RSIS WORKING PAPER

NO. 321

FINANCIAL DEVELOPMENT IN MYANMAR AND THE ROLE OF JAPAN

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24 MAY 2019

Abstract

Since 2011, under the Thein Sein government, Myanmar has started to build financial institutions almost from scratch. Japan has played a leading role in this effort, writing off debt, opening the Yangon Stock Exchange, vying for the entry of Japanese banks, and laying out finance-related laws. Myanmar's weak institutions present considerable challenges. By examining common features of financial markets in Southeast Asia, this paper identifies the preconditions for financial development to be a vehicle for Myanmar's industrialisation as well as the rationale for Japan's public and private involvement in Myanmar.

Keywords: Financial development, economic development, financial reforms, Myanmar's economy, Japan–Myanmar relations.

JEL classification: N2; O2; P4

Introduction

The British withdrew from Myanmar soon after the Second World War, and no visible progress was made in the country's financial development under the socialist regime from 1962 to 1988. In the late 1980s, although the junta finally initiated economic liberalisation, it was a short-lived attempt as the Asian Financial Crisis (AFC) in 1997 and the Myanmar banking crisis in 2003 disrupted progress. Since President Thein Sein took office in March 2011, however, the country has implemented a series of financial reforms while the macroeconomic environment was reasonably stable.

In the process of Myanmar's financial reforms, the Government of Japan, as the biggest provider of foreign assistance, wrote off US$3.7 billion of Myanmar's debt; the Japan International Cooperation Agency assisted in introducing finance-related laws; Daiwa Institute of Research, the Japan Stock Exchange (JPX), and the Financial Services Agency (FSA) contributed to the establishment of the Yangon Stock Exchange (YSX); and all three Japanese mega banks (Mitsubishi UFJ Financial Group, Sumitomo Mitsui Banking Corporation, and Mizuho Bank) received permission to enter the Myanmar market.

The main role of financial markets is to channel savings into productive investments by reducing information and transaction costs that impede efficient allocation of capital. Financial institutions mobilise savings by pooling risks and offering safe returns. They also screen capital seekers, monitor recipients, and provide risk management and liquidity. Moreover, the economies of scale lower the costs of project evaluation and facilitate monitoring of projects through corporate governance.

In Southeast Asia, however, the lack of legal rules and their enforcement, and lack of standard accounting procedures and credit practices often hinder effective operation of financial markets. Typically, weak institutions allow privileges to industry leaders with strong political ties. These problems are particularly acute in Myanmar, which only started implementing financial reforms recently.

Will the ongoing financial reforms be a catalysis for much-needed industrialisation and economic growth in Myanmar? To answer this question, we will (i) explore how Myanmar's weak financial sector has failed to support industrialisation historically; (ii) assess how varied structures and experiences of Southeast Asian financial systems offer lessons for the ongoing reforms in Myanmar; and (iii) investigate Japan's role in Myanmar's latest endeavours going forward.

Weak Finance-industrialisation Nexus in Myanmar

No other Southeast Asian country demonstrates as well as Myanmar how difficult it is to set up a financial system. Almost every attempt to foster a financial system in the country has failed, keeping Myanmar's economy insulated from industrialisation to remain largely agricultural with a reliance on natural resources.

In Myanmar, whenever their operations were allowed, foreign lenders dominated financial markets. During the British colonial years of 1826 to 1948, Chettiars (moneylenders from the Indian state of Tamil Nadu) played a central role in rural Burma as financers. However, the arrival of the Great Depression triggered a fall in crop prices and the insolvency of Burmese farmers, following which the Chettiars acquired most of the cultivatable land. Around the same time, the British colonial administration attempted to set up a formal rural credit market in Burma. Cooperative credit, a top–down financial system introduced by Britain, expanded its operation but also ended up as a failure following the crunch in 1927.

During the colonial years, Burma, as a province of British India, did not have its own central bank and the rupee was used as the local currency. Although there were advocates for Burma's own central bank, the idea was never realised because the Burmese economy was considered too small and the province lacked sufficient personnel (Turnell, 2009). Instead, the Reserve Bank of India was established in 1935 with responsibility for both India and Burma. Therefore, Burma's essential problems, such as insufficient funding and high interest rates, persisted. As Wai (1953) observed, "the banks did not want to keep their money lying idle in Burma […], they preferred to invest it in India." In sum, Burma's industrial development was almost negligible and whatever little was almost wholly owned by Europeans or Indians.

