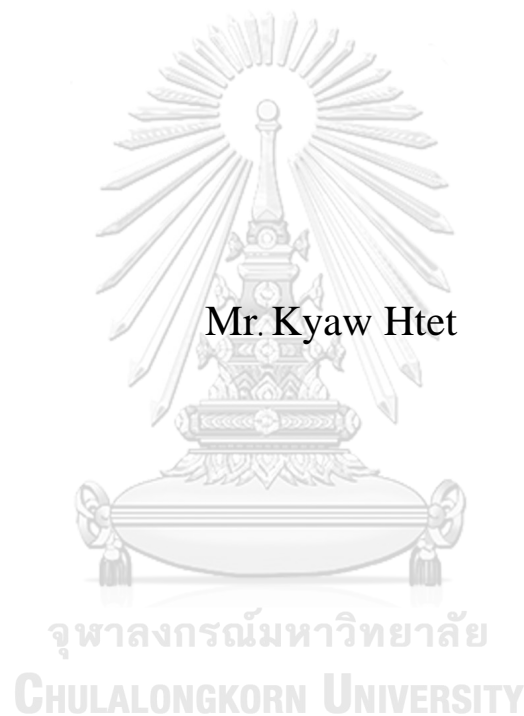


**ECONOMIC DEVELOPMENT OF BURMA (1948-1958): The  
clash between the Capitalist-based economic plan and Socialist  
ideology implementation**



**Mr. Kyaw Htet**

**A Thesis Submitted in Partial Fulfillment of the Requirements  
for the Degree of Master of Arts in Southeast Asian Studies  
Inter-Department of Southeast Asian Studies  
GRADUATE SCHOOL  
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พัฒนาการทางเศรษฐกิจของพม่า ค.ศ. 1948-1958 : การปะทะระหว่างแผนเศรษฐกิจแบบทุน  
นิยมกับการขับเคลื่อนอุดมการณ์สังคมนิยม



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## TABLE OF CONTENTS

	<b>Page</b>
ABSTRACT (THAI) .....	iii
ABSTRACT (ENGLISH).....	iv
ACKNOWLEDGEMENTS .....	v
TABLE OF CONTENTS.....	vi
REFERENCES .....	2
VITA.....	4
1.2 Objectives of thesis .....	15
This study has four main objectives.....	15
1.3 Research Question.....	16
1.5 Major Arguments & Hypotheses .....	20
1.6 Theoretical Framework.....	21



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## REFERENCES



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**ECONOMIC DEVELOPMENT  
OF BURMA DURING 1948-  
1958: THE CLASH BETWEEN  
THE CAPITALIST-BASED  
ECONOMIC PLAN AND  
SOCIALIST IDEOLOGY  
IMPLEMENTATION**



## ABSTRACT

Over 100 years of under British colony, Burma was liberated in 1948 inheriting most of the colonial system especially in the administration and legal system however adopted the different political doctrine since the beginning. Socialism was chosen as the state ideology during the independent struggle and made it concrete by the AFPFL leaders especially by PM U Nu. Though widely hailed as a Socialist state yet not in the form of typical Socialist state seen in those Soviet-sphere countries but her own style combining the welfare system with traditional Buddhist culture.

The first attempt of economic development on national scale was drafted with the help of U.S. engineering and economic consultants assisted by the U.S. government. The opposite nature of these two doctrines, the so-called Socialist State and the Economic plan rooted in the Capitalism resulted in the failure of Burma economic development during the 1950s.

This research will argue that the failure of economic development in Burma during the 1948-1958 was the result of the clash between the Capitalist-based economic plan and Socialist ideology implementation. The economic plan proposed or laid down by the U.S technicians to revitalize the economy back into the colonial period whereas the objective of U Nu, the then PM, and AFPFL Government was to apply socialist planned economy and the friction of these two opposite political doctrines caused the disaster.

**KEYWORDS:** Burma Economic Development, Capitalism vs Socialism in independent Burma



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## Table of Content

### **CHAPTER I Introduction**

- 1.1 Rationale
- 1.2 Objectives of Thesis
- 1.3 Research Question
- 1.4 Research Methodology
- 1.5 Major Arguments and Hypotheses
- 1.6 Theoretical Framework
- 1.7 Literature Review
  - 1.7.1 US support Economic Plan
  - 1.7.2 Burma's economic conditions and policies
  - 1.7.3 British colonial period
  - 1.7.4 Some other sources
- 1.8 Chapter Outline

### **CHAPTER II Burma Prior to the Development**

- 2.1 The Colonial Legacy
- 2.2 Burma After Independence

### **CHAPTER III United States and Burma Relations after the Independence**

### **CHAPTER IV US Economic Development Program**

- 4.1 Choosing of American Consultants
- 4.2 Preliminary Report
- 4.3 Comprehensive Report

### **CHAPTER V US Development Plan and its failure**

- 5.1 US vs Burma Socialist Ideology
  - 5.1.1 General Aung San and his Socialist vision
  - 5.1.2 The Two-Year Economic Plan
  - 5.1.3 U Nu and Burma Socialism in the post-independence
  - 5.1.4 The Pyidawtha Conference
  - 5.1.5 Comparison between the US Development Program and Burma Socialism

## 5.2 US Program and Burmese Economy

### CHAPTER VI Conclusion





# CHAPTER I

## INTRODUCTION

The end of the Second World War saw a lot of European colonies across the world gaining independence as these colonialists were no longer in control of the world politics. As soon as the freedom was achieved, these nations be it the small or big ones, started rebuilding the countries which suffered greatly under the colonial period and the War. Most of them modelled their former masters on the political systems but the new ideology emerged as one of the champions of the War was taking more and more influence in these newborn nations. Different from the previous war, the First World War, the champion of the World War II (WWII) was not just one side but two sides, both in the East and the West. The Eastern bloc contained most of the Eastern European nations was led by the Soviet Union whereas the West mostly consist of the Western European industrialized countries headed by the U.S. Both sides having completely different ideology, the East based on the communism and socialism and the West is capitalist market-economy. Their most distinct differences were in political system and how they run their economy. To expand their power and to counter one another, both groups pulled those newly emerged nations to be their allies which marked the beginning of the Cold-War era. This competition brought a lot of instability and disunity towards these small

countries and as the former colony of British Empire, Burma was also pulled into this war.

Burma as the former colony of imperial British, could not escape from this fate yet it suffered comparably the most in the region. As a part of British Empire for over 100 years, it gained the independence in 1948 as the result of negotiation between the revolutionary leaders and British labour government and it was decided by the leaders of that time to follow the Westminster system of governance from United Kingdom. It soon followed the footsteps of the other recent independent countries and underwent the development period. The whole country was deteriorated due to the war and it was damaged more than any of her neighbours as it was the last defence line for British for their Indian subcontinent and for Japan it was the strategic location to cut off the communication line between the Allies and China, Burma experienced the war for twice, one when British retreated to India and another when Japan withdrew their forces. Yet, it was quite remarkable to be able to rebuild the country becoming one of the biggest exporters of rice in short period of time. By 1952 just after 4 years of independence they achieved quite the economic growth that became the top in the Southeast Asia and was on the way to the prosperity. The year 1952 was a period which the U Nu government started implementing the National Planning for development of Burma. Until then, the whole administration was so burdened with the insurgents and instability, the development was not given any priority in the agenda but by that year most of

the land were taken back from the rebels and the government also had certain revenues to fund such a large-scale project.

Prior to the independence Burmese leaders realized the war-torn country must rebuild from the bottom. Except the administration and the democratic values, Burma was left with nothing of such in term of prosperity or development, because British themselves were experiencing the consequences of the War. It was the period when the world was encountering the rivalry of two rising superpowers which had completely opposite ideologies - U.S or the West with the Capitalism as its doctrine while the Eastern bloc led by Soviet centred the socialism as the principle. Therefore, Burma had to choose which path to follow for the tension of the Cold War which soon heightened into the global phenomenon and as a small country the effect was tremendous. At the same time, within Burma the elements of whether to pursue the Western style economic model based on capitalism or the Soviet model of socialism was also debated during the struggle for independence.

Under the British, Burma was introduced to the international market through the free-market policy and the colonist believed it was the most efficient way to promote the economy through the non-interference of the state. From the feudalist state to become the near purist capitalist country, the local people started tasting the side effect of the capitalism and accepting its ugliness as one of the products imported by the colonial imperialist. Although it did increase the output of the economy and developed to fulfil their empire's goal, the

indigenous in return gained nothing from it even having huge debt much owing to the alien Indians brought into by the British to accommodate the required capital. Thus, the capitalism and “laissez-faire” were the system used by the British to suppress the people and the foreigners taking control of the economy.

On the other hand, long before World War II, the ideology of socialism was already introduced and widely accepted among some of the revolutionary leaders who after the war became the member of the government. To counter the blood-sucking system and profiting only the elites, young Burmese student leaders who later took part in the independence movement and became the political leaders after the war, started looking for the alternative and they found socialism as a solution which also featured some of the characteristic of widely accepted traditional Buddhism. Meanwhile the rivalry of the Soviet and the Western superpowers who represented the capitalism also made the socialism more attractive to against the imperialist and thus it socialism became the principle philosophy of the state and the policies were based on this ideology.

However, the nation-building had to postpone because the conflict within the AFPFL<sup>1</sup> between the Socialist Party and Communist Party which escalated into the total armed rebellion of the government by the Communist within a year after the liberation. To worsen the situation, a part of the government military force along with some paramilitary forces which were under the control of the General Aung San deserted and went into armed rebellion, so the government

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<sup>1</sup> Anti-Fascist People's Freedom League - the ruling party from 1948-1958. It was the league formed by many political parties and factions.

had to put all of the resources and energy in the security affairs for the first two years of its reign. It was in 1950 when the government started regaining the upper hand in the civil war and diverted their attention to the rehabilitation of the economy. The period which was also known in the Burma history as Pyidawtha era started from the 1951-1960 was the time Burma as a socialist ideology as its doctrine hired and implemented the development plan drafted by the US Engineering firm and Economic consultants (Tinker 1959, 96).

### **1.1 Rationale**

It is known that the independent Burma pursued the socialism however, it was not entirely the socialist models seen in the communist world but its own version. Several reasons existed due to the politics, social and some economic behind but one of the most important was the leaders believed socialism was able to exist with the traditional Burmese Buddhism and its cultures whereas the denial of religion and cultures in the communist countries was totally unacceptable in the society. This was also one of the accusations the ruling AFPFL on the Communist Party of Burma (CPB) of destroying the values of Burmese culture and its history which also happened to be the main tools used by these young leaders once fought against the colonists.

Contrary to this, the first national development plan drafted was by the American consultant firms which represented the capitalist society. Perhaps this was one of the factors of difficulties when they tried to apply the plan into action

but could not attain the objectives and met its demise. Regardless, it was the first attempt on national scale to develop the nation to be industrialized in their own terms and it laid some of the foundation for the future proceeding situation.

Therefore, based on these underlying facts, I chose this topic for the research. There are several reasons why this period was chosen. First, it is my personal interest in studying the economics of the period in the period after 1948 up to the military coup in 1958. Second, it was the first attempt by Burma in trying to get the development on national scale. Third, Burma is now again at the exact same point to rebuild the nations after more than half a century of military rule so from its own history we can learn a few things for the process and add into the future aspect. Finally, and perhaps the most important of all, was the development plan assisted by the U.S always accused of the main reason why the government failed to bring the prosperity and resulted in the military coup, so I want to look at from the different point of views to see whether there is other explanation for this statement.

## **1.2 Objectives of thesis**

This study has four main objectives

- To evaluate how the failure of the development affected the Burma's economy in the period 1948-1958.
- To identify the weaknesses of the US-drafted economic plan and the role of government

- To determine whether Burma was ready for such development plan in that time and if any alternative way to achieve her aims
- To explain if there were any socio-political reasons/causes in this failure asides from the economic conditions

### **1.3 Research Question**

With the above objectives in place, the five research questions are formulated as follow:

1. What were the failures of Economic Development in Burma during 1948-1958?
2. How the planners and the government identified and implemented the plan?
3. How the plan was executed in the socialist-oriented system and what were the challenges faced by the planners and the government?
4. What were the deficiency and the limitation in the Economic Plan presented by the US firm?
5. What other factors from social and political aspects affected in the development process?

### **1.4 Research Methodology**

This topic is about the economic history of Burma so most of the materials used in this study will mostly be historical sources. Although it was a landmark in the Burma's history and economic progress, the materials exclusively on this topic was quite rare and were described only in pieces except in a handful of sources. Therefore, I will be relying those few sources as my primary studies and will look on the other works on different issues of that period.

The methodology for the research will be qualitative research method. The emphasize on analysis of cultural relation between the clash of US Capitalist Plan and Burma Socialism will be the independent variable. The dependent variable be the failure of economic development during the period by the US Economic Development Program and Burma Socialism.

As it is the historic in nature, the sources will be the works on that period. The main references will be the works on the Development Program and the economics of Burma that era. It will be supplemented with the works by scholars studying on the Burma's political ideologies, socialist practices, and Burmese politics. Most of these works were done by the foreigners so to weigh in the balance, Burmese studies will be included to compare the different aspects. It has been acknowledged Burma inherited not only the administrative system from British but the colonial legacies of politics, economics and social impacts, tracing back to the colonial period will give a sight of the background scene when the Planning was started therefore some of the studies on the



colonial period and its consequences to the independent Burma will be reviewed. Recent works by the present-time researchers gave a different perspective on the theme so some of the latest findings will also include in the research.

For the Primary sources I will be using the works by the people who were directly involved in the drafting and implementation of the Program. Based on their role and involvement, these works will be used accordingly. At the top of the list is the official document<sup>2</sup> prepared by the KTA advisors to present the detailed Program to the Government of Burma. Similarly, important but not the official documents are the book written by Walinsky<sup>3</sup> who was in-charge of economic affairs of the Development Plan as well as the principle economic advisor to the Government, and the work of Frank Trager<sup>4</sup> who was part of the US government technical assistance team, and one of the persons in charge, writing about the building of a welfare state by Burma. Although not directly addressing the issues of either the US Plan or Burmese Socialism, Furnivall, regarded as the principle authority on the Colonial Burmese economy, his work about the political economy of Burma<sup>5</sup> helped explained some of the mystery

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<sup>2</sup> Knappen Tippetts Abbett Engineering Co. "*Comprehensive Report, Economic and Engineering Development of Burma. Prepared for the Government of the Union of Burma*" by Knappen Tippetts Abbett McCarthy, Engineers, in Association with Pierce Management, Inc., and Robert R. Nathan Associates, Inc., 2 Vols., August 1953.

<sup>3</sup> Walinsky, Louis Joseph. "*Economic development in Burma, 1951-1960.*", Twentieth Century Fund, New York, 1962

<sup>4</sup> Trager, Frank N. *Building a welfare state in Burma, 1948-1956.* Institute of Pacific Relations, 1958.

<sup>5</sup> Furnivall, John Syndham. *An Introduction to The Political Economy of Burma.* Peoples' Literature Committee & House, 1957.

of the Socialism becoming the state doctrine, despise of Capitalism and the inability to separate the Capital and Capitalism, exhibited the insight of Burmese perceptions.

Some of the secondary sources which addressed the circumstances of the period will be used to describe politics, economic and social affairs of Burma. Regarding the Burmese Socialism and her Socialist economy, there were no Primary source as official or principle works, therefore some of the secondary sources will be referenced to illustrate the Burmese Socialism to bring up the clashes between the US Capitalism-based Development Program and Burmese Socialist economy. Among them Hugh Tinker's book<sup>6</sup> about in the early period of Burma's independence was one of the strong historical work in addressing the issues and affairs of the first years of free Burma. Other secondary sources - Myat Thein, a Burmese economist who once served as the rector of Institute of Economics, on the economic development of Burma<sup>7</sup>; David I Steinberg on the progress of Socialism in Burma<sup>8</sup>; one of the authoritative Burmese scholars on the political economy of Burma, Tin Maung Maung Than's work on the role of State in Industrialization and its involvement in the operating and management of business affairs<sup>9</sup>; and some of the works

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<sup>6</sup> Tinker, H. *The Union of Burma: A Study of The First Years of Independence*. London; New York, 1959.

