

Viewpoint: Can a free-floating currency boost Burma?

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The currency float comes after a series of reforms from the new nominally civilian government

The decision of Burma's new government to float the country's currency is a welcome one.

Injecting a degree of rationality into a policy-making environment that for 50 years has been conspicuous by the absence of this quality, the policy has the potential to greatly assist Burma's re-emergence into the global economy, as well as to transform its public finances.

The decision to float Burma's currency, the kyat (roughly pronounced as "chat"), rectifies one of the oddest of the country's many economic problems.

Up until now, the kyat has been formally fixed against the US dollar at a rate of around six kyats to \$1.

Against this official rate, however, is an unofficial market rate of the kyat that has seen the currency valued as low as 1,450 kyats to the dollar, and which is currently around 800 kyats to \$1.

Corruption measure

This anomaly, the largest discrepancy between an official and market exchange rate recorded anywhere, has created great uncertainty for foreign investors and aid agencies in Burma, as well as for struggling local exporters and that large cohort of Burmese people who live beyond its borders.

It has provided a most inviting mechanism for corruption and, more broadly, has been symbolic of the reckless economic policy-making that has characterised Burma's military regimes.

More concrete, and damaging, was that the yawning chasm between Burma's official and market exchange rates enabled Burma's past military rulers to misappropriate the country's growing export revenues, primarily those from the sale of natural gas to neighbouring countries.

This sleight of hand was accomplished by the simple expedient of recording these revenues at the otherwise moribund official exchange rate, in effect valuing them at less than 10% of their true worth.

Thus under-recorded, this allowed the bulk of the earnings to be spirited away for the use of the then military leadership, more or less as they saw fit.

Floating the kyat, which really means just abandoning the old official rate, closes the door on this particular form of corruption.

Transformation?

Importantly, it also sends a signal to the international community, and to foreign investors in particular, that Burma will be a more rational and attractive place to do business in the future.

The decision to float Burma's currency will by no means provide a "silver bullet" for solving the country's economic problems.

The poorest country in South East Asia, but with immense potential as a significant producer of food and other agricultural commodities (Burma was once the world's largest rice exporter), as a likely site for low-cost manufacturing, and as a tourist destination of almost unlimited possibilities, Burma stands at the cusp of transformational change.

The gap between Burma's official and unofficial exchange rates is the biggest on record anywhere. Before this can happen, however, other reforms, many of which touch at the heart of the country's political arrangements, must be implemented first.

One of the most important of these, given Burma's long history of expropriations and other uncertainties, is a workable system of enforceable property rights, and at least an approximation of the rule of law.

The first day of April will be an important date in the history of modern Burma.

The floating of the currency on this date coincides with a series of by-elections that, if they are conducted properly, are likely to bring about the election of Aung San Suu Kyi and other opposition figures.

These elections will not bring democracy to Burma (only 46 seats out of the National Parliament's 664 seats are being contested), but their outcome will be eagerly awaited, including by those many countries seeking to encourage the reform process.

Such encouragement is likely to embrace the lifting of some sanctions by the countries that currently levy them, including the United States and within the European Union.

The stakes in ensuring that the elections are as free and fair as possible, in short, are very high.

With the floating of Burma's currency on Sunday, we have one good news story already with respect to a country that has had too little of these. It is to be hoped we have another.

Sean Turnell is an Associate Professor of Economics at Macquarie University in Sydney Australia. The opinions expressed are those of the author and are not held by the BBC unless specifically stated. The material is for general information only and does not constitute investment, tax, legal or other form of advice. You should not rely on this information to make (or refrain from making) any decisions. Links to external sites are for information only and do not constitute endorsement. Always obtain independent, professional advice for your own particular situation.