In 1942, Rangoon fell to the Japanese army, and most foreign banks and Chettiars left Burma. Japan introduced the occupation currency and the well-connected Yokohama Specie Bank swiftly expanded its presence across Burma. But the establishment of a proper financial system was far from completion as the valuation of Japanese currency notes dropped dramatically over the occupation years (Tun Wai, 1953).

In the post-independent period, the financial situation worsened. The junta government established the People's Bank of the Union of Burma (PBUB), and eventually all existing banks were nationalised under the same name (PBUB no.1 to no.24). In May 1964, the junta went ahead with demonetisation, and the consequence was the nation's loss of confidence in holding kyat (the Burmese currency). Although the State Law and Order Restoration Council and the State Peace and Development Council engaged in a new round of financial reforms since the early 1990s, the AFC in 1997 and a spectacular liquidity crisis in 2003 disrupted the course.

As Hill (1984) observed, Burma was "one of the least industrialised countries in Asia" despite the Burmese government's emphasis on industrialisation in the 1950s and adoption of economic and institutional reforms in the 1970s. For many decades, the percentage of GDP in manufacturing in Myanmar has remained approximately 10 per cent, well below 25 per cent, a threshold of "industrialised" economies proposed by Sutcliffe (1971). Such low industrial activity can be partially attributed to the long-term absence of a formal financial sector.

Under the Thein Sein government, Myanmar's financial sector underwent significant reforms. First, the Central Bank of Myanmar (CBM) became an autonomous and independent regulatory body by passing the Central Bank of Myanmar Law in 2013. Previously, the Bank was under the guidance of the Ministry of Finance and its main duty was to finance the government deficit. The CBM now sells treasury bonds to private banks. Myanmar has also started to provide foreign banks with operating licenses and embarked on a project to establish a stock exchange. With financial reforms on track, industrial activities began contributing considerably to Myanmar's GDP growth in recent years.
Still, the country's overall financial system is at its nascent stage. Tellingly, the penetration rate (percentage of people with bank accounts) is estimated to be less than 20 per cent. Similarly, the ratio of private bank credits to GDP is as low as 32.5 per cent (Turnell, 2014).

Why is Myanmar's financial penetration rate so low? The main reason is that Myanmar's citizens lack trust in banking because of the financial fiascos in the past. Therefore, the most pressing issue for Myanmar is to lay out trustworthy institutions. Historically, Myanmar has been a cash society due to insufficient regulations for other means of money transactions. Local banks are concentrated in big cities and typically do not have branch networks throughout the country. Equally important is the fact that Myanmar's banking sector has relied on asset-based lending, which allows companies to borrow money based on the liquidation value of assets they hold. The sector needs to expand its cash-flow-based lending, which allows companies to borrow money based on the projected future revenues. It will require the establishment of credit bureaus and the enforcement of an effective accounting system.

Myanmar in the Southeast Asian Context

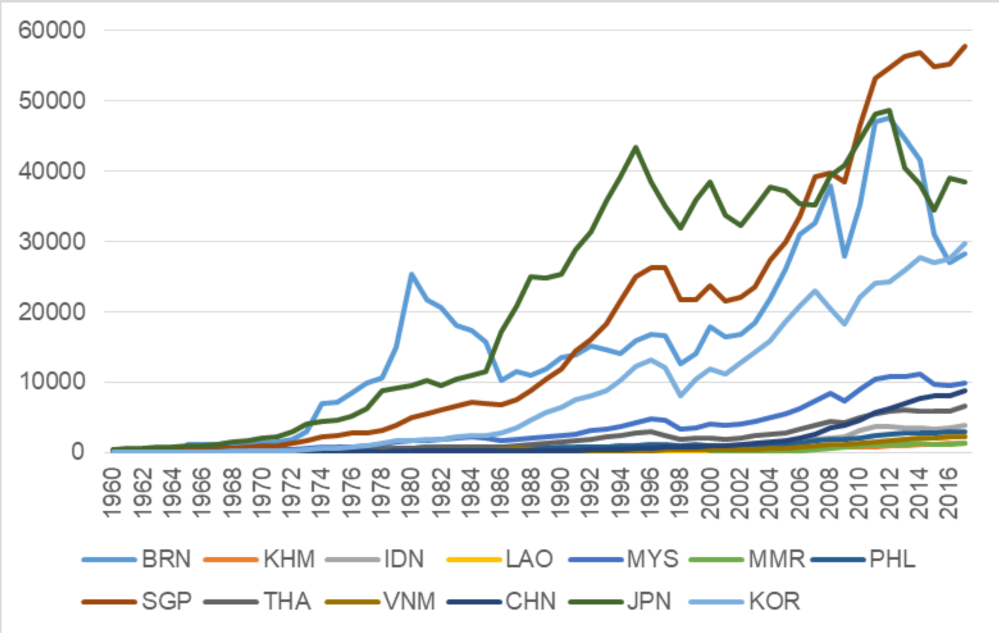
The varied structures and experiences of other Southeast Asian economies offer lessons for Myanmar as it endeavours to develop its industries through financial institutions.

