

Myanmar's Foreign Exchange Market

Koji Kubo

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Controls, Reforms, and Informal Market

 Springer

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Preface

This book presents a bird's-eye view of Myanmar's foreign exchange market in the past and present. Until now, the country's foreign exchange market has been shrouded in mystery. In the past, authorities implemented a wide range of arbitrary regulations and controls on international trade and foreign exchange, which spurred a myriad of informal economic activities including informal currency deals, smuggling, and international money transfer outside banks. The official exchange rate, which was pegged to the special drawing rights of the International Monetary Fund (IMF), remained at around 6 kyats per U.S. dollar, whereas the prevailing unofficial market rate fluctuated above 1300 kyats per U.S. dollar in the late 2000s. This was one of the worst disparities between the official and unofficial market rates at that time. It was not clear how the official foreign exchange regime was implemented on the one hand and how the unofficial foreign exchange market functioned on the other.

Despite the foreign exchange policy reform with the IMF's technical assistance since 2011, Myanmar's foreign exchange market has preserved features of its pre-reform period such as prevalent informal currency deals outside banks. The small turnover of interbank foreign currency deals suggests that the official market institution remains weak. The evolution of the foreign exchange market exhibits path dependence.

Given that path dependence, the chronology and overview of the foreign exchange market that this book provides will be indispensable for understanding current phenomena in the market. The book is thus intended for policymakers confronting the unofficial foreign exchange market as well as for academics who are interested in Myanmar's economy.

Based on my extensive fieldwork in Myanmar to complement the sparse literature on it, this volume unveils the structure of the country's foreign exchange market. I conducted numerous interviews with officials of state-owned and private banks and with financial authorities, as well as carrying out questionnaire surveys of private exporters and importers on their foreign currency transactions. I was stationed in Yangon, Myanmar's largest commercial city, for a long-term foreign residency research program of the Institute of Developing Economies, Japan

External Trade Organization (IDE-JETRO) for 2 years, from October 2006 to October 2008. It allowed me to acquire a rough picture of the unofficial foreign exchange market in the pre-reform period. Subsequently, I was assigned to a resident researcher position at JETRO's Bangkok office from April 2012 to July 2016, during which I made frequent visits to neighboring Myanmar for fieldwork. This coincided with a period when the foreign exchange policy reform gained its momentum, including exchange rate unification in April 2012. I would like to express my most profound gratitude to IDE-JETRO for the opportunities they gave me to research Myanmar's economy.

This book would not have been possible without several rounds of questionnaire surveys on the unofficial foreign exchange market in the pre- and post-reform periods, in which I gained first-hand information about Myanmar's private exporters and importers involved in informal currency deals. Aung Min, Phyo Kyaw Thu, and Kyaw Hlaing provided invaluable support for the surveys.

I am grateful to the officials and retired officials of the Central Bank of Myanmar, including Than Lwin, Winston Set Aung, Naw Eh Hpaw, Win Thaw, Min Han Soe, Khin Thida Maw, and Cho Cho Thein, who shared with me their views and ideas on the rapidly changing foreign exchange market during the reform period.

I am indebted to Masaru Tanaka and Shunsuke Yamamoto who assisted the foreign exchange market reform as advisors from inside the Central Bank of Myanmar. Their insights into Myanmar's economy from the point of view of regulators and bankers helped me to burnish my understanding of the country's foreign exchange market. Discussion on international banking and Myanmar's financial system with Satoshi Okagawa and Yasuhisa Ojima is also gratefully acknowledged.

Many thanks are due to Toshihiro Kudo, who introduced me to many resource persons in Myanmar. Shin'ichi Watanabe and Bhanupong Nidhiprabha provided support and encouragement for compiling my experiences and knowledge on Myanmar's economy in this book, which has been an overwhelming and enormous task. While there are not many scholars who share common interests in Myanmar's financial sector, I am particularly indebted to Fumiharu Mieno and Sean Turnell for discussions, as well as to their research. Last but not least, I would like to thank Tsunehiro Otsuki, Hiro Lee, Kozo Kunimune, and two anonymous reviewers for their insightful comments that significantly contributed to improving the manuscript.

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His research focuses on the evolution of economic institutions in Myanmar. His analyses of the Myanmar economy have appeared in the *ASEAN Economic Bulletin*, *Asian-Pacific Economic Literature*, the *Journal of Southeast Asian Economies*, and *Post-Communist Economies*. He is the editor of *Dollarization and De-dollarization in Transitional Economies of Southeast Asia* (2017).

Abbreviations

AREAER	<i>Annual Report on Exchange Arrangements and Exchange Restrictions of the International Monetary Fund</i>
ASEAN	Association of Southeast Asian Nations
BIS	Bank for International Settlements
CBM	Central Bank of Myanmar
CPI	Consumer Price Index
DOTS	<i>Direction of Trade Statistics</i>
FCDs	Foreign Currency Deposits
FDI	Foreign Direct Investment
FECs	Foreign Exchange Certificates
FY	Fiscal Year
IMF	International Monetary Fund
MCP	Multiple Currency Practice
MEB	Myanma Economic Bank
MFTB	Myanma Foreign Trade Bank
MICB	Myanma Investment and Commercial Bank
MoFR	Ministry of Finance and Revenue
SDR	Special Drawing Rights
SEEs	State Economic Enterprises
SFA	State Fund Account
SMEI	<i>Selected Monthly Economic Indicators</i>

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