<sup>7</sup> Myat Thein. *Economic Development of Myanmar*. Singapore: Institute of Southeast Asian Studies, 2004.

<sup>8</sup> Steinberg, David I. *Burma, A Socialist Nation of Southeast Asia*. Westview Pr, 1982.

<sup>9</sup> Tin Maung Maung Than. *State dominance in Myanmar: The Political economy of Industrialization*. Institute of Southeast Asian Studies, 2007.

on foreign and internal affairs of Burma by the contemporary scholars and modern scholars are also used. Some other sources on the Colonial economy, the role of Chettiars, the role of PM U Nu, and the critics on Burmese socialism by Burmese scholars were also used in illustrating the causal relations between the independent and dependent variables – the clash between the Program and Burmese Socialism and the failure of development of the economy.

Most of the materials were found in the University Library or through its network. In some academic papers and articles, they are available in the databases connected with the school. I was given the opportunity to access some of the copy of the books and articles published in Burma from the Yangon University's Library. Some other materials were available online and were able to access to the Public which I utilized in the Thesis.

### **1.5 Major Arguments & Hypotheses**

Since the introduction of the plan, there were a lot of critics and even more after its failure. However, the purpose of the study is not to compare these two events but to bring in those arguments and find out an alternative explanation of the event. Of which the strongest blame it got was the defect of the plan. Not able to consider the ever-changing nature of the world and the lack of incorporating the government economic policy were the main weaknesses. On the other hand, it was argued the plan's shortcoming were not significant

but the failure of the country and its government to meet the pre-requirements and the internal instability were the main causes.

Considering these arguments, this paper will approach from the different paradigm. Instead of looking the plan alone it will try to broaden the scope and extend into the British colonial period especially from 1900 until the WWII. It will try to explain the legacy left by British due to the colonial mechanism affects Burma later development process. The economics of this period will be at its core, but the historical background of politics and social perspective will be considered in approaching the subject. Meanwhile, it will also address some of the lateral issues emerging around this matter such as the rise of communism and the view of capitalism as the product of colonial imperialism.

The fundamental hypothesis here is “Economic failure of Burmese Government 1948-1958 was the result of unsuitable economic plan proposed or laid down by the U.S technicians which focus on colonial capitalist economy. Whereas the objective of U Nu, the then PM, and AFPFL Government was to apply socialist economy for the country. Thus, the clash of the Capitalist-based economic plan and Socialist ideology implementation resulted the failure of economic development.”

## **1.6 Theoretical Framework**

This paper is trying to examine the development of Burma in that period from political economic point of view. To do so, I will take five theories to justify.

One of the issues I took into consideration was the different political philosophies with the plan and the government. Although there were several reasons which will be discussed widely in the following chapters and in the main thesis, the choice of U.S consultant firms to be the authors of the national plan was not understandable giving the fact the government openly chose before and after the independence that the socialism will be the principle doctrine of the country. Therefore, it could have been expected since the beginning any attempt out of this will not be successful.

Another with the same weight is the perception of capitalism and free-market economy concept. The poverty suffered under the British was interpreted as the result of extreme capitalism and the freedom of private enterprises. This was the reason why socialism became so popular and chosen as the doctrine in the successive government. It is therefore important to study how the Burmese view the capitalism and to what extent they could accept because later in this period, after several years of unsuccessful attempts the government started changing its economic policy.

The government strategies of Nationalization, Burmanization and Industrialization will also be discussed. The first two was arisen from the early period of independent struggle so in the eyes of the Burmese the hatred and distrust of foreigners and their concepts built since the time of British era cannot

be acceptable in the modern Burma. The third however was the interesting part. Lacking the infrastructure and skills, this process was implemented and ended disastrously. Hence the government approaches will be within the framework.

In addition, the bureaucracy, the public and private enterprises, and the political situation will be another concept to evaluate the process. The whole administration was inherited from the British including the legal system so how the sovereign state could operate using the practices of their colonialist. Meanwhile, the role of private and public organizations are important because prior to this the economy was run almost entirely by the private sectors but the Burmese established state-run enterprises immediately after British had left so by studying this transition it can offer some insights of the economic activities. Even at the end of this period the insurgency was not solved so it had a major impact on the country's economy. To worsen up, the split of AFPFL into two, the role of opposition parties and the communism did have a great affect.

Lastly, the interpretation of foreign aid and technical assistance for the development process will be appraised. This draft of the plan was partly funded by the US government assistance to Burma and the plan itself contained funding from the external to meet its requirement. Yet the xenophobia of the West, and the US as the ally of their former colonial master, the British, made the aid not so attractive. Consequently, there can be some enlightenment of how these supports were assumed and utilized and any influence on the course of development.

## 1.7 LITERATURE REVIEW

Although it was a very heated issue in modern Burma history, the studies were limited. Materials for this subject is rare and only appeared as a period of Burma history. As the plan was only a part of the government attempt to achieve their imagined welfare state, yet within their own capacity there were certain actions taken along the same time.

Some of the directly related and addressing the issues of the Development Program were already produced and some of these famous works include –Walinsky (1962), Trager (1956) etc which will be in the following as part of the Literature Review. Most of these works if they are done by Westerners or foreigners, likely to put the blame on the weaknesses of Burmese government and her pursue of unrealistic industrialization based on socialist economy. In lighter views, the ambitious scale of the planning and the failure to recognize the actual situation of Burma by the planners were the scapegoat, which had been one of the strong counter arguments of Burmese scholars. This study would like to explore the failure from the perspective of the conflict arose out of the mismatching between the Plan and the Socialism of Burma. The popular notion of development in the early period was industrialization resulting from the colonial experience and heavy reliance of importing goods and services from industrialized nations. Meanwhile the most important objectives of the Program were to put the economy back into the pre-war level which was mainly based on the production of selected primary goods

to support the Empire. Therefore, it is believed that the two significant differences since the beginning had destined to lead the attempt to its collapse of the development. In addition to that, this Thesis would like to understand more about Burmese Socialism from its historical background and why it was so deeply rooted (or in some cases not completely transformed into a socialist as seen in the Eastern Blocs).

There must be a particular note on the setting of the period. The previous works of those scholars put the time from the start of the plan, 1951 to the actual ending of the plan, 1960 (although it is doubtful by 1958, Ne Win regime postponed the service of American consultants) or set the period of 1948-1956 where the democratic government was conducting such development projects. The main reason is as explained in the previous sections as well as in this one, I want to stretch the subject not only on the period it was implemented but to the point when the modern Burma was established and started the path to Socialism. Because to understand the background is critical in studying the development since this US Program was not stood out alone but produced from the successive Burmese effort to reconstruct the economy. As to why the period was ended in 1958 was until the military coup of 1958, the process of the plan was still in action, even though the scale and the objectives were changed over the period, the clashes existed up to that point.

### **1.7.1 US support Economic Plan**



The detailed plan was not widely mentioned, and any source mentioned on this topic is strictly within their scope of study and not the whole plan. So far there are only two books exclusively written on this plan, one was published by the Union of Burma government when it was finalised and submitted by the planners. It is called “Comprehensive Report: Economic and Engineering Development of Burma”<sup>1</sup> written jointly by Knappen, Tippetts and Abbett McCarthy Engineers in association with Pierce Management, Inc. and Robert R. Nathan Associates, Inc. As it is the detailed explanation of the whole plan from its beginning and every sector it consists of, this became the principle source in exploring the program.

Another one which was written extensively and very detailed was by Louis J Walinsky's book titled “Economic Development in Burma 1951-1960”<sup>2</sup> is by far the most comprehensive study done on this topic not only covering the plan but the entire period of Burma development progress. He laid out from the implementation of the plan and the challenges it was met in the process and the difficulties and future perspective. One of the significant of the book was it outlined twelve major problems in executing the development program covering from the plan itself to the weakness of the government and the lack of basic

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<sup>1</sup> Knappen Tippetts Abbett Engineering Co. “*Comprehensive Report, Economic and Engineering Development of Burma. Prepared for the Government of the Union of Burma*” by Knappen Tippetts Abbett McCarthy, Engineers, in Association with Pierce Management, Inc., and Robert R. Nathan Associates, Inc., 2 Vols., August 1953.

<sup>2</sup> Walinsky, Louis Joseph. “Economic development in Burma, 1951-1960.”, Twentieth Century Fund, New York, 1962.

requirements in the country. Using his experience as the General Manager and Chief Economist of the economic consultant, he argued that the impractical ambition of government in socialization and Burmanization policies were the most difficult and problematic in execution of the program.

There are other sources written on the areas ranging from the colonial period of Burma, its inter-war circumstances, the independence era and until its demise, which this paper will also utilize and argue upon. One of the most important opposing of Mr Walinsky was the paper written by a Burmese economist, named Thet Tun, who served as the Director of Central Statistics and Economic department. He wrote a famous paper<sup>3</sup> in defending the shortcomings of Burma and its government blamed by the Walinsky book. He criticized the inability of the consultants to draft the plan based on the government's policies of Nationalization, Burmanization and Industrialization and the failure of the prediction of the price of rice which later fell sharply and became the main reason of failure of the plan.

### **1.7.2 Burma's economic conditions and policies**

Prof Hla Myint work on the development countries' economy gave us an insight into what really went wrong in Burma. His renowned paper on "inward

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<sup>3</sup> Thet Tun. "A critique of Louis J. Walinsky's "Economic Development in Burma 1951-1960"." *Journal of the Burma Research Society* 47, no. 1 (1964): 173-81.

and outward looking economies<sup>4</sup> argued that for a country to develop, it must look outwards or in his term “export-oriented” instead of import substitution. He urged the national hostility should be resisted to pave way for the export expansion which gained momentum during the colonial period by selling the raw materials to the rest of the empire and from this income to fund for the development. He compared the Southeast Asian nations of Malaysia, Thailand, and Philippines in one hand which pursued outward-looking strategy with Indonesia and Burma who were afraid of foreign investment to prevent from recolonized thus followed the “inward-looking” approach.

Some of the contemporary authors from that period wrote quite extensively on Burma's political economy. Prof. Mya Maung book<sup>5</sup> also enlightened some of the different views on Burma circumstances before and after that period. The book covers the period from the independence Burma up to the time it was published in how the country fell into poverty from one of the most prosper nations in Southeast Asia. For the period before the military coup, he claimed that the poverty Burma face later were since rooted in the early days of the independence. He pointed out the government pursue of socialist-style economy along with the looking back of the glorious day of ancient Burmese kingdom made the country into chaos and became the poorest in the region.

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<sup>4</sup> Hla Myint. "The inward and outward looking countries of Southeast Asia." *Malayan Economic Review* 12, no. 1 (1967): 1-13.

<sup>5</sup> Maung, Mya. *The Burma road to poverty*. Praeger Publishers, 1991.

Some other books also gave us the insight of that period situation and brought some of the different opinions. Hugh Tinker wrote on the Burma's situation in the First Years of Independence<sup>6</sup> and he commented the big ambition of the government without realizing its own situation brought the failure of the plan and the planners became the scapegoats as the result. He suggested it may have created more solid results to appeal should the country be more practical and had less ambition perhaps one step at a time.

Burma claimed to be a socialist state with the democratic principle yet inviting the Americans to make the development plan is somewhat contradicting. The work of Foley<sup>7</sup> on the Burmese foreign relationship with Britain and U.S also gave us a glimpse of the country's external association and how the plan was ended up. These underlying causes could explain some of the mysteries of why the US was chosen as the national planner.

### 1.7.3 British colonial period

To understand the Burma of that time, it is also necessary to look back the colonial period under the British. Though economically prosper nationwide, this newly created wealth was not reached to the bottom of the public but to the handful of the foreigners and colonists. These circumstances were illustrated in

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<sup>6</sup>Tinker, H. *The Union of Burma: A Study of The First Years of Independence*. London; New York, 1959.

<sup>7</sup>Foley, M. *The Cold War and National Assertion in Southeast Asia: Britain, the United States and Burma, 1948-1962*. Routledge, 2009.

the J S Furnivall famous works of “Colonial Policy and Practice (2014)”<sup>8</sup> and “An introduction to the political economy of Burma (1957)”. His famous statement from “Colonial Policy and Practices” of plural society where the different races trading and working side by side in the marketplace, yet each race was living on their isolated community. His 1957 book on Burmese political economy explained why the problems Burma faced during the development era, which was the result of British ignorant on training indigenous Burmese in the administration and prepared for the self-autonomy.

#### 1.7.4 Some other sources

There are of course some of the significant books explaining part of the whole scope such as Prof. Ian Brown book titled “Burma’s Economy in the Twentieth Century”<sup>9</sup>, which thoroughly studied the modern economy of Burma under the British rule to the current time. The 1948-1958 period in the book was just a small part of a chapter but gave sufficient information from many sources and the significance of this book is it was able to bring the arguments from different angles even including the modern critics.

Prof. Sean Turnell’s book on microfinance<sup>10</sup> is also a good approach of the financial institution developed in Burma particularly in the microfinance

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<sup>8</sup> Furnivall, John Sydenham. *Colonial policy and practice*. Cambridge University Press, 2014.

<sup>9</sup> Brown, Ian (2013) Brown, I. *Burma's Economy in the Twentieth Century*. Cambridge University Press, 2013.

<sup>10</sup> Turnell, Sean. *Fiery Dragons: Banks, Moneylenders and Microfinance in Burma*. Copenhagen: NIAS Press, 2009.

which was one of the principle reasons of Burma's agricultural development in the early 20<sup>th</sup> century. It vividly described how the banking sector was developed along with the role of microfinance in Burma and how it helped to establish the agricultural sector from the feudalist state to the rice-bowl of the British Empire.

### **1.8 Chapter Outline**

The thesis will be developed into the following chapters starting from the British colonial period, followed by the independence and the entrance of US relations leading to the introduction of the development plan, along with various events during the period and ending with its failure and ended with the conclusion and discussion.

#### **Chapter One :Introduction**

This chapter introduces the topic of the research and provides an outline for the organization of the thesis including: Rationale, Research Methods, Hypotheses and Theoretical Framework. The Literature Review is spread on four different categories and the layout of the following chapters.

#### **Chapter Two: Burma Prior to the Development**

The beginning of modern Burma is said to be started after the colonization of British. Even after the independence, its legacy was still highly

influenced in the new nation and had enormous effects on the period of this study. It is therefore necessary to look back at the period to get the background information of Colonial Burma and the early days of independence prior to the implementation of the Development Plan. This chapter will consist of two parts – first, will give some background information of Burma's political economy under the British explaining the work of the economic system based on imperialist capitalism commercializing the self-sufficient economy to export-led system, the main actors, and the status of indigenous, the development of delta area and migration of foreign labours and moneylenders. The exposure to the international market resulted in the consequence of the Great Depression causing the land loss leading the peasant uprising, “Saya San Rebellion”, and the rise of socialism as an alternative to counter to the imperialism will be addressed. The second part will discuss the circumstances right after the independence. The dispute within the AFPFL followed by the various armed rebellions, ethnic disunity and the socialism became the nation's political and economic doctrine will be briefly examined.

### **Chapter Three: United States and Burma Relations after the Independence**

This part will talk about the Burmese economy and bureaucracy after the independence. It will also contain the relationship between Burma and the

U.S prior to the drafting of the plan .It will clarify some of the mystery why US was chosen as the planners and the reasons both politics and economic behind the scenes.