East Asia's financial sector recorded impressive growth before the AFC hit the region in 1997. In many countries, bank credit expanded, while stock markets enjoyed rising share prices. The collapse of the Thai baht in the summer of 1997 triggered a financial catastrophe that spilled over from Thailand to Indonesia and Korea. Following the crisis, scholars were divided over the Asian development strategy. Some justified government intervention and guidance in financial affairs, with special attention to industrialisation. In their view, financial liberalisation merely led to the control of private banks by corporate leaders, whose interests are not overlapped with national development strategies. The others criticised Asia's "repressive" bank-based system, which was controlled by governments or big businesses, calling for better corporate governance and demanding further financial liberalisation.[1] The so-called "double mismatch" was identified as the root cause of the economic breakdown after the financial crisis. Traditionally, corporate borrowers in Asia's emerging economies depended on a short-term, foreign currency funding for a long-term investment in the local currency. In order to alleviate such a constraint, the Asia Bond Market Initiative (ABMI) under ASEAN+3 framework was launched to develop local currency-denominated bond markets and promote financial cooperation in the region. It is worth noting that Malaysia chose not to rely on the International Monetary Fund (IMF) programme, but imposed capital controls in response to the crisis. Scholars are divided if capital controls can be used as an effective crisis resolution (Fisher 2004, Athukorala and Jongwanich 2012).

Currently, aggregate data shows positive financial development in Asia. In terms of its depth, the financial system in the region is less developed than in advanced economies but more developed than in Latin America and Eastern Europe. Bank credit to the private sector has accelerated, bond markets have expanded rapidly, and the number of listed companies has soared. But, although the provision of domestic credit and market capitalisation as a percentage of gross domestic product (GDP) are on an upward trend in most East Asian countries, GDP per capita has barely taken off except in Japan, Korea, Singapore, and Taiwan. Despite the growing banking sector and equity market, many Southeast Asian economies face the so-called "middle-income trap", a development situation where fast-growing economies fail to transform into a high-income country. This is illustrated by Figure 1, which shows a time series of GDP per capita of East Asian economies from 1960 to 2017. A clear widening wedge can be seen between Brunei, Korea, Japan, Singapore, and the other countries from the mid-1980s.

[1] This argument is often linked to "the Washington Consensus," which was coined by John Williamson in 1989 referring to a list of 10 policies that were accepted as appropriate in Latin American countries by the Washington-based institutions such as the World Bank and the International Monetary Fund.

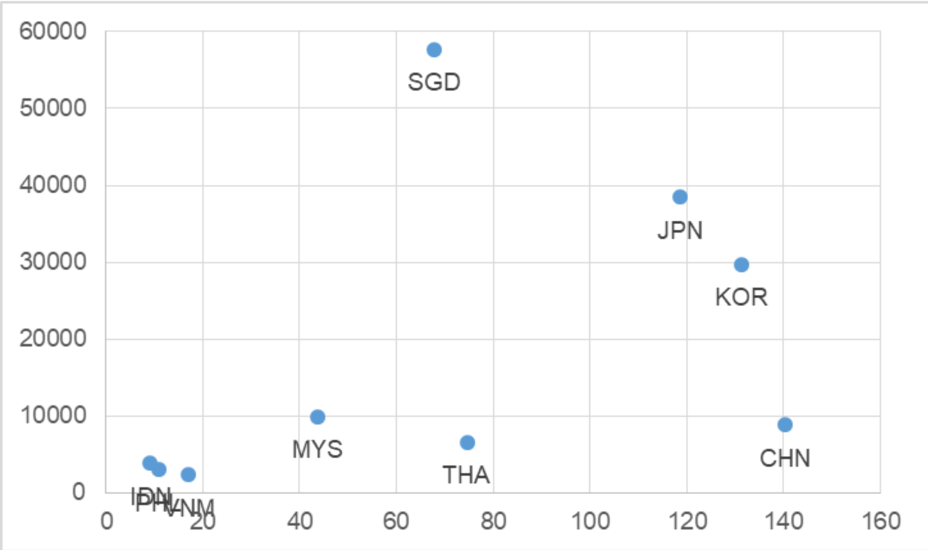
Figure 1: GDP per capita of East Asian economies, (1960–2017, current USD)



