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### **Foreign Direct Investment Relations between Myanmar and ASEAN**

Thandar Khine\*

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#### **Abstract**

Myanmar highly appreciates foreign direct investment (FDI) as a key solution reducing the development gap with leading ASEAN countries. Accordingly, it is welcomed by the government. Myanmar's Foreign Investment Law was enacted in 1988 soon after the adoption of a market-oriented economic system to boost the flow of FDI into the country. Foreign investors positively responded to these measures in the early years and FDI inflow into Myanmar gradually increased during the period from 1989 to 1996. However, after 1997, FDI inflow was dramatically reduced and markedly declined until 2004. In 2005, FDI inflow increased at an unprecedented rate and reached the highest level in the country's history. However, this growth was not sustainable in the subsequent years, as it declined again and turned stagnant at

\* Officer, Ministry of National Planning and Economic Development, Myanmar, and former Research Associate of IDE-JETRO for ERIA Support Activities.

the previous level.

In terms of source regions, ASEAN is a major investor in Myanmar, which investment is significantly exceeds the combined investment of other regions of the world. Among top ten countries, Thailand's investment alone is significantly more than

combined total investments of the other nine countries. Next to Thailand in terms of investments in Myanmar are Singapore and Malaysia among ASEAN, at second and third places, respectively. The combined total FDI inflows into the power and oil and gas sector represent about 65 percent of the total investment.

There are many opportunities for foreign investment in other sectors, which are not, yet exploited. ASEAN countries will certainly be source countries of Myanmar FDI in the future, and Myanmar should expand to other Asian countries like Japan, India, China, Korea, and Hong Kong where its FDI portfolio is concerned. To effectively attract FDI into the country, Myanmar needs to minimize the effect of policy while opening and encouraging other potential sectors of FDI to foreign investors in ASEAN and Asian countries.

**Keywords:** foreign direct investment (FDI), Myanmar, ASEAN, Myanmar Investment Commission (MIC)

**JEL classification:** F21, L10, O11

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**INSTITUTE OF DEVELOPING ECONOMIES (IDE), JETRO**  
**3-2-2, WAKABA, MIHAMA-KU, CHIBA-SHI**  
**CHIBA 261-8545, JAPAN**

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## I. INTRODUCTION

FDI is very important for the development of a country, especially for developing economies. The experience of newly industrialized countries (NICs) shows that FDI has played an important role in their economic development. In the age of globalization with cross-border flow of capital among nations, FDI becomes a key solution to reducing development gaps among nations. The rapid growth of multinational corporations (MNCs) has become the major driver for the process of FDI because they are looking everywhere in the globe as investment centre.

Together with improving transportation and communication technologies and rapid liberalization in the countries that previously isolated themselves from the rest of world, the opportunities for marketing and locating production facilities are vast. Asia is now one of the major investment centers in the world and a prime targets for MNCs due to their advantages in terms of lower labor cost and rich natural resources. On the other hand, increasing acknowledgment of the positive impact of FDI by the developing countries in Asia leads to vigorous competition among themselves to secure FDIs in their countries.

Myanmar, as one of the developing nations in the Southeast Asia region, recognizes the importance of FDIs in its economic development. To narrow the development gap and to finance the projects that are important for further development of the nation, inflows of FDI into the country are urgently needed. FDI inflows can effectively integrate Myanmar economy with those of developed nations and extend the benefits of technology transfer and upgrading human resources. FDI also creates business opportunities for local SMEs by linking businesses with MNCs. These all are very desirable for Myanmar to develop its economy.

However, it should be noted that these benefits entail costs. The benefits will outweigh the costs only when the host country can attract the right mix of FDI for the country. As a developing country with poor infrastructure, new open economy with limited diversified economic structures, and many other limitations which remain unsolved, the FDI opportunities are limited for Myanmar. However, Myanmar needs to attract FDIs to exploit its resources and take advantage of its location. It needs to offer appropriate incentives and adopt appropriate promotional strategies to increase FDI inflows into the country. By doing so, it needs to understand the benefits and costs of FDI, and how a developing country can use FDIs to fuel economic growth. It also needs to know which countries have the best potential to be major investors in Myanmar and what kinds of investment can provide long-term or sustainable benefits for the country. How should they be attracted? This is an important question for Myanmar if it is to effectively use FDIs as a tool for development. Accordingly, this study is conducted with

the following objectives.