#### **Chapter Four: US Economic Development Program**

The main theme of this study is to understand about the economic development plan of Burma made by the American firms therefore it is necessary to give a brief information about this plan .This section will provide some important facts about the plans as well as the background view.

#### **Chapter Five: US Development Plan and its failure**

It is noticed while Burma was implementing a welfare program based on the US assisted planning, it also had own socialist policies way before the self-governance .This later led to the conflict with the capitalist-based plan where it supported the private ownership and free market economy .This chapter will compare how the disagreement between the two and how it ended up .This chapter will illustrate the shortcoming of the development plan, and mainly about how the plan had failed to deliver its goals .This part will not talk about the external factors because in the following chapter it will point out other reasons of the economy .The role of this chapter is to provide more information adding toward the previous chapter to show the complete picture of how the whole economy was failed .Here it will describe the rest of the



reasons which was not covered above such as the government and bureaucratic weaknesses, the country's lack of infrastructure in various ways, as well as the government's three principle policies of Nationalization, Burmanization and Industrialization .

### **Chapter Six: Conclusion**

The conclusion will summarize all the above discussed contents and arguments and remarks on each part. The discussion part will comprise with some of the author's own opinions and further discussions as well as the thesis usefulness in the future research.

## CHAPTER II

### Burma Prior to the Development

#### 2.1 The Colonial Legacy

Burma was colonized by the British through three Anglo-Burmese wars occurred in 1824-26, 1852, and 1885. With the fall of Mandalay, the capital seat of the Burmese monarchy, in 1886, the British completely annexed Burma and submitted into the Indian continent becoming a province of the British Raj. Since then, the British established the new administrative system based on what they instituted in the British Raj. Burma lacked the required personnel since the monarchical system was constructed on the traditional Buddhism and the education was mainly the monastery training. The British had to import Indian personnel to work in the low and mid-level bureaucracy except in some administrative posts where local people were used. Most of the careers were flooded with European and Indian. Compared with the self-sufficient economy under the monarchical system the economy which produced just enough to meet the basic needs, the British commercialized the industries especially in the agricultural sector for their export-oriented capitalism to support their Empire. Utilizing the unexplored Delta area of lower Irrawaddy river, they created one of the biggest rice-producing areas in the world and promoted

Burma to be the rice bowl of Asia. Although the Lower Burma region was annexed since the 1852 but the British were occupied with the military and administrative affairs than to promote the economic growth, until in the 1860s the Delta region became economically important (Adas 1974, 30). The strong demand from the European market and the events in the Western world created the expansion and commercializing of the Delta's rice production which led to the financing of public works to boost the growing export and to support the cultivators for empty lands (ibid., 30). With the expansion, the shortage of labours was solved by importing the labours from India (ibid., Ch 4) as well as the necessary financing by the moneylenders of Southern Indian, Chettiars. These migrations were not only to fulfil the shortage of manpower in the rice plantation but in the other areas such as governmental positions, banking and trade, police and military, professions ranging from doctors, engineers to lawyers and educators, and last but not least for the financing required by the cultivators. Therefore, by the early 1900, most of the economy was controlled by the Indian and Chinese who came in to take the role of retailers and traders. The native people were at the lowest level both in the administration and the society. The Indians and mainly the moneylender Chettiars were not initially targeted to control the agricultural land but to provide the necessary financing however the defaults and the economic crisis of 1930s which led to the total collapse of paddy prices pictured them as the aliens possessing the agricultural land (Turnell 2009, 35-39). Though unsatisfactory feeling was brewing for decades, it

was in the 1930s when the Great Depression hit hard in Burmese economy and created the momentum for Burmese Nationalist Movement which became the independent struggle. Based on the above situations, it was interpreted the “laissez -faire” capitalism as the system used by the British to suppress the people and allow the foreigners taking control of the economy. This concept was embedded in the political ideologies of Burma and was used as a tool to promote their policies in the independent Burmese Government and its successors.

Meanwhile, Socialism was introduced into Burma in the early 1930s by some of the students studied abroad (Steinberg 1982, 41). Its appearance in Burma was later relative to other Asian countries but it took different forms than typical social thoughts. The revival of nationalist movement during the 1930s, the result of Saya San rebellion, fuelled the students and political activists to find an alternative to fight against the colonial imperialist. Before then, nationalism was taken as a form of revitalizing the traditional Buddhism which was suppressed by the British. Thus, fusing socialism into nationalism with Buddhism as its centre, the spread of socialism reached out to the root of the society. It was made possible by a book club “Nagani” which interpreted some of the important writings of Marxists and Socialism. Founded by a university student leader named U Nu, who became the first Prime Minister of independent Burma, his co-founder was none other than the Secretary General of Communist Party of Burma (Butwell 1969, 30-31). As the result, Socialism

became the state doctrine after the War, and it was chosen as the path to rebuild the nation liberated from the British.

Consequently, at the preparation of the independence, the founding fathers<sup>1</sup>, while serving in the Governor Executive Council for British Burma after the WWII, they established the economic doctrine which was born out of the political ones originated since the National movement. Socialism was chosen as the state ideology and written in the Constitution of 1947<sup>2</sup>. Though Aung San and most of his cabinet members were assassinated in 1947, the momentum of leftist idea kept on going. In fact, it was his successor PM U Nu who stated clearer the definition of Socialism and why Burma became Leftist (Tinker 1967, 29). It was during the time of preparation for independence, the socialist-style planning economy shall be adopted to bring the colonial economy to an end and to create a Socialist system centred on nationalization and industrialization (ibid., 93).



## 2.2 Burma After Independence

Burma gained independence in 1948 after more than two years of endeavour by the AFPFL government led by General Aung San. After the World

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<sup>1</sup> Led by General Aung San, his colleagues mostly the members of AFPFL joined the Governor Executive Council established after WWII at the reinstatement of British rule.

<sup>2</sup> It was drafted by Burmese lawyers and technocrats for the independent Burma and it was enacted and voted in British Parliament which paved the way for the self-determination in 1948.

War II, the British came back reinstalling their pre-war government but the influence of AFPFL was getting stronger, the Governor had to invite Aung San and his top members to form the cabinet. The AFPFL commenced the negotiation with the British government in London for the independence of Burma. The agreement was reached to give the independence within one year. Unfortunately, Aung San and his top cabinet members were assassinated by his opposition collaborating with some British sympathizer before the actual independence was gained. U Nu, being the President of AFPFL was invited to lead the government and became the first PM after the independence. Since the inauguration, Burma faced with various uprising and rebellions, caused by the internal conflicts with the AFPFL, minority ethnics and some political ideological different groups as Communist Party of Burma (Tinker 1967, Ch 2).

During the negotiation with the British to hand over the independence, Burma decided to follow the Westminster system of United Kingdom, democratic principles were accepted as the country's political codes. Burma inherited every aspect of British legacy from the administration, legal framework, political ideologies to economic architecture, social system, ethnic divisions compared with former European colonies of other Southeast Asian states. Meanwhile it was decided the independent state would adopt the democratic system based on the British parliamentary politics. Therefore, the whole bureaucratic system along with the employees were transferred to the

new government. On the surface it was an easy task since it was simply succeeding the colonial rules by the indigenous leaders. However, except the top posts nearly most of the high-level bureaucratic staffs were occupied by the British, Indians, and ethnic minorities<sup>3</sup>. Unlike India, Burma was never prepared to gain independence. The British never planned for complete governance as the Burmese were not ready to self-governed in their eyes. Especially to the Burman they were not trained or experienced in the affairs of running the government and it was mostly done by Indians and some minorities. Meanwhile to prevent any resistance and to contain the majority Burman who were the centre of the rebellion, the policy of “Divide and Rule” was applied and Burman were suppressed while other minorities were treated better. At the same time, to stabilize the mountainous regions, some areas where majority were minority ethnics, they were granted autonomous status, which caused a big trouble when dealing with independence. Soon the government started removing the non-indigenous staffs replacing mainly with Burman who were not well-experienced and not qualified. The dissatisfaction within the bureaucracy was rising with Burman dominating everywhere and the minority being suppressed. As the whole administration was in chaos, under-staffed, incompetent and could not run the administration properly, it took the government several years to get

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<sup>3</sup> Ethnic minorities under the British rule were treated better and had access to higher education thus most of them occupied the mid and low-level administration.

settled.

The impact of WWII on the economy of Burma was quite substantial. The most obvious was the physical destruction. During the British evacuation of Rangoon in early March 1942, to prevent any advantage for Japanese troops, they shut down the electricity generation station, ruined the city's ports and warehouses as well as the dockyards and blew up the strategically and economically important Oil refineries located across the river at Syriam. More so as they retreated to the upper Burma, demolished the Burmah Oil production at the famous Burma's oil production area of Yenangyaung and Chauk by the order of the British military. The more devastating was in the withdrawal of Japanese not only in their own scorched earth operations but also the extensive bombing of Allied forces especially in the transportation structures. Lesser damage to the economy but more prolonged affect the sudden disappearance of the Indian. As soon as the war broke out, Indian fled to India whose pre-war occupation extended from the labourers, traders to the skilful technicians, doctors, investors, financiers as well as the administrators, clerks, and officials. To put it simply the whole group of people essential in running the colonial Burma's economy and administration was almost absent. This consequence became one of the critical factors in rebuilding the economy as Burma could never meet the required personnel, capital or skill within the short time and it could probably say this has an everlasting influence in Burma remaining years under the



civilian government.

From the first few weeks of the new republic, it was challenged with various rebellions developed into a civil war (Tinker 1967, 34). The defence of the Union had to be prioritized thus all the economic and social development were postponed. Until 1950 most of the areas were under one of those insurgent groups. By the early 1950s the government was able to take back majority of the land and could divert the attention to development.

The practice of planning was not new to Burma. Aung San during the interim government, convened a meeting at the Sorrento Villa in 1947 which planned to develop a Two-Year Economic Development Plan (Walinsky 1962, 64). With the aim of rehabilitating the economy to put her status back to the pre-war level, it was the first attempt on economic planning without any foreign assistance and first of its kind. In many ways it paved the way for the similar programs of development in the coming years most notably the Comprehensive Report developed in the early 1950s with the help of American aids. One of its significance was the emphasise on industrialization, it laid out a list of production industry to be established with several plants to investigate for further establishment (ibid., 65). It was never fully implemented due to Aung San's assassination and the civil war. Nevertheless, it was the earliest effort of the Burmese to industrialize the economy and it helped lay foundation for the future progress of industrialization.



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## CHAPTER III

### United States and Burma Relations After the Independence

The Foreign Policy of Burma was not always consistent and complex depending on the challenges facing in that specific moment. It was more evident in the relation with US, it was never steady and ever-changing on both sides. As the relation with the US was necessary to understand the economic and technical assistance, a quick introduction of Burmese Foreign Policy will fill in the gap of how Burma formulated her external affairs<sup>1</sup>.

Bordering with some of the major powers like China and India, Burma is in a unique position to be practical of foreign policy. Meanwhile some of her frontier areas such as in the North and Northeast region, having separate armed groups by minorities meant any miscalculation will give Burma a direct repercussion of the affairs of the state. This pre-setting of Burma was been true since the ancient time and several times it was tested her authority on these areas. There was no significant development in external affairs of Burma until the independence. Under the monarchy, except in few encounters with merchant ships and missionaries, her contact with the outside world was largely

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<sup>1</sup> The following section on Burma Foreign Policy during the early independent years were drawn from Hugh Tinker, *The Union of Burma: A Study of The First Years of Independence*, 1959, Ch 12, and Robert Taylor, *The State in Burma*, 1987, Ch 4, External Relations.

with the neighbouring - Siam, China, India (largely the Assam and today Eastern India) and Bengal (Bangladesh). Under the British there was no separate foreign policy but acted as part of British India Empire. Contacts with London was through the office in Calcutta in India as Burma was regarded as part of British Indian Empire. Japanese occupation was first encountered outside of British sphere, yet it was acted as a part of larger Japanese Empire (Taylor 1987, 260-61).

The formal and independent foreign policy was developed only after the independence but being occupied with the civil war and reconstructing the state, the strong and concrete foreign policy was absence and was in the early stage of formulating more profound policy. Tinker pointed out a two-aspect foreign policy was brewing in Burma at that period (Tinker 1959, 337). During the first two years, her ties with Britain and India was said to be closer with any other as their shared background under the same Empire. At the height of civil war, military and economic assistances were provided by her two close allies. With the other countries, there were some contacts with US, Japan and with some Asian neighbours such as Thailand. At the winning of Chinese Communist against KMT in 1949, Burma became more aware of her threat in the North and thus started formulating her own independent foreign. As PM U Nu declared Burma should be friendly with all foreign nations, the circumstances demand to follow an independent course and not ally with any of the bloc. It was clearly a sign how Burma felt the threat of Communism which would have the effect on

her ongoing civil war. To establish friendly relations with China, Burma became the first country outside of Communist bloc to recognize the new state although the domestic Communist forces were engaged in all-out war against the Government. Another incident of the independent course was with Indonesia supporting the Republic of Indonesia against the Dutch.

However, the change of more concrete foreign policy was in 1950. During the Korean War, Burma voted in favour of South Korea on the matter of the aggression of the North. The leaders were also attracted with UN initial response involving in the War but later realized this was clouded with US Cold War policy to enhance their fight against Soviet Union and China. More so in the subsequent development with KMT crisis which will be explained in the later part. The support and recognition of KMT forces in northern Burma by US and the prospect of Communist China invasion in the name of pursuing the rebel KMT created Burma to have more strong and independent foreign policy to avoid any entanglement in the Asian part of cold War.

These resulted in the closer ties with the countries who were not involved in either bloc. India became a close ally while Indonesia a new friend. The conference in Bandung marked a new phase in Burma's foreign policy – the active and non-alignment to establish itself an independent voice in the international affairs. However, it was doubtful that in practice, Burma's economic requirement and military assistances meant the foreign relations will more likely be dictated by the situation of domestic affairs which is why assistance and aids

from the West especially from the US was still largely taken place although US support of KMT and the non-align stand was active.

The relationship between Burma and the United States is an unusual one which did not start commonly as between the sovereign states. Prior to the independence, US assumed Burma as part of the British India and never considered it to be a separate state. And when it gained the freedom, except the official relation, the whole area of Southeast Asia including Burma was assumed as the responsibility of Europeans as most of them were their former colonies and they have better understandings and policies to deal with. However, the spread of Communism and the victory of Communist China in the Chinese Civil War during 1949 added with the weakened European states by the WWII created an opening for US to take more responsible role in Asia and to the lesser extent Southeast Asia. It was also supported by the country's deteriorating situation of Civil War with the Burmese Communist forces winning, US accessed the government will not survive thus considered to directly supporting Burma. Therefore, it would give a clearer picture to understand how US came in for the assistance of the development of country, by reviewing the relationship between US and Burma for the setting of the economic assistance. There is one limitation of this chapter that it will not cover the relationship throughout the period but for the purpose of explaining how the US foreign policy was developed to the point of providing technical and economic

assistance which became the basic of Development program we will further examine in the next chapter.

The first encounter between two nations existed over a century ago when the American ship appeared at the port of Pegu in 1789 (Trager 1966, 275-77). But the actual presence of American in Burma was caused by the arrival of the American Baptist Missionary led by Reverend Judson who later served in the Court of Ava. The diplomatic relation with the US however developed during the King Mindon reign in search of allies to counter the British advancement into the Upper Burma after the defeat of second Anglo-Burmese war in 1852. Except the exchange of messages between the governments, no significant effort was made to deter the British annexation. By the 20<sup>th</sup> century, some American business activities existed in Burma such as the supply of steel for the famous Gokteik viaduct, Herbert Hoover involvement with the Bawdwin Min, and American oil drillers for Burmah Oil, but other official interactions were absent compared with other Asian countries such as China, Japan, or Philippines. Only in the World War II, the importance of Burma for the Allies and the US was significant, but it was more on the northern Burma which connects the land route to China from India to supply the Chinese National Army fighting against Fascist Japanese and did not really concern with the liberation of Rangoon from Japanese. For the American, Burma was part of British Empire and fell under the responsibility of British and the incompetence of British led the country into the Fascist (Foley 2009, 77).