BRN = Brunei, KHM = Cambodia, IDN = Indonesia, MYS = Malaysia, MMR = Myanmar, PHL = Philippines, SGP = Singapore, THA = Thailand, VNM = Vietnam, CHN = China, KOR = South Korea, JPN = Japan.
Source: World Bank.

Figure 2 plots the volume of traded shares as a percentage of GDP, which reflects the depth of the stock market, and GDP per capita for countries in East Asia in 2017. Southeast Asian countries excluding Singapore show no clear correlation between the two measures. It is notable that Thailand, whose volume of traded shares exceeds that of Singapore, has a GDP per capita one-ninth of that in Singapore. Similar patterns can be observed in Figure 3 where we look at domestic credit to private sector as a percentage of GDP and GDP per capita of countries in East Asia in 2017. Southeast Asian countries excluding Singapore show no clear correlation between the two variables. Vietnam and Thailand have a higher ratio of domestic credit to GDP than Singapore but a much lower GDP per capita.

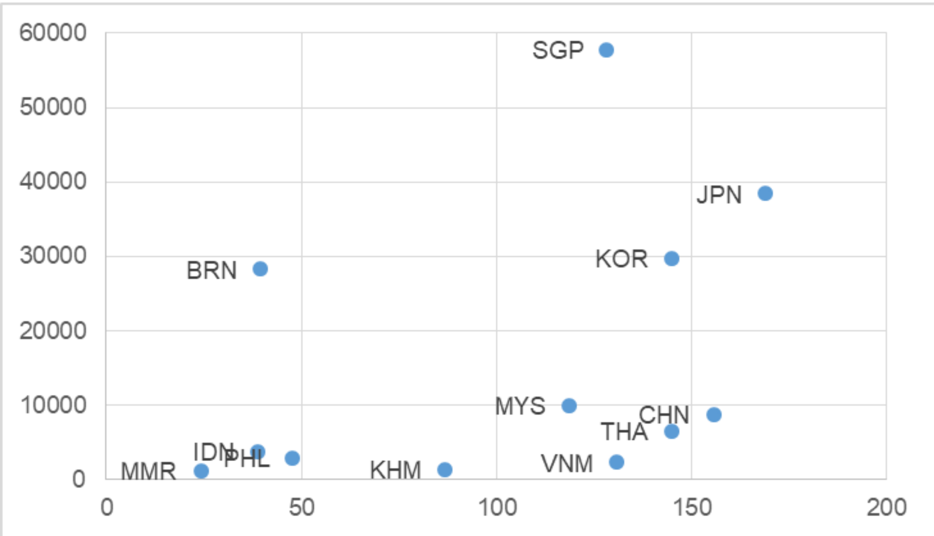
Figure 2: Stocks traded, total value (% of GDP) vs. GDP per capita in 2017



IDN = Indonesia, MYS = Malaysia, PHL = Philippines, SGP = Singapore, THA = Thailand, VNM = Vietnam, CHN = China, JPN = Japan, KOR = Korea.

Source: World Bank.

Figure 3: Domestic credit to private sector (% of GDP) vs. GDP per capita in 2017



BRN = Brunei, KHM = Cambodia, IDN = Indonesia, MYS = Malaysia, MMR = Myanmar, PHL = Philippines, SGP = Singapore, THA = Thailand, VNM = Vietnam, CHN = China, KOR = South Korea, JPN = Japan.

Source: World Bank.