- a. To examine the current situation of FDI in Myanmar and its future trend
- b. To examine country specific advantages of Myanmar to attract FDI from aboard
- c. To analysis FDI relationship with Myanmar and ASEAN countries
- d. To suggest the opportunities to attract FDI into Myanmar in future

### **LITERATURE REVIEW ON FDI THEORIES**

The explanation on why firms commit to attract FDI and international production stem from the theory of industrial organization and theory of international trade. One of the industrial organization theories relevant to FDI was put forth by Hymer (1960). He distinguished between portfolio investment and foreign direct investment. He argued that the decision to engage in FDI was determined by firm-specific advantages. Vernon (1966) explained the pattern of FDI was based on international product life cycle. Though most products are initially developed by industrially advanced countries, these are shifted to developing countries when the products and production become standardized. This is owing to differences in the cost of production. These products are then exported back to the country that originally developed them.

The internalization theory of MNCs and the eclectic paradigm are well known theories that focus on why firms opt for FDI. Both of these theories attempt to explain why a firm chooses FDI rather than other alternative modes of entry such as exporting and licensing arrangements. Internalization theory explains the emergence of MNCs as a result of market failures, which in turn give rise to the firm's ownership-specific advantages. Because contracts between firm and external agents cannot be completely written and enforced, the firm chooses FDI as a means by which they can internalize their advantages to serve their overseas markets.

The basic idea underlying internalization is that incomplete contracts can give rise to opportunistic behaviors. Thus, a firm prefers to replace external contracts by direct ownership and internal hierarchies. In other words, the firm "chooses a hierarchical structure, characterized by FDI, as compared to a market structure, characterized by contracts between independent entities."<sup>1</sup> It maintains that a company engages in FDI once the transaction costs associated with external trading of intermediate products exceed the cost of internalization. A firm prefers the market

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<sup>1</sup> George Norman (2001) *Internalization revisited*, Department of Economic, Tufts University, Medford, USA

structure when other parties in the contract have limited opportunities for changing product technology (firm's specific advantage) or if there are a few spillover effects from the foreign to the home market. "Internalization is preferred when the advantages of the firm are knowledge-based and when reputational effects are strong."<sup>2</sup>

Dunning's eclectic paradigm integrates many theories into a general paradigm. According to this paradigm, three conditions need to be met before an FDI can even be expected: 1) the firm has some specific ownership advantage; 2) there has to be a location advantage in recipient country; and 3) there has to be some internalization advantage. "The ownership advantage refers to the 'why' of MNC activity, the location advantage refers to the 'where' of production and internalization advantage refers to the 'how' of involvement."<sup>3</sup> The ownership and location advantages are necessary but insufficient condition for FDI to occur. They should be complemented by internalization advantage, which helps to take advantage of such conditions.

Dunning (1988) defined three main types of MNC activity that engages in FDI, namely, resource seeking, market seeking, and efficiency seeking. "As for market seeking, the ownership advantage that can be exploited in the host country to get access to some specific market or resource defines the investment location. The resource-seeking motivation of FDI considers market size and other characteristics at home and in the host country to get access to production resources. The efficiency-seeking FDI looks at economies of scale and scope, risk reduction through product diversification and taxation."<sup>4</sup>

In 1994, Dunning added another motivation of FDI – strategic asset seeking. It is described as a motivation for sequential FDI. "The aim of strategic asset seeking investment is to acquire resources that are important to enhance the capabilities and advantages of an investor. It is a complex integration of strategies that seek markets where the corporation's general objectives can be best performed."<sup>5</sup>

A school of thought on FDI, the "Uppsala school," explains the pattern FDI follows. It focuses on the gradual increase in international involvement by enterprises. Better the firm's knowledge on the country, the lesser the feeling of market insecurity due to increase understanding business opportunities in that country. Previous experience on

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<sup>2</sup> I bid p. 1

<sup>3</sup> Line Tondel (2001) Foreign direct investment during transition, Determinants and patterns in Central and Eastern Europe and the former Soviet Union,

<sup>4</sup> Uiboupin and Sorg, The entry of foreign banks into emerging market: an application of the eclectic theory, University of Tartu

<sup>5</sup> I bid p. 3

doing business in a foreign country brings country-specific knowledge for the firm. This theory proposes that the pattern of FDI by a firm increases gradually from one of lower involvement to higher involvement. Companies primarily engage in business in countries that are close to the home country geographically, culturally, politically, and linguistically. After accumulating experience and knowledge on these countries, the firm gradually extends its production bases to other countries.