The US foreign policy towards Asia changed dramatically after the bombing of Pearl Harbour and its entrance into Pacific theatre of the War. The adoption of Atlantic Charter signed by the Roosevelt-Churchill led to the expansion of US interest in Asia and beyond. Combined with traditional US anticolonialism and the idealism of war, US felt it is a great opportunity to make fresh beginnings and eliminate some of the evils of the past. It strongly promoted the democracy, individual rights, and above all sovereignty of the individual states which are the fundamentals of the US which made it hard for the Europeans to cope with since their view was to take back their former colonies once the war is over. Yet US assistance was essential for their post-war reconstruction therefore there were conflicts with regards to the matter of the former colonies.

For Burma, after the War, the US interest did not increase considerably but it did put pressure London to push forward with the independence in fear of the UK stubbornness would give communist a chance to gain the control. As soon as the independence was negotiated, US prepared for the establishment of official diplomatic relations with the appointment of an Ambassador (Clymer 2016, 30-32). But the attention towards Burma came much later since it was preoccupied with their greater Asia policy of Communist challenge in China, the reconstruction in Japan and the Dutch and French colonies in Indonesia and Indochina. It was, as Foley claimed, a part of the lack of American foreign policy establishment in the wider Southeast Asian region since their exposure to the



region was not long enough as those Europeans beyond the Philippines. This negligence was dramatically changed after the Communist victory in China during 1949, US redefined its policy on the neighbours of China under the threat of communist influence and the regions' importance on US plan on Japan reconstruction for the supply of raw materials and the market. To accommodate the changing nature, the Washington sent out several fact-finding missions to inspect for the survey of aids to the Southeast Asia and by the mid-1950s several economic and military aids were provided to Indonesia, Indochina and Thailand. Burma also received some of the assistances and advices in both commodities and politically since the US at the very least was free from colonial disgrace unlike the British.

At the dawn of the free Burma, it was hailed as the leftist nation with the leftist constitution and socialism as the state doctrine to create a welfare nation to share the prosperity among the people. As such, the contact with the Western world with the Capitalist ideology cannot be friendly as those socialist states hence the view of Capitalism as the product of imperialism was still very strong. Although there was no US aggression or colonial activities upon Burma, being the ally of the British and the Capitalist nation, to obtain assistance was rather inconvenience. However, soon after the independence, the civil war with the communist force and ethnic insurgencies firstly by the Karen and then followed by others, caused Burmese government to seek for the assistance and aid in term of defence. With the fall of the KMT in China the urgent need of military

aids became critical since the British alone could no longer supply sufficiently as they were also suffering from the havoc of war.

Regarding with the economic aids there were two possible sources to accommodate<sup>2</sup>: the first one is in the manner of technical assistance of some \$35 million to all “economically underdeveloped countries” which also included Southeast Asia, and another source was the unspent provision of China Aid Act, amounting to \$100 millions. There was another \$75 million for the military aid provided under the Mutual Defense Assistance Act of 1949. To measure how these funds will be allocated, US dispatched two diplomatic missions to Asia in the late 1949 and early 1950. The first mission known as Jessup mission, spent six weeks in the regions from Japan to Afghanistan visiting 14 countries and reported with a depressing picture. Its recommendation was to coordinate the Western effort to help Southeast Asia resist communist expansion that US can no longer avoid to be involved. The second mission dispatched at the end of Feb 1950 led by R Allen Griffin, a Republican who spent some time in China under the Economic Cooperation Administration. They spend around two weeks in each of the Southeast Asian countries and returned on 22 April. In comparison to the first mission, his report was provided more positive outlook. Griffin found the Asian to be hesitate toward the US aid as one hand appreciated with the granting of Philippines independence yet the suspicious of

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<sup>2</sup> This section is largely drawn from Foley (2009) Chapter 4 and Clymer (2016) Chapter 2.

American long-term intention of involvement in their sovereignty in accepting the assistances and advisors. Its recommendation provided a better picture of how the US should involve in the matter of assistance to help rehabilitate those states to challenge the spread of communist stating that –“a small group of good men and their expenditure of small amounts of money could accomplish wonders” (Foley 2009, 84). For Burma, the Griffin report urged the US to provide aids to Burma independent of the British and changed its foreign policy towards Burma no longer considering as British responsibility anymore. The report was coincidence with Burma actively looking for more assistance from US both military and economic. The military assistance as planned was not realized due to the Korean War outbreak and the attentions were diverted to elsewhere however the economic assistance was already on its way.

However, there were several suspicious from Burmese on the assistance from the United States. One of them was the issue with the US was its contact with the ethnic insurgency mainly with the Karen. The US connection with the minorities can be traced back during the War when they were trained under US covert operation of Office of Strategic Service (OSS)<sup>3</sup> fought along with the allied force liberating Burma from Japanese. In additions, the Karens were one of the earliest ethnics to convert to Christianity through American Baptist Mission hence Americans were naturally sympathetic toward the ethnic

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<sup>3</sup> The predecessor of the Central Intelligence Agency (CIA).

groups. Officially the US government stated the support would only be the democratically elected government since it was fighting against the Communist forces and only the stable and strong government will be able to expel any communist threat. When the civil war broke out, Burmese government claimed the Karen rebellion had certain support from the US though officially the Washington government denied any involvement. But later evidence proved there were certain support within the CIA covert operations with the intention of fostering local indigenous anti-communist groups to counter the Communists (Clymer 2016, 138-139). Later on, the support seemed to be weaker partly because the government was getting the upper hand but more importantly, the Karen collaboration with Burmese Communist Party in the northern Burma operations.

Another incident which caused the relations of the two countries one of its worst was during the KMT issue. Since the loss of China to the communist forces, the Nationalist Army of China, were on the verge of running and some of the forces near closer to the China-Burma border seek refuge in Burma as early as 1949 and entered its north and north-eastern region. This time it was an aggression of the foreign forces and taken control of several regions. Initially, US denied any involvement with the KMT troops though as similar case with the ethnic insurgent, US supported KMT existence to resist the pursuit of Chinese Communist forces. Burma took this issue seriously and the war broke out with the KMT. At first, Burmese government turned to US for diplomatic

solution by helping the remaining forces of KMT to bring them to Taiwan, where their government now resides. Although US did not acknowledge any support, the reports and findings later pointed otherwise. The result was the unilaterally severing an aid agreement with America by the Burmese government. The KMT forces eventually were removed from the Burma soil as late as 1953 and into 1954 but the issue costed US the good relations with Burma it built several years prior to the incident. Moreover, as one American official reported, the reputation of America in Southeast Asia had suffered a deplorable decline (Foley 2009, 117), and perhaps this was extended until the end of the Cold War. One of the immediate responses of Burma was terminating the technical assistance from US for the purpose of Development Program which we will be examining in the next few chapters.



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## CHAPTER IV

### US Economic Development Program

Throughout Burma's economic history, there were several development projects drafted and implemented since her independence. Among those projects, both short- and long-terms, the most important of all which shaped the following years even after its end is the Economic Development Program drafted by the US consulting firms with the assistance and support of the government of United States. Due to its scale and objectives as well as the participants both from foreign and domestics, its influence on Burma was unprecedented and still holds very influential position. The role of this chapter is to explain and explore the plan and its functions within the economy. It will start with the selecting the US consultant firms as the planners, its objectives and targets which were in accordance with the government goals, its initiation and implementations in-line with government's policies of building a social welfare states and the assistance from US for technical purposes. The non-economic factors relating to the project will be reviewed such as the Burmese politics in the period and the perception upon the program but the principle philosophy of the state – Socialism, will not be included in this chapter as it will be part of the next one.

There were two events during the whole planning period from 1953 to 1958 which coincided with the project and ultimately changed its nature. The original intention of the program was targeted to fulfil the objectives by the end of the decade, the year of 1959-1960, however some of the defects in the plan and some external factors caused the plan to change its direction and in the middle of projected time in the year 1955-1956, the Government with the assistance of the consultants changed into smaller scale with more practical manners which was more realistic with the situation of Burma. Another critical event which was affecting not only the plan, but the entire Burmese political scene was the intervention of military coup in 1958 named as Caretaker government<sup>1</sup>. During the 18-month in government, the regime cancelled the services of the consultants and stopped the US government aid for the development projects. This study has set the period prior to the Caretaker Government therefore in explaining the Economic Plan, this section will only include the original plan of 1953 and the amended one during the period.

The obtaining of American assistance both in militarily and non-militarily were discussed since the early days of the independence yet never produced any concrete outcome<sup>2</sup>. Yet with the threat of communism increasing and Burmese government needed arms to fight against communist insurgency, it

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<sup>1</sup> Officially, the army was handed the power by the PM according to the constitution, however, it was well-known in Burma as the first coup by the armed forces and paved the road for the longer period reign which came two years later.

<sup>2</sup> The US assistance of non-economic terms were briefly discussed in the Chapter 2, this part will only cover how the technical assistance was evolved into a National Economic Development Program.



was more than ever the government was seeking for the foreign military assistance first from the UK and then with the US. The issue of Burma was at its peak when the civil war with the communist group, ethnic group and moreover with the Chinese Communist Party took control of China and driven the KMT to Formosa. Though non-military assistance was considered yet the war right at the present time was far more severe bringing the country on the brink of destruction which at one point the capital Rangoon was surrounded by the insurgent groups. With some political issues lying behind such as US support of Karen National force and later the remaining KMT forces which later invaded into Burma's northern territory which raised the diplomatic tension between Burma and US, Burmese views of foreign aids was always been with doubts. Nonetheless, it was among those difficulties such technical assistance program created the economic development plan of Burma which the country was in dire of necessary.

Prior to the 1952 the whole administration was carried away with various insurgent groups challenging the disbanding of the Union thus all the focus and resources of the nation were put in the defence. However, by the year 1950 the tide of the civil war was favoured to the Union Government thus their attention was diverted to the nation-building. The PM was the principle driver behind this movement and asked to find suitable teams to draw the necessary planning. Their model was Iran. Burmese leaders found to enjoy some of the 1930s US economic policies of the New Deal thus looking for somewhat similar program

for Burma's development. Thus in 1951 Robert Nathan and associates was chosen as the economic advisor while the three American Engineering firms were hired as the principle authors for the plan.

#### **4.1 CHOSSING OF AMERICAN CONSULTANTS**

Burma was known for being the socialist country since her independence though on the surface it was said to be following the British Westminster democratic system. Although it is contradicting the choice of American consultants as the authors of such national development program with those apparent differences, the choice of Burmese government was one interesting story. Finding of consultant firms to draft the national development program was intimated by Iran attempt of similar plan. According to PM U Nu he was attracted by a piece of an article in a foreign newspaper describing of how Iran was trying to implement a development plan with the help of the foreign technical assistance (Tinker 1959, 98). U Hla Maung, Secretary of Ministry of National Planning, was tasked with finding suitable technicians. Amazed by how the US was advanced in its technological breakthrough and engineering achievement, he focused on finding such available firms in America and after reviewing several firms he chose the two engineering firms as the principle contractors for the program. But for the economic purposes, Robert Nathan associates was chosen and thus the famous KTA plan was formed with two engineering firms

and one economic consultant firms (Walinsky 1962, 84). Officially known as “Comprehensive Report, Economic and Engineering Development of Burma” which was prepared and presented to the Government of the Union of Burma by unusual combination of two engineering firms and one economic consultant firm were the result of the US government assistant to the Union Government through the Technical Cooperation Administration Program. Through the negotiation it reached the agreement after several attempts by Burma to request to use part of the grant aids funds for the comprehensive survey and program desired by the host country (ibid., pp. 83-87). The engineering firm, Knappen Tippetts Abbett Engineering Co., was the principle signatory to the contract with the Government of Burma while the one mining engineering firm, the Pierce Management, and Robert R. Nathan Associates, the economic consultants served as the Associated Companies and signed the contract with the Government, hence the name K.T.A. plan. The whole project was overseeing by the KTA personnel and was responsible for the general administration and liaison with the Government. The contract was signed in August 1951 between the parties involved requiring to present a preliminary survey of the national economy within twenty weeks (ibid.).

## 4.2 PRELIMINARY REPORT<sup>3</sup>

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<sup>3</sup> This entire section is referenced from THE KTA PRELIMINARY REPORT, Walinsky, *Economic Development in Burma*, pp. 87-95.

The official starting of the Project was in 1953, however, since the beginning of the consultation, the government asked the planned to prepare for an early report on how the program will be prepared and what initial groundworks must be done before implementation and to evaluate the feasibility with the government's economic policies. Within the twenty-weeks after the signing of the contract, a group of six consultants and fifteen field staffs of engineers and economists prepared a report which laid the foundation for the detailed works. Known as the Preliminary Report, it suggested and pointed out several of the key elements of the projects including their objectives and targeted goals which challenged the Government and the people of Burma to take on the bold and ambitious development program exploring the potential of the nation to achieve higher standard of living and welfare. It provides a glimpse of how the final work will be and recommended several important prerequisites to the government for early preparation. As this is a necessary part of the whole Economic Plan yet most of the items are overlapping with the complete project, only some important suggestions will be explored here. Although the structure of the Preliminary report was not similar to the Comprehensive Report, it did show the emphasize on the industrialization of the economy and focus on huge investment of infrastructure – transportation, communications and utilities.

Therefore, it is necessary to understand the initial objectives of the planners and how it was perceived by the Union Government. For the purpose of studying the Program, this section will summarize the report as part of the

development of the plan. This Preliminary Report was done in two parts as noted by Walinsky – (i) Findings of the existing economic conditions and (ii) the Recommendation to be taken immediate actions for the preparation of the actual program. The report examined the various sectors and categorized as the following chapters: “The People of Burma and Their Welfare”; “The Financial System”; “Agriculture”; “Forestry”; “Mineral Industry”; “Transportation (Ports And Waterways, Railways, Highways, Airways)”; “Communication”; “Water Resources”; “Power Development”; “Organization For Planning And Execution Of Economic Development”. It is also noticeable that the report made certain basic assumptions to fulfil the required condition for the objectives it set. The most prioritized of these assumptions was the requirement of the government to establish the civil order fully by the start of the year 1954. It is noticeable because this was never achieved even the actual plan was implemented and the necessary situation was attained only in the middle of the program period.<sup>4</sup> Another important assumption which carried similar weight would be the government would give reasonable prompt effect to the recommendation done by this report. Perhaps from the short period survey of Burma the consultant firms may have found the shortcoming within the government and the bureaucracy because this assumption later became one of the factors of failing the whole program in the later years.

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<sup>4</sup> The peace issue will come back in the later chapter and it has been one of the reasons why the Program was never fully implemented as initially forecasted.

Based on these assumptions the main essence of the program was the goal of increasing the total production of the economy. Here it will point out some of the important estimates illustrated by Walinsky which the economy could reach by the end of the 1950s (Walinsky 1962, 89). Of all these, the most attractive to Burma was the increase in national output be double by the year 1960. The estimated total production in 1952 was between 3,000 to 3,500 million kyats and targeted to achieve roughly K 7,000 million. Though it may sound ambitious yet comparing with the pre-war level of 1938 production, which was about K 5,500 million, it will be the increase of about 30%. As Walinsky pointed out, there will be three stages to achieve this goal. Assuming the insurrection will be under control by the end of 1954 and thus the first target of K 4,000. The second step of K 5,500 million by next two to three year with the end of the civil war and the final target of K 7,000 will be realized by the year 1960. This is important because the main assumption in this estimate was the end of civil war and restoration of civil order. To facilitate this doubling the economy, the investment of K 7,500 million would be required and will be obtained domestically and from abroad. Of the 7,500 million kyats, two-third will be finance internally of which it will be fulfilled by one-eighth of the total output meanwhile the rest, one-third will be achieved by foreign sources (Ibid., p 90).