Didier and Schmukler (2015) point out that financial systems in emerging Asia remain less developed than aggregate measures suggest because a few large companies capture most of the issuance in capital markets and secondary markets remain relatively illiquid. Less-developed countries lack even standard accounting procedures and credit practices. In the end, most firms in countries with poor investor protection are controlled by large shareholders and only a small proportion of the shares are held by individual investors. Bank lending, too, is skewed to large firms or firms belonging to a conglomerate while the public sector occupies a large fraction of the bond market with few corporate bonds issued.

In contrast with Northeast Asia's advanced economies such as Japan and Korea,[2] Mieno (2015) argues that industrial and financial policies in Southeast Asia have not been aligned. He shows that the financial system in Southeast Asia is characterised by low dependency on bank loans and high dependency on self-financing. For instance, he finds that of the top 447 firms in terms of total assets in Thailand, only 33.3 per cent are listed on the stock market, and commercial banks are strengthening their engagement in the finance, retail, or real estate sectors instead of manufacturing. A similar conclusion was drawn by Studwell (2013) who analysed why some East Asian countries have been more successful in their economic development than others. He points out that the banking system did not support indigenous industrialisation effectively and high investment flooded into non-productive activities, particularly luxury real estate, in Southeast Asia.

Financial development in Vietnam is a case in point. Although the number of listed firms is impressive, it is a result of the mass privatisation programmes as experienced in many other transition economies. Ownership in equitized state-owned enterprises is still concentrated with the government and insiders, posing various risks to minority shareholders (Bonin and Wachtel, 2003; Nguyen et al., 2014). Strikingly, almost no bankruptcy was reported in Vietnam after 15 years of the enactment of the Bankruptcy Law, implying that legislation does not necessarily lead to enforcement.

In Myanmar's business context, it is not uncommon for one person to be a board member of several companies, creating potential conflicts of interest. Like its peers in Southeast Asia, Myanmar's tycoons often stay away from the stock exchange because they do not wish to disclose their corporate information and lose their grip on management. Moreover, some local banks function merely as a financial intermediary for a larger corporate group. Similarly, the YSX relies heavily on a small number of investors and lacks institutional investors. In addition, Myanmar's legal system is fragile and investor protection is almost non-existent. The last part of the Securities Exchange Law stipulates that, during an unclear "transitional period," the Ministry of Finance "may issue necessary notifications, orders, and directives" in the supervision of the securities business. There remains scepticism about the law's transparency.

On the banking front, state-owned commercial banks in Vietnam discriminate against borrowings from the private sector in favour of state-owned enterprises. The banks can provide unsecured lending only to private firms with at least two consecutive years of profits. The loans of joint-stock banks often flow into speculative activities, such as real estate and stock markets, instead of going into productive investments (Leung, 2009).

[2] The developmental state literatures illustrate that in these Northeast Asian countries the competent bureaucracy, coupled with embedded autonomy, guided private sector activities and promoted trade objectives, thus successfully realising rapid economic transitions.

Japan's Engagement in the Ongoing Financial Reforms in Myanmar

Today, Japan plays a central role in assisting Myanmar's ongoing financial reforms and attempts to lead the path towards industrialisation. Close scrutiny into the regional context reveals that Japan has become increasingly interested in Myanmar not only from an industrial perspective but also from a financial perspective, while Japan is seen as a natural partner for financial cooperation in the eyes of the Burmese officials.

The prototype of Japan's public-private assistance for financial development in Myanmar emerged in one of the FSA working groups specialising in "international expansion" in 2012. The working group proposed a collection of policy suggestions, such as offering technical assistance for financial development and support for financial deregulation in Asia, to promote the internationalisation of business activities by Japanese firms and financial institutions.[3] Reflecting on these policy suggestions, the Japanese cabinet approved Japan's Revitalization Strategy in 2013, where it articulated that "by taking in the growth of Asia, the government will vitalise stock markets and improve asset management markets to build a No.1 financial/capital market in Asia." In 2014, the revised growth strategy further pledged that "the government will also support Japanese firms' and financial institutions' activities in Asia."