Another group of literatures focuses on the determinants (preconditions) of FDI inflow into a country. Most of these studies have identified a number of variables such as labor cost, market size, political stability, market size, quality of infrastructure and economic openness as key factors that drive the flow of FDI into a particular country. The study of Quazi (2007) specifically found that economic freedom (used by the economic freedom index, published by The Heritage Foundation/Wall Street Journal) is a significant and robust determinant of FDI inflow into a country.



## II. FDI IN DEVELOPING COUNTRIES

### The role of FDI in the economic development of developing countries

Most of FDI advocates agree that FDI provides valuable benefits for a country. However, this is still debatable. “The proponents of FDI have frequently cited that FDI would bring prosperity in the recipient countries through technology transfer, higher export, enhanced job opportunities and improved government revenues. On the other hand, opponents have argued that FDI would increase dependency and vulnerability of the recipient countries.”<sup>6</sup> However, in the 1990s, FDI was viewed as stimulator of the host country’s economic development. From the experiences of leading ASEAN countries, a general conclusion can be drawn, that is, FDI is a catalyst of development finance, promoter of export, and bridges technology gap between developed and developing countries, notwithstanding the undesirable side effects that it is purported to bring. Their experiences show the impact of FDI on economic development in four areas.

*FDI as a form of development finance:* First of all, FDI makes a potential contribution to development of the recipient countries by channeling resources from the countries where they are abundant. Thus, inflows of capital allow the host countries to use funds in its development projects that otherwise it is not capable of spending. FDI ensures inflow of capitals, which are relatively longer-term in nature. Therefore, FDI inflows can accumulate as stock, which can hold up much better than other forms of capital inflows such as bank lending or foreign aid.

*FDI as a promoter of export:* The experiences of the leading ASEAN countries also show that FDI plays a leading role in their export-led growth strategy. The correlation between FDI inflow and export growth is strong. “The countries in ASEAN would probably not have experienced the rapid acceleration of exports in the past decade without the presence of foreign investors.”<sup>7</sup> These countries, especially Thailand and Malaysia, had successfully shifted from the exporters of primary products to exporters of manufacturing products during last three decades. In this place, foreign investors have played a key role because the manufacturing sectors in these countries are largely dominated by foreign multinational enterprises (MNEs). Through FDI, these countries can transform their economic structure quickly toward export-oriented manufacturing-based economies.

*FDI as catalyst in the process of technology transfer:* Technology transfer from

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<sup>6</sup> Ishak Yussof and Rahmah Ismail, *Human resource competitiveness and inflow of FDI to the ASEAN region*, Asia-Pacific Development Journal, vol.9, No. 1, June 2002

<sup>7</sup> Stephen Thomesen, *Southeast Asia: The role of foreign direct investment policies in development*, working papers on International investment, 1999 p. 27

investing companies to local ones may be the most desirable benefit for the host country. “Exports are important for rapid economic growth over long periods, but technology transfers can do much more to promote sustainable development by enhancing indigenous capabilities.”<sup>8</sup> But the degree of technology transfer between MNEs and indigenous SMEs is still not much as expected, as shown in the experience of Thailand. The amount of technology transfer mainly depends on the educational level of the workers, the number of trainings given to local staff, and quality of relations between foreign companies and local suppliers.

*FDI as a creator of job opportunities for local employees and businesses:* This is the most prevalent benefit of FDI, which can be seen in the short term. Foreign investors can employ expatriate managers only for the core areas and top-level management positions. The remaining positions in their operation have to be filled by local employees. Local SMEs also expect subcontracting services to foreign investors because it is very difficult for MNEs to undertake their whole value chain process on their own. FDI also enriches the local community where the firm is located.

#### **Attracting of FDI into developing countries**

A growing number of developing countries that have come to recognize the role of FDI in the economy of their countries have adopted various policies and begun to offer attractive incentives to foreign investors. “They perceive FDI can assist in the development of local economies by increasing financial resources for development, by boosting export, by generating employments and skill level of local employees and by enhancing technological capabilities.”<sup>9</sup> They generally undertake various forms of investment promotion activities and offer fiscal and financial incentives to attract FDI into country.

Developing countries actively undertake investment promotion activities as an attempt to create business-friendly environment for foreign investors. “Investment promotion activities mean the activities that disseminate information about, or attempt to create an image of the investment site and provide investment services for the prospective investors.”<sup>10</sup> Investment promotion activities can be further divided into a) image-building activities, b) investment-generating activities, c) investment-services activities, and d) those that raise the realization ratio, which is the percentage of the FDI approvals translated into actual flows.