The rest of the sectors were covered as according to the above order. In response to the population and labour, the report found the improvement in general health conditions will result in an increased rate of population growth

and thus the labour force. However, the latter was not efficiently utilized and mostly only had basic education and poor training or experience for required productivity. Recommendation for the development of human resources were called extensively ranging from the improvement of primary and secondary education, great emphasis on the technical and vocational training to produce skilled personnel for development program as well as training schools for teachers, more liberal provision on education and training budget to the comprehensive national healthcare program, a conceived housing program and the revision to increase the pay scale of civil services.

In the financial sector, the economy was leading into a deflationary effect and more aggressive and practical fiscal policies was in-need. It recognized the main revenue of the Government was the profit from the monopoly of the agricultural industry through SAMB<sup>5</sup> and insufficient monetary and banking system which was shorthanded to provide the necessary agricultural credit at reasonable rates. The last point for the finance was the lack of long-term financing institution and the need to improve short-term financing for trade and industrial financing. The consultants advised to adopt an expansionary fiscal policy and reforms of central banking and monetary policy. Moreover, it urged the government to allow more commercial banking, tax reform, as well as a

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<sup>5</sup> SAMB – State Agricultural Marketing Board, the Government monopoly for rice export, the statutory board established to replace foreign dominance in rice export, balance the domestic rice demand and to ensure the satisfactory income for government revenue.

thorough study on revenue structure and rice market, and to establish a state-controlled agricultural bank to satisfy the required agricultural credit.

The consultants' findings on the agriculture were one to be noticeable since it was not within their responsibilities for the survey. It stated the agricultural production could be double by major expansion and improvement which included exploring new farmlands, higher yield seeds and increasing fertilizer usage, and modernizing farming methods as well as acceptable credit terms. More details were however made on the mineral and industrial development hence the government goal of industrialization and its suggestion to emphasize more manufacturing industry to reduce the excessive dependency on export of rice and other raw materials.

Mineral industry was hit severely by the War and the rehabilitation was lack behind due to the civil war, so it found there were rooms to increase the production of its mineral resources. The report found Burma could achieve a major producer of antimony metal and could increase the coal for domestic use while lead and zine export could also be increased. The group recommended to establish a Mineral Development Cooperation and to explore a training program for personnel, and to focus on antimony metal production.

The industrial development was the one urgently needed to generate new employments for the growing labour force and as said above to reduce the reliance of single commodities for the major income. This could surge the foreign exchange reserve and create more value-added goods. It warned



against the idea of heavy investment and prioritized on this sector especially on heavy industries since it is a gradual process and Burma at the time was neither ready nor sufficient to facilitate. Consequently, it suggested to select a few industries which could be benefitted from her availability of raw material and internal market. Similar proposal as Mineral industries was made in manufacturing industry by establishing an Industrial Development Cooperation and to modernize the industries which were making profit and earning for foreign income. It provided a list of factories and plants to study or create based on the raw materials easily available in the market and to review government tax and trade policies to support industrial development.

Transportation, on the other hand, carried the heaviest focus of all compared with other sectors in the report and sub-categorized into four main mode of transportation namely – waterways, railways, highways, and airways and advised to set up a special commission to coordinate between these four modes. As the infrastructure were hit-hard by the War, the urgent need to rehabilitate these major transportation facilities such as main roads, ports, airports, bridges and railways and training programs for necessary personnel, restructuring the existing system for future development and expansion of new establishment such as wireless-telegraph and dial-telephone networks. Water resources was another topic to cover as the consultants believed it is necessary for higher standard of living as well as its importance in irrigation, hydroelectric power, flood control and for sanitation. It was noted the existing water

management was not efficient due to the lack of systematic collection of data and the plans for reservoirs and a coordination program was in-need.

Another sector which would play important role in development program was power supply and it was estimated the increase in demand by 10-20 per cent every year and laid several possible sites to develop for further electricity generation which were both economically and technically viable. Three new hydroelectric projects and future feasible projects were suggested and to take field investigation for increasing demand. The next sector, the related governmental organization, and institutions, played the critical role in realizing the goals of the program. It pointed out the serious deficiencies in experienced personnel for effective planning and lack of reliable statistics. The collaboration of inter-governmental departments especially with Ministry of National Planning and the other ministries were very poor and it doubted the government ability to perform large-scale development program effectively with such conditions. It urged the government to support the private enterprises to increase the efficiency. Apart from improvising these conditions, recommendations on establishing the Economic Council and assign the appropriate composition and responsibilities and to employ a progress-reporting system to monitor the development. Finally, the report called for the immediate investment amounting 745 million kyats for the five major sectors – Transportation, Power, Water resources, Manufacturing and Mineral industries.

The reaction of the Government of Burma was highly favourable according to Walinsky. As he described, U Hla Maung the person most responsible for choosing US consultants prepared a memorandum and presented at the meeting attended by all the participants of the planning. He made a statement that it may be ambitious of the planners to set such goals to as high as the double of the economy but can only increase 30% of the pre-war production level and very little on per capital basis, such difficulties must be overcome and the report's challenges to the people of Burma. The memorandum went on with the promise the government is willing to make should the responsible executive agencies put the proper effort. Yet he cautioned the hinderance within the bureaucracy and pointed out those departments to run like business-oriented than being a watchdog and urged for autonomous operations in industrial and mineral industries.

To conclude, with many difficulties and challenges and its own shortcoming the Government of Union of Burma accepted the general idea of the report and confirmed the target of K 7,000 million for output by 1959 and K 7,500 million to be invested. With these promises, these recommendations were put into actions in the following months.

### **4.3 COMPREHENSIVE REPORT**

The official name of the document was “Comprehensive Report - Economic and Engineering Development of Burma, Prepared for the Government of the Union of Burma” (KTA Comprehensive Report 1953), and was submitted in August 1953 after eighteen months of the Preliminary Report. This was the Planning which the government and the consultant firms were agreed in their contract and became the single source of information on the whole development program. Both the principle writers and Walinsky<sup>6</sup> have explained in details of the plans, the responsibility here is to describe some of the significant features of the plan which this thesis will also be focusing on. These two works which are the main authoritative on this matter will be the principle sources of this chapter. Louis J Walinsky was the main representative of the Economic Consultant of Nathan Associates as General Manager and stationed in Burma during the period until the Caretaker Government of Ne Win dismissed the assistance. He was very close with PM U Nu and was instrumental in implementing the plan.

There is one important figure to mention if to discuss this development plan of Burma. The then Prime Minister U Nu was the principle leader on developing the nation with the vision of building the industrialized country which it is based on the socialist idea. Throughout the period of the implementation, it was the PM who was responsible for the decisions and steering the direction of

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<sup>6</sup>Louis J. Walinsky, *Economic Development in Burma 1951-1960*. New York: The Twentieth Century Fund, 1962.

the country's economy. Of course, the plan is after all drafted and presented by the American consultant firms with the direction and administration of Economic and Social Board but being the head of the board as well as the person who vision the nation's economic path with more influence than any other person, his role in developing the plan played significant role therefore in this chapter regarding his contribution towards the project shall be included. For his major role in instituting the economic doctrine which will have effect to the successive governments, it will be discussed in the next chapter under the Burmese Socialism.

The following sections are particularly drawn from the KTA Comprehensive Report and Walinsky<sup>7</sup> (KTA 1953) (Walinsky 1962, Ch 8 and 9). The report was divided into parts covering the major important features of the Program. The Part I was concerned with the background of the country and the challenges ahead. The Part II dealt with Economic and Administration which included Financing, Central Economic Policies, Organization for Coordination, Administration, and the Manpower for the Program. The rest of the Report which spanned from Part III to VII were assigned for the major sector of the economy – agriculture and irrigation, transportation, telecommunication, power and industry (including forestry, mineral and small-scale industry).

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<sup>7</sup> Walinsky, *Economic Development in Burma*, 1962, divided these two parts into Chapter 8 and 9 to point out the significance of each part. As such the following section was illustrated based on these two references with the foundation from Walinsky's two chapters.

Before proceeding to Part II, it was noticeable that there were some minor changes in the overall objectives of the program set in Preliminary Report. As the previous report was a suggestion to the government to prepare for the precondition of implementing the actual plan and the estimated goals which the consultants were based on the short period of survey. The main Economic goal of the program was not changed in the basic output and investment as estimated in the previous report. The original estimate of the targeted year to achieve the total production was extended to the end of the fiscal year of 1959-60 from the year end of 1959 and the change in the 1950-51 production level which was higher than estimated in the Preliminary Report to 3710 million Kyats made the target lesser increase of 88% compared with over 100-130 % in the previous calculation thus the lesser increase with the longer period of time. More detailed works were done in the investment part and were clarified on the accumulation of capital formation and the investment on public and private sectors. Of the total estimate of 3,650 million Kyats public investment throughout the period, over 80 per cent will be spent on the planned projects laid out in the report which would be in the productive schemes whereas the rest would be in the social affairs such as schools, hospitals, housing etc. However, it stressed out some of the public investment might end up in the private hand or in joint venture indicated its emphasize on the private role. The consultants believed the government alone cannot accomplish the work but with the collaboration with the private sector but had to be careful not to go head-to-head with

government socialist policies thus instead of making clear, it left some room for the private enterprises to take part in social works (Walinsky 1962, 115). While laying out the challenges and tasks ahead, the report also presented the four main problems Burma was facing which it must overcome to bring the success of the program. The first obstacle was the internal instability, the ongoing civil war since the independence and one of the pre-requirements the government failed to achieve. The second challenge was the shortage of skilful manpower in term of technicians, managers, and administrators. The WWII and the lack of recruitments during the period made the shortage of able civil servants and the colonial society which the indigenous Burmese were not participated in the business affairs made this very hard to overcome. The third was the incompetence of governmental organization and administration which could not facilitate the dynamic requirements of the development program. Finally, it stretched the determination, vigour and daring put by those people executing the program and doubt that lacking these values will bring the failure of the program (ibid., 117). The Part II was set in the following order - Financing the Program, Central Economic Policies, Organization for Coordinating the Program, Administering the Program and Manning the Program. The earlier estimate on financing was the country would need to borrow one-third of required funds abroad, the improvement in rice export prices and its potential for keeping this increase in track made it possible for the government to finance

the entire amount on its own which later proved to be the single biggest defect of the plan and became the scapegoat of the failure.

The rest of the report from the Part III to VII accounted for the detailed planning of each sector of the economy and some of the significance shall be discussed. The Sectoral part was divided into major sectors of the economy – agriculture and irrigation, transportation, telecommunication, power and industry (including forestry, mineral and small-scale industry). Each of the sector was analysed comparing with the pre-war status, appraising the potentials and recommended programs with specific projects, policies, necessary institutional changes within the existing government organization. Compared with the Preliminary Report, this part of the program was more detailed and contained a lot of action plans which were more practical since they were based on the two-year studies and thoroughly covering each sector. The projects recommended for the total investment of 3,525 million kyats distributed into the sectors. With the largest share of the investment, transportation and communication sector accounted for fully half of the total estimate followed by the power sector. As the development of agriculture had the government's separate program except in irrigation program, not so much was focus on agriculture in the Report. Estimating the cost of 450 million kyats, the irrigation program recommended the four big projects to increase the gross irrigated acreage. On the electric power sector, several projects were proposed ambitiously costing around 963 million kyats as the electricity was essential for



industrial development. The lion share of the Program expenditure was to be spent on transportation and communication. It was primarily a rehabilitation and reconstruction program for most of the infrastructure were destroyed during the WWII and in the Civil war. The mining and oil industry saw three single projects to rehabilitate however they all were under the private enterprises. Lack of the expertise and the finance made the Government to enter joint ventures with those foreign firms. The Program also recommended to explore new potential projects and reforming the Mines and Geological departments as well as reviewing the existing laws and taxation to develop further.

The biggest attention by the Government was put on the manufacturing industry and saw opportunities to attribute new things in accordance with the Government's project of establishing the manufacturing industry to bring the higher standard of living and economically sovereign state. The most urgent need was to modernize and upgrade the rice mills. As the largest buyer, India, had becoming purchasing lower than historically recorded, the call for improvement in the mill could find the new markets with better quality. The problems lied in those mills were private owned and only with the incentive and the State support will this be conducted. Yet the socialist Government hostility toward the private business and the potential of nationalization or cooperation could not attract the millers to make any additional investment. For the other manufacturing industry, the Program considered 45 industries in three

categories, of which 28 will be in Rangoon and others spread across the country.

As contradicted as it sounds, since the beginning the development in the manufacturing industry met with several problems. One of the serious weakness in the plan was the failure to determine which the industries will be the state-owned and operated and the required of the technical personnel to run for such industries. Even in the advance economies such state-owned enterprises will be extremely challenging, in Burma case it made it worsened by the weakness of Government administration efficiency and the lack of awareness to run such enterprises (Walinsky 1962, 145).

One of the strongest supports of the Plan was in the promotion of Private involvement and the attraction of investment from oversea. In the nature of free-market and capitalist society, this seem to be normal, but the planners failed to account for the hostility of Burmese towards both the Private enterprises and the capital movement from oversea most of them from the West since they were the only ones able to accommodate such need. In many occasions the Government and specifically PM U Nu made clearly the aids receiving must be without any strings attached and not threatening the ideology of building a socialist welfare state. It was showing how much they were afraid of getting the assistance yet without any alternative they had to take it with very cautiously.

Another element of the Program was expectation of the personnel in managing the businesses. Its failure to recognize the State as the sole or principle in operation, managing and dictating the affairs of the businesses with the intention of Nationalization and Burmanization, it hopes those in power will conduct the businesses in the manner of how the capitalist world would do, which was surprising since they were very much aware of the country's economic policies.

Heavy emphasize on the infrastructure contradicting with government's goal of establishing factories and heavy industries also met with some clashes. At one account, Kyaw Nyein commented his disappointment on the planners aim of heavy investment on transportation such as roads and bridges at the cost of building fewer industries as they originally targeted, although later found these infrastructures were critical to rebuild the economy especially in the agriculture industry.

All in all, this chapter has briefly described the US assisted Development Planning progress of Burma and the Reports presented by the consultants. It was noteworthy to see the different ideological consultants were seek out by the socialist government meant the real definition of Burmese Socialism could be different from the rest of the socialist states. Although it could argue the consultants' efforts during the New Deal era where the idea of 'welfare state' attracted the Burmese government and it might have modelled on the reconstruction of post-independent Burma. Meanwhile, the failure to recognize

the unreadiness of the country situation by the consultants were devastating. Walinsky did admit in his book regarding the failure of the Plan that such scale of Development Program was not suitable with the situation Burma was and the planners should have prepared two alternative reports – the first plan of the same magnitude presented and the second, a modest and limited in scope more feasible with the prevailing conditions and psychology (Walinsky 1962, 381). Nevertheless, the Eight Year Development Plan marked a significant position in the history of Burma and her economic development process.



## CHAPTER V

### U.S. Development Plan and Its Failure

The previous chapter has briefly explained how the Development Program was developed. This chapter will explore the development of Burmese Socialism and Socialist economy and will compare the Economic Plan and the implementation of Socialist economy. It will be constructed in two parts – the first part will explain the development of Burma Socialism from the days of colonial period going through the independence and to the time of the implementation of the Plan and make the comparison between the two different ideologies. The second part will deal with the actual implementation of the plan and the execution of the Burmese socialist economy and the failure of both philosophies.

