

GENERAL AGREEMENT ON
TARIFFS AND TRADE

RESTRICTED

L/2104

19 December 1963

Limited Distribution

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

B U R M A

1. In accordance with its terms of reference the Committee conducted the consultation with Burma under paragraph 12(b) of Article XVIII. The Committee had before it the following documents: (a) a basic document for the consultation (BOP/24/Rev.2), (b) background material provided by the International Monetary Fund as noted in paragraph 3 below.
2. In conducting the consultation the Committee followed the Plan for such consultations recommended by the CONTRACTING PARTIES (BISD, 7th Supplement, pages 97-98). The consultation was conducted on 12 December 1963. This report summarizes the main points of the discussion.

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 was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision of March 29, 1963 relating to the last consultation with Burma under Article XIV of the Fund Agreement (annexed hereto) and the background material prepared in connection with that consultation. The Fund has also provided a supplementary paper dated November 19, 1963 to supply background information on recent developments. With respect to Part I of the Plan for Consultations, relating to balance of payments position and prospects, and with respect to Part III, relating to system and methods of the restrictions, shortly before the conclusion of the Fund's last consultation with Burma, the Government of Burma announced that it would in the near future take over foreign trade. Subsequently, arrangements were made for the nationalization of all import trade on October 1, 1963. It has not yet been possible to assess the significance of this change in relation to the Burmese balance of payments. The Fund, however, expects soon to conduct a consultation with Burma under Article XIV of the Fund Agreement and to transmit to the CONTRACTING PARTIES the Executive Board decision relating to that consultation when it becomes available.

"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, pending the conclusion of its next consultation with Burma, the Fund has no comment on alternative measures."

Opening statement by the representative of Burma

4 The representative of Burma stated that since the last consultations two years ago many institutional changes had taken place in the country's economy, especially since the advent of the Revolutionary Government in March 1962. Burma consulted with the International Monetary Fund about a year ago. Together with documents pertaining to that consultation, the Fund had supplied this Committee with a supplementary paper dated 19 November which traced more recent developments. This document seemed to reflect the budget report of October 1963 and some press reports; it explained policy measures during the past fiscal year and outlined those for the coming year. The budgetary report had given a survey of production trends for the first few months of the fiscal year 1962-63. To supplement this with more up-to-date information, it might be noted that agricultural production increased in 1962-63 by over 12 per cent; the production of paddy increased by 0.6 million tons; groundnuts by 9 per cent; sugar-cane by 45 per cent; pulses by 20 per cent; while the output of cotton fell by 17 per cent as a result of bad weather.

5. The Fund paper called for a more complete explanation of the decline in the consumer-price index for Rangoon during 1962-63, in the face of the sharp monetary expansion that occurred in this period. The decline was attributable to improved methods of distribution, the elimination of middlemen and an increase in the number of government retail shops which channelled essential and important commodities in adequate quantities at reasonable prices. It should be noted in this connexion that the heavier weighting of the consumer price index on inexpensive common use items enabled this reduction in spite of the rise in prices of more expensive component items in the index.

6. The nationalization measures taken by the Government had been described in the Fund document as well as in the revised basic document for this consultation. When the international price of rice fell from the post-war peak of £60 sterling to a little over £30 sterling in the ensuing years, the maintenance of the official exchange rate brought about a disequilibrium in the market for imported consumer goods, and import trade became excessively profitable. At the same time prices of these goods to the consumers remained high. An increase in customs duties which had the effect of a partial devaluation did not solve the problems. The scope of State trading had therefore been expanded to cope with the problem of equitable distribution of consumer goods particularly to the rural sector.

