

# Policy Review on Myanmar Economy

Bangkok Research Center

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## Myanmar Economy in the Context of ASEAN Integration and Regional Change

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After decades of economic isolation and deprivation, Myanmar appears on the way to economic and political reforms. Initially, there is a nagging fear that Myanmar democratic process and economic reform could be reversed at some time in the near future. But gradually it becomes increasingly clear that the reform is here to stay with a caution that there would be some detours and setbacks along the way. Reform success would not be easy and how bumpy the road ahead will depend crucially on whether political reform can be entrenched through economic development that only economic reform can bring.

Myanmar political and economic changes occur in the midst of ASEAN economic integration and regional change. The ASEAN Economic Community (AEC) is scheduled to be completed in 2015 which is based on the four

pillars of a single market and production base, a competitive region, a region of equitable development and a region connected to the global economy. Since the inception of the AEC blueprint in 2007, a great deal of integration measures have been agreed and implemented. Trade liberalization in services, investment and freer movement of capital have made significant progress while liberalization of trade in goods is practically completed. This liberalization and de-regulation have been accompanied by trade and investment facilitation, standardization of customs procedures towards ASEAN Single Window, standards and conformance and mutually recognized agreement (MRAs). As a member of ASEAN, Myanmar has agreed and initiated the required measures and domestic change as required by the AEC blueprint to achieve the AEC by 2015. Recent political and economic reforms provide the necessary domestic impetus and constituency in a way more conveniently and quickly than Vietnam was able to after the end of Vietnam War in 1975. ASEAN economic integration reinforces domestic political and economic liberalization process and providing enormous opportunities for Myanmar to fully exploit its vast natural resources through ASEAN Connectivity Masterplan and production network within a single market and production base. Developing Myanmar's natural resources such as natural gas, hydropower, timber and precious

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stones would be crucial for mobilizing domestic development funds. Domestic and foreign funds are needed to build for much needed hard and soft infrastructure to facilitate industrial development and provide pay-off from reform to underpin confidence that change will generate higher living standards and reduce poverty. Economic success will build domestic constituency for further change and reforms will be the key to unleashing the binding constraints that have held back economic growth in the past Myanmar is the only ASEAN Member State that has border with China and India. This strategic geography provides vast opportunities for Myanmar to leverage on these two Asian emerging super economic powers. Both China and India are members of the East Asia Summit (EAS) that are important ASEAN dialogue partners. In this context, Myanmar can leverage on technical assistance and foreign direct investment from these Asian economic powerhouses in the process of re-structuring its economy. In addition, the huge domestic market of China and India provides convenient enormous export potential for Myanmar's manufactured goods, intermediate inputs and natural resources. To leverage successfully with ASEAN integration and regional change, Myanmar obviously needs to mobilize foreign and domestic capital, to increase space for the private entrepreneurs, promote FDI, develop its vast natural resources and to work closely with the international community in clearing outstanding debts and raising new long-term loans. These required measures must be done through sound macroeconomic management in stabilizing its exchange rate,

interest rate, price level and allocating its scarce resources. This could be done or facilitated through bilateral, regional and international technical assistance which have shown a much greater willingness to extend financial and technical assistance to Myanmar following the by-election on 1 April 2012.

Reform of the foreign exchange regime is the immediate macroeconomic policy requirement. For it to work, Myanmar will need an independent central bank and a set of trade and other regulations to align market prices of domestically produced and imported goods and services. The much needed foreign exchange reserve would come from expected inflow of FDI and foreign lending. Equally important is to have a policy priority through policy sequencing to avoid or minimize doing policy reform too much at any stage during the process of economic restructuring. A rush to reform without a proper policy safeguard and institutional support may cause instability and reversal in the reform process. Myanmar could profit and take policy cue from the Indonesian experience in the late 1960s when Indonesia managed its successful transition from a closed and state-controlled economy to a market economy. In addition, Myanmar has a unique opportunity to leverage its strategic location and vast natural resources for sustainable and inclusive growth at this defining juncture of ASEAN economic integration and the rapidly emerging economies of China and India. Ultimately, success will depend on calibrating the implementation of economic reform to domestic political and economic circumstances.

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