#### 5.1 US economic plan Vs Burma socialism

The beginning of Socialism into Burma took place during the Nationalist movement and proceeded to the independent struggle. It came in later in comparison to other neighbouring countries, but its foundation was much stronger and embedded into the political doctrine for the modern Burma which soon to gain liberty from British. As explained in the previous chapter, Burma decided to follow the Westminster System with the democracy at its core. Yet

the clarification of the country being the leftist could be found anywhere in the contemporary literature most notably in the 1947 Constitution (Tinker 1959, 29-30). Being leftist, it chose to operate the economy under the ideologies of Socialism and the independent movement after the WWII was supporting this objective. Amazed by the industrial development of the Soviet Union, which they regarded as the successful socialist state to repel the capitalism, Burma believed the complete freedom shall only be achieved not only the politics, but the economics is also free from the influence of imperialism. It was also made clear the future Burma will not be the same as the Soviet Union and East European States where the Communism eradicated the existing culture and values which the politicians thought the complete Leftist state will not be compatible with the pre-existing traditional Buddhist cultures which were deep-rooted for over a thousand years<sup>1</sup>. After all, the choice of Socialism was to counter and repel the imperialism and capitalism and was used as a tool to replace the foreign dominated sectors with indigenous people.

The introduction and early development of Socialist ideologies tracing back to the Nationalist movement and early independent struggle were explained in the earlier chapters<sup>2</sup> therefore this section will continue from the post-war period toward the remainder period of AFPFL rule until the coup of 1958 and will focus on the economic issues resulting from adopting the

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<sup>1</sup> Although they did not adopt the complete leftist like in Communist States but defining socialism of own to be able to adapt with the existing local culture and traditional values.

<sup>2</sup> Chapter 1 and 2 introduced briefly of the presetting of Burma up to this point.

Socialism as state doctrine. The purpose of this chapter is to explain the Burma Socialist economy and compare it with the US drafted Economic Development Program. Therefore, this section will be constructed in three parts. General Aung San's knowledge on socialist outline legitimized the post-independence political leaders' ambition for socialism<sup>3</sup> and his works on Two-Year Economic Plan had huge influence on socialist economy and on economic planning of the coming years therefore his period of post-war and before independence shall be accessed in this chapter. Unfortunately, his visions were never got to realize and none of his successors were able to acquire such insights and influence nor able to fulfil his dreams. The closest ever would be his long-time friend and the successor to become the first PM of modern Burma, U Nu whose visions shaped the remainder years of AFPFL rule until the military coup first in 1958 and then followed in the second coup of 1962. It was not exactly as to what Aung San foresaw but on the fundamental of socialism one could say he continued the path of the founding father. His philosophy of adding traditional Buddhism and indigenous cultural values to the socialism was to modify the socialism to be acceptable in the eyes of the public because the pure form of socialism seen in the leftist world denying the existing religion and culture will not be welcomed in Burma. He famously held the public conference named

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<sup>3</sup> Aung San's wisdom on socialist blueprint provided legitimacy and credibility to the socialist aspirations of the post-independence political elites. See Tin Maung Maung Than, *State Dominance in Myanmar: the Political Economy of Industrialization*. Singapore: Institute of Southeast Asian Studies, 2007, Ch 2.

“Pyidawtha” lasted for over a week which opened the new chapter in Burma with the dream of building a welfare state similar to the concept from the Two-Year Plan but with more detailed and promises. The significance of this conference was his opening speech “Towards a Welfare State” the blueprint of the government objectives and the presentation and adopting the Eight-Year Development Plan made by the combination of US Engineering and Economic firms<sup>4</sup>. The works of U Nu and the effect of the conference were the main driving force of socialist economy in the 1950s Burma and will be the second part of this chapter. Numerous policies and implementations were taken place during the first ten-year rule of AFPFL, but it was widely accepted the three central economic policy of Burma reflecting the government effort of creating a socialist economy played the central role of all. The three popular economic policies - Nationalization, Burmanization and Industrialization, targeting to establish Burma as an industrialized nation was conceptualized during U Nu government. Though filled with weaknesses and defects, the study on these central economic policies is necessary for the whole picture of Burmese socialism in the period thus the reviews on these policies will be within the parameter of U Nu endeavour. The final part will be the essence of this chapter - comparison between the US Economic Development Planning and Burma Socialist Economic implementation. It is believed the conflict between the US-backed

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<sup>4</sup> Detailed accounts were discussed in the previous chapter, US Economic Plan.



development program and Burma own socialist methods was most responsible for the failure to bring the economy back to her pre-war status hence this final part will illustrate the main argument of the Thesis.

### 5.1.1 General Aung San and his Socialist vision<sup>5</sup>

It was widely accepted General Aung San's role in consolidating the socialism as the nation's economic doctrine denying the Capitalism known in the Colonial time as the first political attempt to institutionalize the Socialism in the mainstream politics of Burma (Tin Maung Maung Than 2007, 30). His charisma as the founding father of modern Burma army and the leader of the ruling organization, AFPFL, during the independent struggle empowered him to choose the path for the new Burma and his advocacy of Socialism validated as the solution for the harsh experience of imperialist capitalism, his idea became the source of ideology and policy for both bourgeois democrats and reformist socialists (Ibid., 32). The ruling governments since post-independence both the parliamentary and military regimes accepted the socialism in various interpretation showed how their rule will be legitimized linking with Aung San's doctrine. His thoughts<sup>6</sup> on the new Burma were plenty crossing from politics to

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<sup>5</sup> This section mostly drawn from the works of Tin Maung Maung Than, *State Dominance in Myanmar: the Political Economy of Industrialization*. Singapore: Institute of Southeast Asian Studies, 2007, Ch 2 and Tin Soe (Bawgagon). *Bogyoke Aung San Ei Sipwayei Amyin* [General Aung San's Economic View]. 2<sup>nd</sup> edn. Yangon: Zun Pwint Sa-pay, 2010. Since Aung San's role in the Socialist economy of Burma was not given much attention, works on him were quite few on this topic.

<sup>6</sup> Aung San made numerous speeches during the two-year period on different occasions covered all the major sectors of the economy – agriculture, finance, labour etc. Due to the lack of his any written works on socialism in particular, those speeches will be the sources to define his version of Socialism.

social and religion but here I will point of several significant issues relating to the socialist economic thought. One of his earliest work on the view on the system of government, his writing in early 1941 reflected his philosophy of the type of government he foresaw for the new Burma. He admired one-party socialist state such as Germany or Italy with strong nationalism, somewhat undermining individualism, supporting the strong state administration yet he did admit such kind of system will not sustain in the long run (ibid., 33) and suggested to adopt it for the early period of reconstruction then transit toward another system. One scholar did note that Bogoyoke never labelled himself as socialist or his concepts of socialism, but his works were apparent to be casted on socialist framework. He never openly admitted aligning with any of the political theory though his involvement in the early foundation of Communist Party of Burma and Socialist Party and his view on future Burma's direction on State ownership through Nationalization, control of foreign trade preventing any monopolizing as seen in British rule meant he was more towards the leftist thoughts. However, he never misled his followers on ideologies after all his goal of gaining the complete independence including the freedom of social and economic control by the indigenous people not under the aliens or any foreign subject<sup>7</sup>. These foundations made his thoughts more understandable why he seeks out to liberate any foreign involvement in the economy.

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<sup>7</sup> It was the philosophy of Burma, rooted from the colonial experience. See Louis J. Walinsky, *Economic Development in Burma 1951-1960*. New York: The Twentieth Century Fund, 1962, pp. 69-70; and Tin Maung Maung Than, *State Dominance in Myanmar*, p. 34.

His views on these issues were clearly defined in his works and speeches especially in the Socialist economy, the State role of the post-independence Burma, land ownership, Nationalization and Industrialization, and the Planning economy. He was known to be towards the leftist so his thoughts on the State active participation in the economy were present throughout his works. Though he did not declare himself as either Communist or Socialist, he strongly appreciated the planned economy practicing in the Communist countries. Yet, he never believed one system fits all, he was looking for a solution to solve the problems of Burma by mixing various political thoughts if it could answer the problems of post-independence Burma. According to Bogyoke, Burma at that time was not ready for a socialist economy because the country was still in the early stage of capitalism thus certain exercise of capitalist economy was unavoidable but within the tight regulation of the State and there should pave a way for nationalization should the necessary to “bring the greatest happiness of the greatest number of people” (Tin Soe 2010, 110-111). He planned to nationalize important industries to satisfy the needs of the people and bring the standard of living for happiness however he added one condition such creating of state ownership shall only enact when the time is right and with the right mind. The basic infrastructure sectors – mining, forestry, communication, transportation and other natural resources shall be the state-owned or co-operative and if the state cannot operate these should go with joint-venture or leases to the private. It was not to say he denied the private

ownership rather to prevent any monopoly and foreign control re-establishing their foothold. In fact, he strongly encouraged the private enterprises especially in raising the finance required for development. Similar policy on the foreign trade where the government should dictate to prevent the Capitalist manipulation and to avoid the return of old monopoly and oligopoly. This assumption came from the experience under British which all the big enterprises controlling the economy were the capitalist in nature and owned by the foreigners.

This similar situation happened in the case of land ownership. He postulated once Burma became liberated it shall abolish the domestic debt on poor, monitor moneylending, setting up a land policy to ensure the landownership for those landless mainly targeting the tenants and eliminating the landlordism. This is simply showing his eagerness to eliminate the foreigners' presence because most of the land in the pre-war setting was under the Chettians through their moneylending business. This idea was later carried out as one of the earliest attempts of AFPFL known as Land Nationalization Act 1948. He also advocated to modernize the agriculture – one of the earliest steps for industrialization. He argued that agricultural sector in the colonial period was a lop-sided growth where the monocrop, paddy, was the main plantation and he proposed for diversification of other type of crops.

Not much work was seen about Industrialization except on the matter of nationalizing businesses from the important sectors. Although he was the

supporter of State running these enterprises, he warned such action shall only be taken “when at the rightful time with the virtuous mind” (Ibid., 62-63). He was well-informed of the requirement to run state-owned enterprises and believed Burma was not ready for the task and needed time to prepare. He was cautious of establishing the industries when he noted the new nation should be modest in development form and should start with basic things such as infrastructure, utilities and social programs then progress towards the larger industries. Interestingly a very popular policy of post-independence Burma, Burmanization was not directly addressed in his philosophy. The displacing of foreigner, mainly English, Indian and Chinese, and replacing the indigenous mostly with the Burman was very popular and practiced in the early period of AFPFL rule, was not well-defined in any of his works but the closest one would be similar to his colleague, U Nu, which was to abolish the exploiter and the people (Walinsky 1962, 72).

The biggest legacy of Bogyoke Aung San work which was succeeded and continued in the post-independence Burma was the Two-Year Economic Plan<sup>8</sup>. During his tenure in the Governor Executive Council serving virtually as Prime Minister of interim government (Tinker 1959, 21), he convened the conference in the Sorento Villa building, calling for the rehabilitation of the

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<sup>8</sup> Due to General Aung San's assassination, the Plan never came to fruition but in the early days of the independence, the AFPFL government did employ without much success largely due to the consequences of internal instability and insecurity which needed more attention and diverted all the resources from the development to the defense.

country from the havoc of War. The main purpose was ‘to bring an end to the colonial economy’, based on the export of raw materials and to create a new Socialist system with the accent on nationalization and industrialization” (ibid., 96).

### 5.1.2 The Two-Year Economic Plan<sup>9</sup>

According to Walinsky, due to the resemblances and the similar objectives carried out, the Two-Year Economic Plan was regarded as the precursor to the Comprehensive Development Plan. More widely known in Burma as “Sorento Villa Plan” named after the building where the conference was held, and the plan was accepted, it was the brainchild of founding fathers and aimed to create ‘the welfare-state’. It was not a full-fledge plan as its successors but a list of targets in physical terms achievable within two years. It was the only plan made entirely by the Burmese without any foreign existence which it stood for until the 1960. More of a rehabilitation plan than a development plan, it laid the foundation for basic agriculture and industrial planning and policies for future years. It defined the government’s three basic agricultural policies - eliminating landlordism; modernizing agriculture, protection against price fluctuation and ensuring standard of living of modern civilization;

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<sup>9</sup> Materials on the “Two-Year Plan” were few and only in a minor role as part of Burma first ever development plan. Hence here it will only mention the impact on the following years and the plans. This section is drawn mostly from Walinsky, *Economic development in Burma, 1951-1960*, pp. 65-67; and Myat Thein, *Economic development of Myanmar*, p. 18.

recovering the pre-war rice export and self-sufficient. For the industrial planning of the former industries, it recommended a policy of state ownership and operation for basic industries and the condition for private enterprise in light consumer-goods if state ownership is not feasible. However, it was in the new industry the Plan was most specific about. It recommended the immediate setting up for a number of industries - a tile factory, a paper and chemical factory, a spinning and weaving factor, two sugar mills, a sawmill, a stell rerolling for scrap metal, a rubber factory, and pilot plants for production of soap and dairy products, to be realized in the next two years.

However, the full implementation of the Plan never came to light as the government was preoccupied with the civil war. Since the eve of the independence, the insurgency by the Communist, which was followed by the series of ethnic armed groups made the country unable to perform any development program and had to divert all the resources into the defence of the newly born nation. Except in few areas such as the Nationalization of agricultural land and some enterprises which are vital to the nation, the rest of plan was soon postponed and later abandoned.

### **5.1.3 U Nu and Burma socialism in the post-independence**

In the first years of the independence, building a socialist economy, it was directly inherited from what Aung San left behind - rejecting the foreign control of the economy by the way of State taking the active role in the

businesses. The main economic policies dominated during the post-independent Burma were concerned mostly with industrialization, economic self-sufficiency, Burmanization, the application of socialist principles, and the role of private enterprises (both domestic and foreign) in the economy and the policy with respect to foreign aid. Among these policies Bogyoke believed that the economic potentials of the country will only be realized through the means of modernization and industrialization which were necessary for the import-substitution self-efficient economy. In the eyes of Burmese, this belief was essential to create a socialist state which Walinsky argued as the confusion between economic self-sufficiency and economic independence (Walinsky 1962, 71). Based on the colonial experience, all those enterprises were in the hands of capitalist foreigners so only by Nationalization will these aliens be taken out and Burmanization will displace them with the indigenous and take back economic sovereignty and only through Industrialization the economy will be escaped from the lop-sided where the primary industry was the export of raw materials and heavily relying on import of manufactured goods.

If Bogyoke Aung San was the pioneer of institutionalizing the Socialist economy, PM U Nu was the one put into action and foresaw for the remainder of the period until the military coup. Since the independence, the weight of U Nu in realizing the socialist dreams was instrumental and was said to be the main driving force of the development program especially the KTA project. His most notable work in defining the vision of future Burma creating a welfare-state of



its own was well-addressed in his opening speech at the Pyidawtha Conference. Interestingly U Nu, as the PM and the leader of new Burma, did not subscribe himself so extreme in Burmanization and did not see the foreigners as so much different compared with his colleagues but his emphasized was focus on the exploiter versus the people perhaps because of his devotion to Buddhism. Regarding with the socialist path, U Nu warned his people repeatedly that Burma was not suitable with the socialism in Soviet Union and other Communist states and they need to distinguish between the socialism and nationalization. Perhaps PM U Nu was the only one in the whole government able to differentiate these two ideologies. Yet he was so obsessed with industrializing and development he also ignored the important roles of enterprises which can be seen in his work<sup>10</sup>. U Nu speech at the adoption of the Constitution, he declared the new Burma will be leftist country, everybody entitled to the goods produced by the resources of the land and no distinction between the employer and employed eliminating the governing and governed class. Tinker pointed out with reference to the Constitutional advisor, U Chan Htoon, that the Constitution is implying the 'Welfare State' describing social justice, fundamental rights, the State to workers and peasants and directive of economic and social policies. These were simply showing at the beginning how the vision of Socialist Burma will be founded (Tinker 1959, 29-30).