In recent years, Southeast Asia has become a key foreign direct investment (FDI) destination for Japanese firms, partly because of rising labour costs in China. Since 2013, the ASEAN-4 nations—Indonesia, Malaysia, the Philippines, and Thailand—have attracted more FDI from Japan than China. Likewise, Japanese financial institutions, particularly banks, were shifting their weight towards Southeast Asia. The move is seen as the second wave of cross-border activities, following the first wave of expansion of Japanese banks in 1980s, before the bubble economy burst. For example, in 2013 the Bank of Tokyo-Mitsubishi UFJ acquired Bank of Ayudhya, Thailand's fifth-ranked commercial bank.[4] The claims of Japanese banks on Asia have grown 105 per cent since the end of 2008 (IMF 2013). Japanese banks are expanding their client base from Japanese firms to local entities and even individual customers. The IMF (2013) predicts that this expansionary trend is likely to continue over the medium term. In the ASEAN region, Myanmar has the fifth largest population after the ASEAN-4 but a GDP per capita only higher than Laos and Cambodia. This alone makes the country one of the most important destinations for further Japanese investments.

[3] In the long term, the FSA also wanted to create an "Asian voice" in relevant international conferences including the Financial Stability Board, an international body that monitors and makes recommendations about the global financial system.

[4] Propelled by the Bank of Japan's monetary easing policy and the decline in Japan's domestic population, Japanese banks have been keen to expand their overseas businesses. Also, because of the global financial crisis, European banks were retreating from Asia, and the American banks cut off some businesses in the region, leaving a void for Japanese banks.

There is new empirical evidence that banking FDI precedes and promotes manufacturing FDI (Chor et. al 2018). Indeed, coupled with the overseas re-expansion of Japanese banks, Japanese companies are eager to hold stakes in local companies or even proceed with mergers and acquisitions. This will enable them to enhance their market shares in Southeast Asian economies, signalling a clear departure from long-held traditions to establish manufacturing hubs in the region.

Seen from this angle, we can understand Japan's involvement in financial reforms in Myanmar as a means to facilitate industrialisation in the latter. Indeed, the Japan-Myanmar joint venture opened Thilawa Special Economic Zone (SEZ) in 2015, the first of its kind in Myanmar. At the same time, as the labour cost in Thailand soars, Japan initiated the "Thai plus one" strategy, pushing the boundary of manufacturing clusters around Bangkok. In particular, labour-intensive auto part suppliers began to expand their operations into neighbouring countries including Myanmar.

In 2014, the FSA signed memoranda of understanding (MOUs) on financial cooperation with Indonesia, Thailand, and Vietnam. It also established the Asian Financial Partnership Center, where officials from financial authorities in Asia are invited for training and research. The FSA hopes these officials will facilitate Japanese business activities in their home countries by deregulating their markets. To date, more than 30 officials have been trained by the FSA, including several officers from Myanmar.

Japan's Daiwa Securities' engagement in Myanmar dates back to the early 1990s, when Daiwa Securities Group and Myanmar Economic Bank planned to evolve the Myanmar Securities Exchange Centre into a stock exchange.[5] Subsequently, the AFC in 1997 and the 2003 banking crisis disrupted the schedule. Finally, in 2012, the CBM, the Tokyo Stock Exchange, and the Daiwa Institute of Research singed an MOU to assist the establishment of a stock exchange.[6] Currently, Daiwa is also engaged in securities brokerage for Burmese individual investors and provides advisory services on IPO for local companies. This shows that the long-term relations between Daiwa Securities and the Myanmar authority eventually paid off.

Meanwhile, in August 2012, the Policy Research Institute (PRI) under Japan's Ministry of Finance and the CBM signed an MOU to assist the introduction of the Securities Exchange Law in Myanmar.[7] The law was put into effect in August 2013. It was the first time Japan had drafted a finance-related law for a foreign country from scratch.[8] By the end of 2013, the FSA dispatched their officers to station in

[5] During this period, as rival securities firm Nomura expanded to Vietnam, Daiwa was seeking an opportunity in the region. Daiwa deepened ties with then Myanmar's National Planning and Economic Development Minister David Abel, and that facilitated the establishment of the Myanmar Securities Exchange Centre. The latter is a joint-venture between Myanmar Economic Bank and Daiwa Securities Group to operate the country's sole over-the-counter stock exchange.

[6] Myanmar signed similar MOUs with Korea and Thailand but these were limited to human capacity building.

[7] Based on the MOU, Japan and Myanmar set up working groups. Japan drafted the law based on the Japanese Financial Instruments and Exchange Act, and the Myanmar side modified it.

[8] Japanese officials said the drawing of the new law was based on consultation with the Myanmar side, denying any high-pressure selling.