7. In the field of foreign trade recent data showed that in 1962-63 exports amounted to K.1,266 million¹, the same as the previous year; imports, at K.1,091 million, were a little higher than the previous year. There was a decline in the export of rice and rice products to 1.7 million tons, from the previous year's level of 1.84 million tons. This shortfall in earnings from this staple export was, however, made good by an increase in the export of other agricultural products and by an even more marked increase in the export of teak. On the import side there was a small decline in the value of consumer goods from K.712 million in 1961-62 to K.700 million in 1962-63, but this was more than offset by the increase in capital goods imports, from K.332 million to K.391 million. Imports of machinery and transport equipment increased by 33 per cent, partly due to the import of agricultural tractors. In consumer goods imports, textiles increased by 12 per cent; canned and dried milk by 40 per cent; mineral oil by 41 per cent; while there were small percentage decreases for other minor imports. Burma's foreign exchange reserves increased by about K.200 million in 1962-63 and stood at the end of September 1963 at US\$213 million which was equivalent to slightly more than twelve months import payments at 1962-63 rate.

8. In conclusion the representative of Burma stated that his Government had budgeted for a level of imports in 1963-64 much higher than in the preceding years. This had been made possible by improvements in the country's balance of payments as well as improved prospects for exports. The overall magnitude of programmed imports in 1963-64, estimated at K.1,467 million, was approximately 35 per cent higher than actual 1962-63 imports.

Balance-of-payments position and prospects

9. The Committee discussed with the representative of Burma various factors affecting Burma's balance of payments and monetary reserves. A member of the Committee enquired about the prospects of importing capital into Burma. Another member of the Committee asked about the influence in this connexion of the nationalization of foreign commodity trade. The representative of Burma said that Burma had a rather disappointing experience in the fifteen years since independence in the matter of foreign investment. There had actually been a net outflow of foreign investment capital in this period. The Government had decided that the country should hereafter rely primarily on foreign aid in form of government loans and grants, rather than on foreign private capital.

10. In reply to questions concerning the plans for diversification of the economy, the representative of Burma explained that so far Burma had concentrated on the setting up of light consumer goods industries, e.g. rice mills, sugar refineries, textiles factories. It was possible, however, that this pattern would be changed. Iron ore deposits had recently been discovered in northern Burma and were considered to be sufficient to meet domestic needs of many years. Some coal had also been found in that region, and experimental mining was being undertaken. While there was at present only a steel re-rolling mill working on war-time scrap which was nearing exhaustion, more emphasis was likely to be given in future to the establishment of basic industries relying on domestic iron ore and coal.

¹ One US dollar = 4.7619 kyats.

11. In discussing the current composition of Burma's exports a member noted that there had been a marked increase in the export of teak in recent years, and enquired as to the background of this development. The representative of Burma explained that for three or four years there had been an increase in the export of green teak, which consisted of high quality teak felled at an early stage and sold without seasoning. Compared with ordinary teak wood, the production of green teak thus offered advantages as a commodity. Exports of teak in 1962/63 were 23 per cent higher than in the previous year, as a result of intensive export efforts.

12. Members noted that, according to the data supplied to the Committee, foreign exchange reserves of Burma had reached a level equivalent to the value of more than twelve months' imports. They pointed out that by ordinary standards this level must be considered a relatively high one, and should enable a substantial increase in imports. The representative of Burma explained that it was the policy of his Government at present to build up exchange reserves, to be drawn upon later on when the long-term development plans had been established, for the import of capital goods and raw materials required for industrial development. Nevertheless, imports would be substantially increased in 1963/64 and would be 35 per cent higher than in the preceding year.

13. In reply to a question, the representative of Burma stated that the foreign exchange reserves of Burma, which had stood at \$213 million at the end of September 1963, were expected to increase by about \$40 million in the following twelve months so that they would reach a level of \$250 million by the end of next September.

Alternative measures to restore equilibrium

14. The Committee noted the various measures which, as noted in the Fund papers, had been taken by the Government of Burma in the past year in the monetary and fiscal fields. A member of the Committee pointed out that the rate of credit expansion appeared to have been rather high in the early part of 1963 and asked whether the Government of Burma intended this to continue. The representative of Burma confirmed that the money supply had increased by about K.500 million in 1962/63. This mainly reflected the considerable expansion of agricultural credit. The peasants of Burma, as indeed in many low-income countries, had always been weighed down by excessively high rates of interest, and one of the most effective means to improve their lot and increase their income was to provide agricultural credit with low interest. Under the new Government, agricultural credit had been greatly raised, from the previous level of K.200 million to K.500 million. Agricultural incomes were thus to be increased without a rise in the procurement price of rice, which would have an immediate effect of raising the costs of living and prices generally.

