for balance-of-payments reasons. The representative of Burma stated that his Government was fully aware of this danger and that it was owing to this consideration that it had, whenever possible, reduced or removed import restrictions.

General

27. Members of the Committee expressed appreciation for the full and comprehensive manner in which the delegation of Burma had answered the various questions posed. In their view this had been a very useful consultation which contributed substantially to a better understanding of the import control policy and system in Burma and of the problems which it faced. They expressed gratification at the various steps which had been taken to expand the number of products under Open General Licence and to reduce discrimination, including that arising from bilateral arrangements. It was also encouraging to know that the Government of Burma was currently considering further steps to relax import restrictions by placing more items under Open General Licence and increasing import quotas. Members of the Committee suggested that, taking account of the relatively high ratio of reserves to total imports and the recent increases in import duties and sales tax, further import liberalization could be helpful as a means of reducing pressures on domestic prices. They noted that Burma was still faced with difficult problems which could not be totally solved overnight but hoped that Burma's balance of payments would make it possible for speedier progress to be made in the simplification and removal of import restrictions.

28. The representative of Burma stated that his delegation had taken note of the views expressed by the members of the Committee and that it would bring these to the attention of his Government.

ANNEXIMF Executive Board Decision of 13 March 1961 at Conclusion of
the Consultation between the Fund and Burma

1. The Government of Burma has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.
2. The gross domestic product in real terms surpassed the pre-war level in 1958-59 for the first time in post-war years. In 1959-60 the monsoon was once again favourable and this, together with a further improvement in law and order, helped expand farm output; the rice crop reached a new post-war high but was still below the pre-war average. Forest output showed a marked improvement almost reaching the pre-war level; mineral production, however, was still far below the pre-war level. Gross domestic product in real terms rose by 5 per cent in 1959-60 as compared with the previous year, but real per capita income was still below the pre-war level.
3. An important development in recent years affecting the domestic economic situation has been the persistence of a deficit in the public sector. For 1959-60, however, as a result of the substantial improvement in revenues, mainly from customs duties and earnings from rice exports, and of lower capital expenditures, it is expected that the public sector will be able to show a modest surplus. The budget estimates of the Union Government for 1960-61 provide for total receipts of K 1,201 million and expenditure of K 1,310 million, leaving a deficit of K 109 million. In view of the new Four Year Plan under consideration and the possible need for resources for development purposes, the Fund believes that the Government should explore the means of raising non-inflationary finance so as to maintain fiscal stability.
4. The money supply in Burma declined by 4 per cent in 1959-60 due mainly to a substantial improvement in public finances. There was, however, a marked rise in bank advances, after the restraint of credit expansion in the preceding two years. This expansion was occasioned by a change in the method of financing rice movements and by larger imports. However, considering the liquidity of the banking system and existing demand pressures generated by the increases in money supply during 1958-59 and the first half of 1959-60, the Fund is glad to note that the Union Bank of Burma is keeping a careful watch on the situation.
5. The balance-of-payments position of Burma showed an overall surplus of K 122 million in 1959. Both exports and imports rose substantially. Export of rice reached 2.1 million tons in 1959-60, a post-war record high. As a result of the favourable development in the balance-of-payments position, the foreign exchange reserves of Burma showed significant gains in 1959-60, although in September 1960 they dropped somewhat on account of the year-end payments. For calendar 1960, it is reported that the overall balance-of-payments was in deficit.

6. The Burmese restrictive system continues to be stringent and there was very little relaxation during 1960. Some further simplification and relaxation of restrictions should be feasible. The Fund welcomes the progress made in reducing the use of payments arrangements and suggests that Burma should reconsider the need for the remaining bilateralism.
7. In concluding the 1960 consultations, the Fund has no other comments on the transitional arrangements maintained by Burma.