Yangon to establish an oversight agency for the capital market. In January 2014, the FSA and Myanmar's Ministry of Finance signed another MOU to cooperate on securities, insurance, and microfinance, officially marking the commencement of Japan's public-private engagement in financial development in Myanmar. Meanwhile, the PRI is helping Myanmar enhance its financial capacity for small and medium-sized enterprises.

Furthermore, in 2014, 25 banks from 12 countries in the Asia-Pacific applied for operating licenses in Myanmar. In October of the same year, Myanmar gave permission to nine foreign banks to open branches. While many countries obtained only one license, all the three Japanese mega banks received licenses against previous speculation of two, and therefore Japan was regarded by the Myanmar local media as the big winner.[9] Currently, foreign banks are only allowed to operate for foreign entities. Among other business opportunities, Japanese banks can lend to Japanese firms to open factories in Thilawa SEZ where exemptions to financial sector regulations are granted (Gilmore, 2017). For instance, Mitsubishi UFJ Financial Group is trying to utilise the purchased Bank of Ayudhya, given that Thai FDI to Myanmar is sizable. Mitsubishi UFJ Financial Group is also trying to increase savings in CB Bank, its local partner, by encouraging factory workers in Thilawa Special Economic Zone to open personal accounts.

The YSX opened in December 2015. First Myanmar Investment, Myanmar Thilawa SEZ Holdings, and Myanmar Citizens Bank became the first listed companies in 2016. The Japanese side believes conditions are better in the YSX than in the stock exchanges of Cambodia and Laos, which have only a few listed companies. By comparison, the counterpart in Vietnam – the Ho Chi Minh City Stock Exchange, established in 2000 – now has more than 300 listed companies. Myanmar has about 200 public companies whose stocks are tradable, and they were seen as candidates for listing.[10] In January 2018, widely seen as an important test case, TMH Telecom Public Co, a Burmese equipment manufacturer, became the first company to raise fresh capital through an IPO in the YSX. In 2018, the Japan coalition comprising the FSA, Daiwa, and the Japan Exchange Group (JPX) reflected it has continued "seamless and steady" support for the development of Myanmar's capital market. Facing sluggish public listings and sliding stock prices, however, the Japanese side formulated a comprehensive revitalisation package for YSX, pleading to hold more seminars across Myanmar and accept Myanmar officials to Japanese financial organisations.[11]

On the other hand, the JPX, which was established by integrating the Tokyo Stock Exchange and the Osaka Securities Exchange in January 2013, updated its Medium-Term Management Plan in 2014 and included the Asian Strategy as one of four business pillars. Lagging behind its Korean counterpart's participation in the establishment of the Cambodian and Laos Stock Exchanges, the

[9] Originally, Japan was supposed to get two spots, but Prime Minister Abe lobbied heavily for three.
[10] One Japanese official foresees an upper limit of 100 companies for the time being. Myanmar Securities and Exchange Centre staff, including staff from Daiwa Securities Group, have been visiting "hopeful" companies and providing advice for listing since 2013.
[11] With the package called "LIST for Myanmar's future", both sides jointly launched Myanmar-Japan Joint-Committee (MJJC) as a regular follow-up mechanism.

creation of the YSX was the JPX's first overseas attempt of its kind. A JPX staff member in Yangon believes western stock exchanges did not compete for the project because the low trading volumes meant it would take time to become profitable. For the JPX, it was apparently more about accumulating experience than making profits. Therefore, JPX's and other Japanese private and public involvements are clearly strategic based on a long-term potential of Myanmar and the region. Listing of Japanese stocks in the YSX as well as listing of Myanmar stocks in the JPX might become attractive propositions in the future.

Conclusion

While there is, in general, a positive correlation between financial development and economic growth, the literature remains inconclusive about the causality. There is evidence that the significance of the securities market relative to the banking sector grows, as an economy develops. In Southeast Asia, Malaysia and Thailand have achieved a relatively high level of financial development. However, the contribution of financial development to GDP per capita seems limited in Southeast Asia. Looking closer, the financial markets are dominated by a few large companies, the secondary markets remain relatively illiquid and law enforcement remains weak.