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<sup>10</sup> U Nu speech 'Towards Peace and Democracy', quoted in Tinker, *The Union of Burma*, pp.27-30.

With the objectives of building a socialistic state on three main policies – Nationalization, Burmanization and Import-substituting Industrialization, the government attempted to dismantle the colonial economy in two ways (Brown 2013, 96-100). According to Ian Brown, U Nu administration first effort was to remove foreign interest from important economic and commercial positions by introducing Land Nationalization Act in 1948, essentially nationalization all agricultural land owned by non-agriculturalist mainly targeting Chettiars. The condition was any cultivator owning in excess of 50 acres shall be returned to government ownership and that also include the land owned Burmese agriculturalists and being worked by tenant cultivators will also be redistributed to deserving cultivators, landless labours and tenants having too small land to work efficiently. The idea was to have all the cultivators the land of their own and to produce the cooperative and evolved into collective farming, hailed by the government as ‘a complete revolution in Burmese agriculture would be accomplished’ (Tinker 1959, 241). U Nu and his government met with several criticism not only from Communist complaining too slow and not enough but by the Burman landowners for violating the Buddhist principles. U Nu replied with the question of the ultimate owners of land is the State relating with the Burmese dynastic rule. The Government freely and gladly elected by the people had ‘every right to take back ... its own land’ and ‘It also has the right to redistribute’ and he told those landlords it was an act of virtue to give and thus will arrive early at nirvana (Butwell 1969, 110-111)

The land redistribution program was highly troublesome as the Act was hurriedly drafted purely to overcome Communist influence of rural area thus the only place able to put into operation was in Syriam township and only in a limited scale. The revised Act was prepared in 1953 with much more carefully and considerably more detailed in its provisions. However, the lack of security across rural area and shortage of skilled personnel to carry out not made it impossible to execute in full scale. The initial target of redistributing ten million acres by the end of 1955 was not been fulfilled, in fact, just over 1.4 million had been allocated as late as 1958<sup>11</sup>. The government also created the State Agricultural Marketing Board (SAMB) in 1947 giving the statutory monopoly over the rice export. It functioned as the facilitator between the cultivator buying paddy from them or sometimes through middlemen in fixed prices and prepared for the export via the inter-government agreements or via the private traders (Brown 2013, 99-100). The SAMB had more agenda than simply the elimination of foreign interest in agricultural export. It was also responsible for low and stable domestic rice prices benefitting the Burmese consumers by fixing the paddy price at below export rice and to secure the considerable income for government. The latter was achieved for the most period of AFPFL rule where

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<sup>11</sup> Compared with 1948 Act which did not take into account for compensation and forcibly expropriated, 1953 Act established a schedule of compensation however it was never realized as there was no budget provision and 'A silent decision seems to have been taken at some stage: to expropriate the land without payment' since this was different from industry which needs to attract foreign capital. See Ian Brown, *Burma's Economy in the Twentieth Century*, p 97, and Tinker, *The Union of Burma*, p. 245.

nine years from 1947 to 1956, the share of SAMB income in government budget was over 40%. However, the board had little business insight as it had little autonomy and was under tight scrutiny of the Ministry of Agriculture and most of the top-level positions were filled with civil servants whose expertise were not fitted with its business nature resulted economically and commercially damaging.

Along with the agricultural policy was the series of nationalizing private enterprises which most of them were owned or controlled by the foreign subjects except in oil and mining sector as reconstruction and expansion will need the essential technical and managerial expertise which Burma lacked. With the passing of Inland Water Transport Nationalization Act on 20 April 1948, the Government set up a Nationalization Commission to take control of three sections of the Inland water transport, an Irrawaddy Section; a Lighterage Section; and an Arakan Section. The Commission was also tasked with inquiring the compensation and was later awarded to the companies in much lower amount than was claimed (Tinker 1959, 95). Similar concession was carried out for timber which the number of foreign companies were taken over together with their sawmills and timberyards by the State Timber Extraction Organization operating under the State Timber Board (Ibid). On the other hand, the Government established joint ventures with Burmah Oil and Burma Corporation, the former got provide with one-third of the capital and the latter the control of the Bawdwin-Namtu mines (Brown 2013, 100-101).

The second attempt which would later be more disastrous was removing the reminiscence of colonial economy – specialization in the production and export of primary commodities, rice, and the dependence upon the import for the basic consumer goods. The solution was industrialization. Trager argued that this move was politically motivated rather than economic rationalization that Burma must emerge from the colonial past both economically (by development of industry) and politically (Trager 1958, 22). The earliest attempt was establishing several new industries pointed out in the Two-Year Plan.

The civil war at the beginning cause a huge disturbance in the development process and neither of the Nationalization plan or the Two-Year plan were seen in full action. The Land Nationalization Program was never met its target until the end of the AFPFL rule since most part of the country especially the rural areas were under the insurgency while the Two-Year Plan only managed to succeed in establishing some of the industries.

#### **5.1.4 The Pyidawtha Conference**

With the insurgency getting weaker in the early 1950s the government diverted their attention to the development of the nation. The Pyidawtha Conference was convened by the Union Government conferenced held during 4-17 August 1952 to discuss the major development program radically changing the colonial system of exploitation existed under the foreign power to a sincere

benevolent democratic government by the people of Burma.<sup>12</sup> It was a major effort by the Government participating over a thousand delegates including Member of Parliaments, senior Government officials, representative of the people from the ruling party, AFPFL, along with its coalition organization of ABPO, to discuss the ten development programs with the Union Government and its Cabinet member. The term “Pyidawtha” literally mean “happy land”. But in some Burmese scholar it carried deeper meaning such as in Mya Maung (1991) defined it as the combination of two words “*Pyidaw*” meaning “a Great or Glorious Country” and “*tha*” connotes “prosperous or pleasant”. Nevertheless, the main idea as U Nu explained it was to build a country with the common goal of providing the basic public services eliminating the evil system of class exploitation, disease, retrogression. To put it simpler, the conference marked Burma as building a society based on welfare system or a socialist-based welfare economy. The highlight of the Conference was its opening speech made by U Nu with his new slogan “Towards a Welfare State”. He visions of the future where every family in Burma would possess a house, a car, and an income of 800-1000 kyats per month, and claimed the richness of the country to provide such amenities (Tinker 1959, 104). One of the main objectives was to adopt the Preliminary Report submitted by KTA and called for the other programs of development in agriculture, land nationalization, a major program on

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<sup>12</sup> The official report of the conference quoted in Louis J. Walinsky, *Economic Development in Burma 1951-1960*. New York: The Twentieth Century Fund, 1962, p. 96.

transportation and communication, public housing, education and health programs and community development at the village levels (Walinsky 1962, 98). Through this public conference, the Government tried to achieve the public acceptance and support as well as the participation in the development program and targeted goals adopted in the Preliminary Report and paved for the upcoming Eight-Year Development Program.

### **5.1.5 Comparison between the US Development Program and Burma Socialism**

The US Economic Development Program was introduced and addressed briefly in the previous chapter. This chapter has brought some of the insights of Burmese Socialism and Socialist economy. Now it will compare these two different ideologies and present some of the significant points. Now in this last section, it will compare some of the differences in these ideologies to illustrate the conflict between them which led to the failure of the development of Burmese economy.

The first and most apparent difference was the objectives between the Program and the Socialist goal. The planning was targeting to move the economy and the country back into its track of development similar to the colonial period situation. Instead of the lop-sided economy which the major sectors of the economy were the rice and mineral resources, the plan emphasized in expansion and modernization of agriculture and development of

mining and oil sector attracting foreign investment with incentive and joint ventures. The major aim of the Burma socialism dealt with the removal of foreign interest to prevent the return of the imperialism and to create a country where the prosperity of the nation could be shared with the people without any discrimination of the rich and poor, the governing and governed. The prerequisite conditions to implement a development planning of such scale played critical role in implementing and achieving its objectives unfortunately Burma neither had the ability nor the willingness to execute such plan. The ill-experienced of the colonial era were still haunting Burmese freshly thus any advice if even a little glimpse of involving the capitalist idea such as private enterprise, foreign investment and export-led industries were not be acceptable at the launch of the Plan. Whereas the weakness of the planners to recognize these psychological deficiencies was very surprising and the failure to include this vulnerability in such national scale development program made it doubtful of the planners' ability and intention. The ignorance of recognizing the political circumstances of the era especially with respect to the global political affairs also contributed the failure of their endeavour. U Thet Tun stated this fact that the government was employing the planners with Democratic Party affiliation to assist in the aid from the Republican Government (Thet Tun 1964).

The largest share of expenditure on the Program was 'Transportation and Communication' taking over 50% of the total. The devastating of infrastructure first by the WWII and then the Civil War was the urgent matter but too much



investment undercut the important modernization and expansion of agriculture which was the main source of foreign income which at point accounted for 40% of the government revenue. The planners believed by reconstructing the public services, the flow of goods and services will be smoother creating more opportunities for businesses and investment. In comparison, the perception of the nation was to industrialize – the strong national belief that the only way to prevent the return of the imperialism and being an economy of depending on the export of primary products. The expectation of private participation also created a conflict between the advisors and the government. The Program expected to received one-third of the investment from the private sector and possibly from domestic market. It was struck with two shortcomings of Burma – first, the government attitude on private enterprises be the foreign or local owned, the hostility as the result of socializing and nationalizing them could not attract any finance into projects.<sup>13</sup> The second reason was far more devastating, the absence of “a sizable group of indigenous private entrepreneurs”<sup>14</sup>, and the lack of interest of investing in the industries set forth by the Government by Burmese private capital as they had few experience and the return on agricultural loans were relatively higher than in the industries (Brown 2013, 102). This simply showed the misconception of the Government on private

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<sup>13</sup> An example will be the modernization and improvement of rice mills, owned by private millers and the Government was hesitated to provide. See Louis J. Walinsky, *Economic Development in Burma 1951-1960*. New York: The Twentieth Century Fund, 1962, pp 143-144.

<sup>14</sup> Quoted in Myat Thein, *Economic Development of Myanmar*. Singapore: Institute of Southeast Asian Studies, 2004, p. 16.

participation role and the delusion of the Plan on expecting the strongly Nationalizing Socialist Government to allow the active role of the private sector.

The Comprehensive Report estimated the restoration of law and order be realized in short-term which was never achieved. The failure of U Nu administration to bring the peace sooner meant more resources would have to be used and progress of the plans would have to be postponed. The similar situation was in the manpower. The plan forecasted Burma could produce various technicians and expertise of 13,000 within the Program implementation period without calculating the political and social impact to produce such requirement. Since the early independent time, most of the skilled personnel, happened to be the foreigners of British and Indians were expelled as the result of Burmanization, and the remaining were far too few with too many tasks in hand thus impossible to fulfil their estimate. Staffing for the planning created disputes between two parties. The American consultants were private firms with the interest of perpetuating their contract whereas the responsible parties in Burma were public servants whose principle goal was to get the favour of the higher-up and show-off. To worse off, the foreign experts were having a luxurious life with lucrative salaries and services which they would never have in their home country creating the resentment of some Burmese, and their insensitiveness toward the local values and arrogant behaviours.

But the most important of all, and the popular scapegoat of the failure of the Development Program was the miscalculation on the estimation of the rice

price. The whole program was based on the rice price of £60 per ton and when the price was decreased nearly by half to around £30 resulted in the failure to meet the required finance and there was no substitute for this requirement in time thus the program never met its end. This could be related with the Government policy of industrialization. Dr Mali considered this as the most serious defect in the total planning – the neglect of agriculture and primary industries which was deployed only the 35% of original planned expenditure whereas the industries were disbursed surpassing the allocated (Mali, 1962, 85). Several projects were advancing long before the contracts with KTA such as under the “Two-Year Economic Plan” and some socialist policies. It was questionable why these pre-existed progresses were not incorporated into the KTA plan and considered its effect on their own development plan. And the Government ambiguity in choosing their own schemes and those with the Eight-Year Development Plan was very conflicting.

To conclude, the final section was a brief comparison between the Development Program and the Burmese Socialist pathway. As more detailed accounts will be describing the defects and weaknesses of both sides, the rest of the analysis will be in the next chapter illustrating the problems of the US Plan and Burma Socialism.

## **6.2 Failures of US Economic Plan and Burma Socialist**

## Economy

It was widely known that Burma attempt to rehabilitate the economy through the planning economy with the help of US engineering and economic firms met with total failure. Numerous studies have been conducted on this subject and most of these observations were made by those either directly involved or were close to the event. However, it is necessary to discuss these failures in this research to understand the conflict between the Plan and Burma Socialism to facilitate the main purpose of the Thesis. Based on the hypothesis of the Thesis, the failures were categorized into two groups- the problems of the Basic Plan which was the defects on the Economic Development Plan produced by the American planners and the problems on the host country, Burma. The former is quite straightforward that some of the background were done in the previous chapter when exploring on the Plan. The latter, on the other hand, has a lot of aspects to bring into consideration and even so there are still a lot of disputes since addition to economic, other scenarios – politics, social, security, historical background, and culture therefore within the scope of this study these failures will be analysed.

Among all these studies all would agree the biggest failure in the development process was the failure of the planners on the assumption of the export price of rice. Estimated at the beginning of the planning period at £50 per ton by 1959-60 and the increase in rice production will make the export

shipments of no less than 2.3 million tons possible. This assumption was based on the near peak of the rice price driven by the Korean War and the sudden shortage of rice. When the Korean War was ended in 1953 and other producers were able to supply, the price of paddy dropped dramatically and reached at £30 per ton and never went back to the estimated rate. According to Walinsky, this incorrect assumption led the number of consequences. The first damaging was the price drop has opposite effect resulting in Government discontinued the subsidies to the paddy production. It was followed by the shortage of foreign exchange since the rice export was the major foreign income earner and this led the Government to cut off or abandon industrial projects to solve the foreign exchange crisis. The result was the rapid accumulation of stocks of rice which soon got wasted and ended up in barter trade with some Communist nations (Walinsky 1962, 373-375). Although the advisor admitted this defect had a big impact on the whole Development Program, why and how they missed in price estimation and any backup plan or alternative method were presented was never discussed. In fact, during the making of the Comprehensive Report, various studies and reports were pointing out the danger or fall in rice price. Most notably, Dr Tun Wai warned as early as mid-1952 of the impending break in world price of rice (The Tun, 1964). Another serious defect was the possibility of holding Government current budget at the level of 700 million kyats. But the expenditure exceeded K 90 crores by 1957-58 and increased to K100 crores in 1959-60 (Walinsky 1962, 375-376). In addition to the assumption of rice price,

Walinsky provided a few notes on other shortcomings in other assumptions such as the insurrection, the efficiency of administration, the sector program of not efficient emphasize on primary production sector, and on nationalization of industries (Ibid.,). However, the critiques on the Plan by other scholars were more devastating. Dr Mali stated most serious defects in the total planning was its heavy emphasis on industrialization at the expense of neglecting the agriculture and other primary industries. And these industrial projects tend to spend more than estimated as much as over 35% of the original allocation (Mali 1962, 85). Although being the main income of the economy and the Government revenue, through SAMB over 40% of the Government income received, the rehabilitation of the agriculture back to its heyday was overshadowed by the State-led industrialization and until 1955-56 the effort was not emphasized (Trager 1958, 35). There were other miscalculations on the plan. Frank Trager who was with the US aid mission in Burma during the 1950s argued that KTA planners acquiring the required personnel of 13,000 highly qualified in technical, managerial, and other skills were vastly underestimating the difficulties in training and obtaining within the period of KTA Eight-Year Plan (Ibid., 98). It was supported by Dr Mali stating such manpower would not even be possible to acquire from foreign countries with the time provided and the in-service civil servants were too few in number and inadequate to deal with too many tasks and inefficiency (Mali 1962, 82-83). The KTA also produced a list of three main challenges in implementing the programs. They were - i) internal

security, ii) serious deficiency of skilled technicians, experienced managers and administrators and iii) the indecisive policy of government organization, administration and personnel (Trager 1958, 95-6).

