

**August 2012****Myanmar's Economic Development Stalled by  
Lack of Sustainable Financing for Growth****—How Japan Can Help Reform Financial System—**

Investigative research commissioned by Hitachi, Ltd.

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Due to economic sanctions imposed by the West and chaos both at home and abroad, Myanmar has been left behind by its neighbors in terms of economic development. As a result, while the country's economy is sustained by sectors such as agriculture and natural gas, Myanmar's manufacturing industry remains undeveloped; its economic activity is still low—with a nominal per capita GDP of US\$832, the nation ranked 154th of the 181 International Monetary Fund (IMF) member nations in 2011, and its outstanding problems are legion.

In this context, Myanmar is keen to make up for its lagging economic development by building up infrastructure of various types, starting with roads and railways, and attracting foreign companies that wish to establish factories in Myanmar. Its most glaring omission, however, has been that the nation has yet to develop a financial system to underpin economic development in the long term. In addition to its current work providing support for the establishment of a stock exchange market in Myanmar, Japan is being requested to play a leading role in designing a roadmap for the development of a financial system for Myanmar, suitable to its membership in ASEAN.

In Myanmar there is little public confidence in the banking sector. This mistrust is the product of various factors, including the chaos that ensued after past demonetization measures (in the form of a switchover to new banknotes) taken on three separate occasions—in 1964, 1985, and 1987—and the fact that deposits were not protected after the collapse in 2003 of the largest private bank, the Asian Wealth Bank. Even now, the presence of these factors seems to weigh heavily on the process of reform of Myanmar's financial system. Other reasons cited for the lack of progress made in the use of banks include problems relating to interest, an inadequate settlement function, and the problem of dirty and unwieldy banknotes.

Neglecting to attend to these conditions will leave Myanmar's economic development on shaky ground.

Thus, in order to solve these problems and assist in the financial aspect of economic development, Japan, which underwent a period of rapid economic growth, is asked to use that experience to assist in the development of a financial system that will ensure funding for growth by means such as bank loans. Specifically, this will involve developing a financial system geared towards economic development that is able to

secure long-term financing for growth, while striving to restore confidence in banks by assisting in the construction of various safety nets, such as the introduction of a deposit insurance system. In doing so, it is necessary to develop a financial system for Myanmar that is attractive to foreign investment. This would undoubtedly constitute major infrastructure for the attraction of investment and other initiatives from abroad. At the same time, it will be essential to engage in the basic but essential work of developing a system for circulation of bank notes and coins, which will represent a vital part of the financial infrastructure.

In the wake of the switchover to so-called civilian rule that began in 2011, the government of Myanmar is beginning to find itself in an environment in which it can at last embark on reforms in the development of the financial system, which had been lagging during the era of military government.

At this important moment, it is hoped that Japan will provide valuable and effective assistance<sup>1</sup> to Myanmar, a fascinating nation proud of its history and traditions with a latent potential for growth.

*The author would like to express his thanks to Mr. Toshio Idesawa (Chief Marketing Officer, Hitachi, Ltd.), ministers and officials in the governments of Japan and Myanmar, Bank of Japan, Central Bank of Myanmar, as well as scholars, organizations, and corporations in both countries for their valuable contributions to this article.*

<sup>1</sup> As a developing country, Myanmar lacks expertise in areas such as producing and managing facts and figures, so there is the danger of misjudging priorities and mistakenly identifying areas requiring assistance. Therefore, from now on it will be necessary to ensure in advance that the technical assistance to be provided is relevant and that an effective roadmap is drawn up, since sharing accurate information between Myanmar on the one hand and Japan, the West, etc. on the other will be essential.