In Japan, industrial capital was primarily provided by banks until the 1980s, during which time financial deregulation and liberalisation has contributed to the rapid expansion of the stock market with the subsequent burst of the bubble economy in 1992. Based on the experience in Japan and elsewhere, it is premature for the YSX to play a major role in Myanmar's financial system at this stage of development. Myanmar's challenge is multifold. For a broader cashflow-based lending, accounting procedures and credit practices must be modernised and financial inclusion enhanced. The autonomy and independence of the CBM is a significant step, and the gradual liberalisation of the banking sector for foreign banks is legitimate but in its infancy. Meanwhile, corporate governance and law enforcement must be strengthened to nurture institutional investors and make the finances of large corporate groups more transparent. Possible intervention of the Ministry of Finance is not reassuring in this respect. Build-up of human resources is essential for all those areas, and Japan's assistance can be useful. The opening of the stock market is part of this effort.

Most importantly, Japan's experience, in contrast to Southeast Asia, suggests that strong linkages between financial and industrial policies are key. In this sense, Myanmar is an ideal testing ground for Japan to be part of a country's development beyond providing foreign aid and promoting its own export industry. Thilawa SEZ can become a model for the rest of the economy for how financial deregulation and liberalisation attract investments and contribute to industrialisation. The first wave of cross-border activities of Japanese banks, in the backdrop of the growing bubble economy in the 1980s, was to a large extent, driven by speculative investments. Today, Japanese companies face a shrinking domestic market due to a declining and ageing population and they are seeking to expand overseas.

The main role of Japanese overseas bank branches was to support Japanese manufacturing exports through trade facilitation and settlement, and exchange rate risk hedging. With Japan's development of supply chains in Southeast Asia, however, their role has expanded to supporting local production and managing its linkages with global supply chains. In other words, the nature of Japan's FDI has changed from setting up factories to strategically expanding Japan's market shares in manufacturing as well as service sectors in the local economies. From this viewpoint, Japan's efforts to set up a stock exchange and contribute to the workings of Myanmar's financial system are part of a long-term strategy to industrialise the country with the help of Japanese industries, which seek a greater presence in the region.

Appendix: Myanmar's Financial Reforms and Japan's Engagement, 2011–2016

Year	Month	Event
2011	3	Thein Sein took office as president of Myanmar.
	11	Japan–Myanmar Summit held.
		ODA Policy Consultation Meeting held between Japan and Myanmar.
	12	Japanese Foreign Minister Koichiro Gemba visited Myanmar.
		Both countries agreed to begin discussions on a bilateral investment agreement.
2012	4	President Thein Sein visited Japan.
		Japan agreed to forgive Myanmar's ¥303.5 billion (US$3.72 billion) debt and restart ODA to Myanmar.
	5	CBM, DIR, and JPX signed an MOU on technical assistance for the development of financial and capital markets in Myanmar.
		CBM and PRI signed an MOU for technical cooperation on Myanmar's capital market development.
		Working group to draft Securities and Exchange Law was set up.
	12	Myanmar and Japan signed an MOU on cooperation in the development of the Thilawa SEZ project.
2013	1	Japan's Deputy Prime Minister and Finance Minister Aso visited Myanmar.

	4	Opposition Leader Aung San Suu Kyi visited Japan.
	7	The New Myanmar Central Bank Law was enacted.
		The Securities and Exchange Law was enacted to assist Myanmar with creating a regulatory authority for capital markets.
	12	A finance expert from the FSA was stationed in Yangon.
2014	8	The SECM was established under the Ministry of Finance.
		The Myanmar–Japan Bilateral Investment Treaty came into effect.
	10	12 foreign banks were granted operating licenses.
	12	Joint-Venture Agreement of YSX was signed by Myanma Economic Bank, DIR, and JPX.
2015	12	The YSX was officially launched.
2016	3	Four more foreign banks were granted operating licences.
		First Myanmar Investment was listed on the YSX.
	5	Myanmar Thilawa SEZ Holdings was listed on the YSX.
	8	Myanmar Citizens Bank was listed on the YSX.

CBM = Central Bank of Myanmar, DIR = Daiwa Institute of Research, FSA = Financial Services Agency, JPX = Japan Stock Exchange, MOU = memorandum of understanding, ODA = official development assistance, PRI = Policy Research Institute, SCEM = Securities and Exchange Commission of Myanmar, SEZ = special economic zone, YSX = Yangon Stock Exchange.
Source: Compiled by authors.

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