With respects to the failure on the side of Burma economy the most responsible would be the issue of security. Until the end of the Program, the insurgency was not solved entirely and still threatening the security both on the well-being of the public and the development. This led to divert the resources in the defence and became less available for the development process, not to mention most of the rural areas were never secured thus the projects were either delayed or abandoned. PM U Nu made frequent remark on the mistake of embarking on a program of industrialization instead of concentrating on the defeat of the rebels and the restoration of law and order and good governance (Tinker 1959, 128). With the government unable to perform its full abilities, the poor governance brought the weakness and inefficiencies in implementing. Moreover, the indifference between the ruling political party, AFPFL, and the government bureaucratic, led to the abuse of political power and involved in the public administration for their own purposes since the parliament was dominated by the AFPFL for most of the years (Walinsky 1962, 486-87).

Along with the security issues came the decentralization of government power in the wake of civil war and the rise of local political forces and economic power. Taylor<sup>15</sup> explained the displacement of the state during 1942-1962

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<sup>15</sup> Robert H. Taylor, *The State in Burma*. University of Hawaii Press, 1987, pp 264-70.

provided one of the difficulties of implementing the economic development. It began with the replacement of the existing bureaucrats who were employed by the colonial state was soon eroded within months immediately before and after the independence. Robert Taylor accounted over half of the top-level civil servants, with 84 per cent of police force, half of medical officers, and 78 per cent of senior public works officers resigned and replaced with the rapid promotion of their subordinates and recruitment of the new and inexperienced civil servants (Taylor 1987, 265-66). To worse off, the decentralization of political power by the government by promoting the local elected politicians who were representing the local people and became the boss of the civil servants who were legally employed by the Union government. Only powered by the politics for bureaucratic procedure these local representatives were incompetent in functioning their responsibilities and soon found to be overwhelmed with the administrative procedure. The military commanders in their commanding areas were the new rising power in the administration as a result of civil war where the normal administration was not safe and unable to conduct. In those areas, the political and economic powers were fallen into those army officers whose main goal was to establish law and order and to fight against the Communist with any means necessary usually taking all the resources available in the area. This ended with the disaster in the intention of the newly independent state utilizing the existing colonial administrative system to implement economic development and creating a welfare state.



The differences in ideologies, Burma pursuing Socialism whereas the planners were American hence the capitalist made it harder to establish a trustworthy relationship. The less obvious reasons pointed out by the scholars include the attitude of the planners and the indigenous Burmese. The planner overbearing behaviours upon the locals, their offenses and thoughtless behaviour to Burmese susceptibilities accumulated by the Burmese suspicious of American motives resulting from the allies of the British as well as in the involvement of KMT invasion in the early 1950s (Clymer 2016, 116). Tinker analysed on the life of those advisors in Burma that they were not willingly to invest all of theirs in the affairs of Burma and came to simply serve the business purpose compared with the British officials stationed in Burmese jungles during the colonial time and the high salaries paid to the experts created animosity by the Burmese (Tinker 1959, 124-25). On the same analysis he included the attitude of Burmese to the foreign aids, equipment and experts and funds. The mindset of the world owes me a living peculiar to Burma and the myth of the suffering under the British whereas the colonist made vast profits out of the country rooted in the nationalist movement and being carried toward the post-independence time and was utilized in dealing with the foreign assistances (ibid.). One Burmese economic indicated a lesson learnt from the implementation was the use of national staffs, mostly civil servants, government bureaucratic, and the foreign staffs. During the first Two-Year Plan, the preparation was largely entrusted to the national staffs in comparison American

consultants were used in the Eight-Year Plan. The utilization of national staff should be careful with the inter-change of personnel with other governmental department to promote mutual understanding and point of view for smoother progress. In employing the American advisors, the personnel with academic institutions or dis-interested governments would have been more useful than commercial firms whose interest was to perpetuate their contracts (The Tun 1963).

The direct inheritance of British administration as its most fragile state also proved to be catastrophic to Burma reconstruction. Though the Parliamentary democracy was chosen as political practice, the entire administration was still the same as was under the British. There simply had little time to revise and was never given proper attention to restructure to accustom with the new Burma policy. The shortage of skilled civil servants to execute the government policies and inefficient assistant to perform the tasks, in addition to the weak in centralized administration and poor communication between inter-department created a bad atmosphere and the morals on the executives. Similar affects were on the state enterprises since those managerial levels were sent from the governmental department with little training in business and had different agenda with running the enterprises than fulfilling one's duties.

On the promoting of Private organizations, it struck with two additional challenges – the resentment of Government over Socialism threatening to

nationalize all the businesses one day and the near absent of Burmese entrepreneur. The first was the basic State doctrine to build a socialist society thus these firms, mostly owned and operated by foreign subjects), could not possibly be allowed, and must be taken over by the State. The latter was a colonial legacy – Burmese were not actively participated in any commerce and industry and was always been suppressed by British, Indian and Chinese so the government wishing to Burmanize the economy expecting to solve this by experience in governing the country was a false assumption. The disastrous course of action was applying governmental methods by creating Boards and Corporations to supplement the cutting down of foreign activities (Tun Wai 1965, pp 15-16). The denying of private capital investment especially with foreign also has one drawback. Burmese private capital was not familiar and experienced in the industries financing partly because in the wake of colonial rule Burmese entrepreneurs were most comfortable with agricultural lending. This was also relating to the return on investment where the agriculture provides higher than the dividends by the industrial concerns (Brown 2013, 102). Those wealthy Burmans as written by Tinker, was more favourable into the property development for foreigners, cinemas, garages, motor firms.

The most debated upon the Burma Socialism was the three central economic polices – Nationalization, Burmanization and Industrialization. As discussed in the previous chapter, the goal of socializing the country meant the private enterprises who were the champions of colonial Burma economy, must

be taken under the control of the State to be safe from the foreign hands and prevent any return of imperialism (Furnivall 1957, pp. ao-ap). The initial target was virtually every sector of the economy with the exception in some industries. Only in the mining and oil industry, the type of joint venture companies was formed with the largest foreign mining firms as well as with the oil industry apparently because of the lack of funds to reconstruct and expansion and the essential technical and managerial expertise (Tin Maung Maung Than 2007, 90-91). Burmanization was the replace of foreigners with the indigenous Burmans in all area of the workplace was the largest deficiencies among three policies. It was historically and psychologically rooted in the society and most powerfully motivated of all three policies. The shortage of skilled and qualified manpower, with experience in the bureaucratic administration were scare in those days and the sudden expel of British and Indian resulted the inadequate number of civil servants to meet the minimum tasks. With the Nationalization taken place all these private businesses became the public ownership and distributed to the related departments so the additional works with the shortage of manpower and inefficient assistances made the bureaucracy unable to perform properly. However, the biggest effort was given in the industrialization. The experience of colonial time, the one-sided economy with exporting primary products and depending import of finished goods and the monopoly of large enterprises in the industries pushed the young leaders to embark on state-owned industries. It came with two complementary ideas – simply on the light industry will not

confine the State-led industrialization and needed the basic support in the heavy industry. The second idea was these must be carried out by the State whereas the private sector could not and should not be permitted to enter. The result was the miscalculation on the costing of some of the sixty-five projects which exceeded the total Eight-Year allocation suggested by the consultants (Walinsky 1962, 495). These mistakes were later revised when the nationalization policy was weakened by the confidence in state running the enterprises and the shortage of funds, and the policy was directing to cooperation and joint ventures with the private sector which was proved to have far greater capacities in talents and capital formation. However, the threat of nationalization and hostility toward the private activities could not yield the necessary collaboration.

The problems and defects on this era were unaccountable and Walinsky himself addressed twelve major problems in implementing the Program. What have been discussed in this chapter were the most serious problems of the time and the obvious effect to the development process. It does not mean those not mentioned here were not serious, such as the role of military in the Burma political scene was very important as the following period of the plan was the military coup but it will be another story for Burma politics of post-independence. Nevertheless, this chapter has delivered the significant issues with the failure of the Development Program and the Burma Socialism.

## CHAPTER VII

### Conclusion

The purpose of the Thesis is to show the clashes between the US supported Economic Development Program and the Burmese Socialist Economic Implementation. The two different ideological approaches, one from the Capitalist point of view drafted Planning and the other with the strong Socialist ideology based on Nationalism were studied in this research. Since each side has their own perspectives and objectives, a chapter for each thought were given to illustrate some of the important issues surrounding them. It is not to say the last chapter has described the whole picture of the reasons behind the clashes. It was merely to satisfy the theoretical framework this study was constructed upon and more research are necessary to understand the more complete picture of the situation of the period. With the more materials coming out from that time, such as the US and UK governments official records and documentation, it is hopeful that in the future, using the information, this topic could be more understandable to the wider public. With these underlying backgrounds, this thesis will be concluded with the Theoretical Framework it tried to justify. There are five theories: 1) different political philosophies with the plan and the government; 2) the perception of capitalism and free-market economy from the socialist Burma; 3) the three central economic policies of the

Government; 4) the role of public administration and private enterprises; and 5) the interpretation of foreign aid and technical assistance.

Each of these theories were addressed relative to the topics in the above chapters. It has been questionable why the choosing of US engineering and economic advisors to prepare the National Economic Development Program with the essence of creating a Welfare-State<sup>1</sup>. Trager gave a view on this choice. Burmese leaders were at the time overwhelmed by the notion of plans and planning looking toward those Socialist state planned economy. Whereas US at that time had the mightiest economy in the World and the New Deal of the 1930s struck these young leaders to idolize therefore the economic consultants who were involved in the New Deal and the support for the policies of organized labours attracted them to be the choice of the economic planner (Trager 1958, 22). Although these planners were affiliated with Democrats thus probably more sympathetic toward the young socialist state, the liberal ideology attached with them was the opposite of Burma. Tight control on trade, import substitution industrialization, nationalizing private enterprise for state own and operate, the elimination of foreign presence in the economy were contradicted with more relaxed policies of free trade, export-led economy with the more active private participation which were basically the essence of capitalist nature. Since the beginning the objective of the Plan was to bring the country back into the pre-

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<sup>1</sup> The defects of the Program were given in-length in the previous chapter therefore as Conclusion this section will only give a summary of the contradictory ideas.

war status and doubling the economy of 1951 by 1960. This was never been described in any of the Government agenda or policies but only with the reference in the industrialization and huge investment on heavy industries.

Moreover, the understanding and objectives of economic development from both sides must have been misunderstanding or different from the beginning. It was plainly seen in the Preliminary and in the Comprehensive Report, that the main goal of the Plan was for the economy to get back to track of 1939 status which was well under the Colonial rule with the economy earning mainly with the primary commodities production. Maximizing the optimal output for the highest return was the slogan of the day but it was completely out of trajectory with Burmese Socialism which was to build production in-local to substitute imports and to establish itself as an industrialized nation. One significant feature was the heavy investment of infrastructure in the Plan but to rebuild the flows of goods which was vital under the Colonial economy.

The expectation of the Government administration to act with the efficiency and productivity was very poor judgement as the bureaucratic system was still the Colonial structure and it would be impossible to impose such system on either the Socialism or the Plan. The only matching between the two was the overemphasized on industrialization and neglecting the primary production industry, the major earner of foreign income. This view was shared by many intellectuals both foreign and locals (Trager 1958, 35) (Hla Myint 1967).



The second theory on the view of capitalism and free-market economy was strongly rooted in the colonial experience. As was sufficiently explained, the ill-experienced of free market under the British was defined as the instrument of imperialism. Thus, Burma and especially her political leaders believed the combination of private enterprises and foreign-controlled entities shall not be allowed to prevent the return of the colonial power. As Furnivall stated the post-independent Burma failed to distinguish between a capitalist economy and a capitalist society (Furnivall 1957, an) and mistrusted not only the foreign capital but the capital in general therefore during the time the hostility to the private sector. The same author made a remarkable comment on these leaders which became a sort of prophecy for future Burma that the misunderstanding of independence as the final goal for prosperity will be faced with the disappoint and despondent. Burma according to him, was not opened to the world, but the latter was opened to her and brought the change in culture, social, commercial, and industrial functions. The result of suppressed at the bottom of the social class made Burmese believe the opening was the source of these suffering. Therefore, tracing back to their dynastic era which the King owned everything and dictated the wellbeing of his subjects and tight control in foreign commerce, they assumed it as a solution to solve the misery. The inward-looking policy was the result of this experience and was chosen to achieve their socialist goals.

On the three central economic policies, it is believed adequate findings were made hence here it will wrap up these results. Nationalization was simply to regain the control of the economy as the Burmese lacked the ability to function as the political machinery allowing these enterprises and to enhance this, Burmanization took place simultaneously. The consequence was in the later period they lost confidence in nationalization and soon abandoned to promote more relaxed policies. However, regarding the role of private sectors and foreigners were still not welcomed as those policies since Burmanization was still ongoing. Industrialization can be said as the total failure to achieve since it was the waste of resources without bringing any favourable outcome and the abandoned on the main income of the economy, agriculture, produced the double loss for the country and the economy. It was strongly argued should the part of resources be used in the primary sectors the country would have been in better situation and could have achieved certain level of development. Therefore, it can conclude three policies were total failure of the Government.

The misconception of the ability of public administration to fulfil the expectation was quite devastating. The three economic policies above not only wasted the country's scarce resources but the power to abuse and create more corruption at every level and this symptom seemed to be keep on going until to this day. Whereas the perception of private enterprises by the Government is

also maintained at same degree of mistrust and hostility. One may argue the different political system may have brought the change however it cannot be denied that the attitude of Burmese for the last 70 years or so was not so much different at all. This is also in-line with the fifth theory of the view on foreign aid and technical assistance. The weakness of both the foreigners and locals were discussed but there needs to address one important factor. The mistrust on the foreigners (either East or West) is still a challenging factor for any expats to work in Burma and though the time have passed for so long, the shadow of the colonial experiences seemed to be still existing perhaps in the modern form. It cannot be denied the weaknesses in the foreigners however to eradicate this conception seemed to be too early and for that period too rush to change. Therefore, it was inevitable there will have conflicts not only within the philosophical matters but in practical actions.

Just to illustrate the fallacy of socialism bringing the prosperity or the inefficiency of production, Thet Tun gave a well explanation on the thought. He outlined the necessary of a Socialist State and compared with the Capitalist State on why it failed in the absence of the systematic government. He warned that it was not the inefficiency of the socialist methods of production as it has competition as effective as capitalism. However, the real danger lies in the loss of political liberty and freedom and the consequent emergence of totalitarianism. He argued the substitution of Socialism for Capitalism was the “cult of power” for “cult of money” and that Burma could have afforded a bad

government under the 'laissez-faire' system as it has little interference in the individual life compared to the socialist system interfering every aspect of daily life. He suggested should Burma chose to go with a socialist economic policy there should have a political democratic system easy to change the stronger government at the will of the electorate (Thet Tun 1954). This simply showed Burmese academics were wary of the upcoming disaster brought out by the strong nationalism fusing with State-led industrialization.

After all, this Thesis was simply trying to show the clashes between the capitalist-based US Economic Development Program and Burma Socialist ideological implementation. And learning the lessons from the event and be applicable to the present situation. Burma as defined by Furnivall never opened to the world but in the recent change of situation, she has become semi-democratic country. Although there are a lot of obstacles to overcome with the change of Constitution at the first step, the problems of her predecessors were still presenting in the modern Burma. Maybe these lessons will not be directly usable hence the conditions are different and the era we live in is completely unique in the history of mankind yet, as an under developing country, some of these issues will be presenting and it is the hope of the author this piece of research could be helpful in any way necessary for the development of Burma.