System and methods of the restrictions

15. The Committee noted that there had been drastic changes in Burma's trading system, which were clearly described in the documents before the Committee. In answer to questions concerning the purposes and effects of the recent nationalization of foreign trade, the representative of Burma explained that this policy had been adopted mainly in order to combat abuses and inflationary effects of the private trade system. The previous system of private imports had led to excess profit for importers and exorbitant prices for goods in short supply. Import licences and restricted imports became scarce commodities, and changed hands through illicit channels. Political consideration led to the fragmentation of import licences, creating further inconveniences for the trade and additional burden for the consumer. The nationalization of foreign trade was not intended to cause any change in the import pattern, either in the composition of products, or in the sources of supply. There would be no discrimination except in respect of imports from a certain country in Africa. Purchases would be made on an international tender basis. The representative of Burma further pointed out that, full nationalization having entered into force only on 1 October 1963, it was still too early to evaluate the efficiency and effects of this new system.

16. In reply to questions, the representative of Burma explained that the sole importer under the State-trading system was the People's Stores Corporation, which replaced the Central Procurement and Distribution Council. The total import allocation was divided into quotas for individual SITC or BTN commodity categories. Switches between categories were possible to a certain extent. The quotas had not been published up to the present, but it was likely that they would be as speculation became less and less possible when the system was being gradually consolidated.

General

17. The Committee thanked the representative of Burma for his clear and full replies to the questions. Members of the Committee noted that the balance-of-payments position of Burma was fairly strong and the foreign exchange reserves at a very comfortable level. The short-term prospects appeared to be fairly favourable. It was understandable that Burma should wish to accumulate further reserves to meet development needs. On the other hand, the level of reserves should enable an increase in imports. The Committee welcomed the statement of the representative of Burma that imports in 1963/64 would be substantially increased. The Committee also welcomed the statement by the representative of Burma that, with the single exception referred to in paragraph 15 above, there were no discriminatory elements in the import system of his country.

18. The representative of Burma thanked the members of the Committee for their understanding and co-operation and said that he would bring the views and suggestions made in the course of the consultation to the attention of his Government.

ANNEX

International Monetary Fund Executive Board Decision
Taken at the Conclusion of the Fund's Consultation
with Burma on 29 March 1963

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. Production of most primary products in 1962 increased with the exception of paddy, Burma's basic crop. Further increases in production are expected in 1963 with paddy production well above the average of previous years.
3. The Burmese authorities have recently decided to extend the area of State participation in economic activities. Following this decision, all private banks were nationalized; foreign trade, private industry, and internal rice trade are also to be nationalized in due course.
4. In fiscal year 1961/62 budgetary expenditures, especially on capital account, fell short of estimates, while revenues exceeded earlier expectations due to larger exports of rice from government stocks. The cash surplus of K.74 million compares with a deficit of K.52 million in the previous year. The consolidated budget for 1962/63 may result in a cash deficit of K.119 million. Money supply during the first nine months of 1962 rose by 10 per cent due to considerable foreign exchange accumulation only partially offset by the budgetary cash surplus.
5. The balance of payments for 1962 is estimated to have increased reserves by \$52 million as compared with a decline of \$21 million in 1961, and total reserves are equivalent to 10 months' imports. The recovery in the balance of payments in 1962 is attributable, in part, to larger exports of rice from stockpiles and in part to continuing exchange and import restrictions. Prospects for 1963 are for a continuing payments surplus.
6. Except for minor changes, import restrictions remained unchanged in 1962 and total imports were at about the same level as in the preceding year. With the prospect of a continuing rise in exchange reserves, the Fund believes that there is scope for relaxing restrictions.
7. In concluding the 1962 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Burma.