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6-2013

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Sim Yee LAU

Myanmar Economic Resources International

Kim Song TAN

Singapore Management University, kstan@smu.edu.sg

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Citation

LAU, Sim Yee and TAN, Kim Song. Solving Myanmar's Catch-22. (2013). *Myanmar Times*. Research Collection School Of Economics.

Available at: https://ink.library.smu.edu.sg/soe_research/1565

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Solving Myanmar's Catch-22

LAU Sim Yee and TAN Kim Song

Published in Myanmar Times, 3 JUN 2013

Japanese Prime Minister Shinzo Abe's visit to Myanmar late last month was a milestone. While Japan has been a quiet but strong supporter of Myanmar over the years, the first visit by a Japanese prime minister since 1977 elevated bilateral relationships to a new level and reaffirmed Japan's commitment to playing a major role in Myanmar's long-term economic development.

With more than 140 business executive accompanying him, Mr Abe demonstrated that he intends to create a Japanese public-and-private sector nexus to support economic development in Myanmar.

Japan's government will take the lead by providing a massive amount of official development assistance. In addition to debt forgiveness of 200 billion yen (US\$2 billion), Tokyo is providing 90 billion yen in 2013 to support development in three key areas: agriculture, human resources and infrastructure. Mr Abe's expects that Japanese companies will increase investment as infrastructure is upgraded or built.

His decision to focus on infrastructure and human resources is both timely and practical. Despite Myanmar's obvious attractiveness as a new frontier market, many foreign investors continue to be deterred by bottlenecks in infrastructure and human resources, but without sufficient foreign investment the pace of upgrading infrastructure will remain slow. Mr Abe aims to solve this Catch 22 with his two-pronged approach.

Indeed, if the plan works Myanmar will see a large and sustained flow of private-sector investment from Japan.

Investments from Japanese businesses lag those from other countries, particularly China and Thailand. However, as a result of strains in Sino-Japanese relations, many Japanese companies and investors are shifting their focus from from China to ASEAN countries, with Myanmar receiving special attention.

Development driven by external funding does not, however, ensure success. The host government's management of funding is crucial, as other countries that have embraced this model have found. Without a careful development framework and a clear roadmap to implement it, there is no guarantee that external funds will be used efficiently to upgrade the infrastructure and human resources needed for sustainable development.

Many promising frontier economies squandered their opportunities through a combination of poor planning, resource misallocation, rent-seeking, the impact of "Dutch disease" – the over-exploitation of natural resources at the expense of manufacturing – and other factors.

Fuelled by strong external funding, these countries went through a brief period of rapid but often unbalanced economic growth.

The short-term booms were typically accompanied by soaring real-estate prices. The lack of a realistic development plan supported by adequate infrastructure saw growth grind to a halt. Some of these countries were overwhelmed by severe inflation and subsequently tumbled after a succession of currency and financial crises. Initial euphoria did not lead to a sustainable economic growth. Hope eventually turned into disappointment.

Nay Pyi Taw should take steps to avoid such mistakes. Questioning have already be raised about the amount of capital inflows that will materialise. Myanmar should avoid being trapped in a situation where, as Daw Aung San Suu Kyi said, “foreign investment [in Myanmar] is increasing more in theory than in actual fact”.

The comfort level for donors and foreign investors alike will rise significantly if the government publicises its long-term development plan, clearly spelling out its vision, its roadmap for implementation and its intensions for managing external funding.

The plan should make clear the milestones to be achieved at various stages: short-term (one year), medium-term (five years) and long-term (10 years). It should also clearly articulate how external funding will be used, how priorities will be set and how various development projects will be sequenced. For example, the plan could explain how the Thilawa Special Economic Zone will fit into the long-term development plan and how it might affect the overall use of external funding.

While development of human resources and capacity building may be a long-term process, administrative reforms can be made quickly to speed up the government’s decision-making process and facilitate a smoother flow of external funding to appropriate sectors and projects. Decentralisation and a clear delegation processes could make the governmetn more efficient.

Being a latecomer to economic development, Myanmar has the luxury of drawing on the experiences of successful East Asian economies. These countries benefitted greatly from the help of external funding, both official and private. Finding out how they managed such external funding, and what pitfalls they encountered, could provide useful for Myanmar.

Nay Pyi Taw should consider tapping into the wide range of expertise available in the region in a more structured manner. It could start the process by formulating a comprehensive plan for long-term development and management of external funding.

Lau Sim Yee and Tan Kim Song are directors of Myanmar Economic Resources International, an independent think tank based in Yangon.