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<sup>8</sup> Ibid p. 28

<sup>9</sup> Extracted from Ramkishan S Rajan, *Measures to Attract FDI, Investment Promotion, Incentives and Policy Intervention*, Economic and Political Weekly Jan 3, 2004

<sup>10</sup> I .bid p.12

Many developing countries have established one-stop investment promotion agency (IPA) to facilitate in investment promoting activities. An IPA is supposed to assist foreign investors in the entry and operation. A one-stop IPA can facilitate FDI by lowering administrative delays and undesirable costs by combining and coordinating of many diverse tasks done by several departments that involves in the application of entry. However, it may be an additional administrative burden if it is not properly managed. Sanjaya Lall (2000) notes that unless these agencies have the authority needed to negotiate the regulatory system and unless the rules themselves are simplified, there is a very real risk that a one-stop shop becomes one more shop. “Policy advocacy which is defined as steps to improve overall investment climate and identify views of private sector may also be the most effective function. This should be followed by investment facilitation or servicing and image building.”<sup>11</sup> This study also suggests that growth-enhancing policy intervention should not be sectorally biased. Instead, it should be focused on enhancing a country’s general capability by improving the general quality of the country’s labor force and infrastructure, developing local skills and technology and local learning and ensuring a stable and conducive overall macroeconomic and regulatory environment.<sup>12</sup>

Countries attempt to attract FDI by offering a number of incentives to foreign investors. These include tax incentives and financial incentive in the forms of direct capital subsidies, subsidized loans, or dedicated infrastructure. Common tax incentives may come in a variety of forms such as reduced corporate income taxes, allowing tax holidays, investment allowances and tax credits and export-processing zones (EPZs).

A study by the Organisation for Economic Co-operation and Development (OECD) suggests investors normally use two-stage analysis in making investment decisions. Firstly, they select potential countries for investment based on the country’s economic and political fundamentals. They do not consider investment incentives offered by host country at this stage. At the second stage, investors consider the investment incentives offered to them by each country before deciding where to invest. It means investment incentives offered by recipient countries will not be effective without considering the necessary investment-conductive policies such as favorable macroeconomic policies, infrastructure, supporting facilities, clear and consistency procedures and investment climate.

In general, to effectively attract FDI into developing countries, there is no substitute for creating an enabling business environment for investors in which sound

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<sup>11</sup> I. bid p.13

<sup>12</sup> I bid p.13

macroeconomic policies and a favorable investment climate must be in place. In this regard, the steps that need to be taken are a fairly valued exchange rate system, prudent fiscal and monetary policy, rules that ensure a fair or level playing field, absence of barriers to the free entry and exit of firms, well-developed infrastructure, relaxed red tape, streamlined procedures to reduce the costs of doing business, strong overall governance (public and corporate), and protected intellectual property rights.

Lessons from some developing countries show complexity and uncertainty where the foregoing factors are involved. For example, frequent changes in FDI-related policies effectively deter inflows of FDI into countries. Also incentives offered to foreign investors that do not materialize are disincentives to investors, making it difficult to attract FDI. Then again, FDI incentives do not cure deficiencies in the overall investment climates. The fiscal costs of incentives offered to investors have long-term effects. As such, the costs and benefits of offering these incentives should be carefully studied.

### **Types and modes of FDI inflow to developing countries**

Foreign direct investment is the acquisition of foreign assets for the purpose of controlling them. It comes when a firm invests directly in a host country, where it produces and/or markets a product. “It should be distinguished from the foreign portfolio investment (FPI), where FDI represents cross-border flow of long-lasting investment in businesses or production facilities for the purpose of controlling them to some extent.”<sup>13</sup>

FPI represents passive holdings of securities such as foreign stocks, bonds, or other financial assets, none of which entails active management or control of the securities’ issuer by the investor. The U.S International Investment and Trade in Services Survey Act stipulates that FDI is defined as ownership or control of 10 percent or more of an enterprise voting securities of an incorporated U.S business enterprises, or the equivalent interests in an unincorporated U.S business. It includes not only equity capital but also earnings and investment of earnings.

The most common notion about FDI is that is a cross-border investment in which the resident in one country acquires a lasting interest in an enterprise in another country. FDI may be in the form of two directions: *inward FDI* is where investors from another country have a stake in the assets of business in the host country; *outward FDI* is sometimes called direct investment abroad in which local capital is invested in foreign resources. FDI may take many forms such as purchase of existing assets in a foreign country, totally new investment in assets, and participation in joint venture with a local

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<sup>13</sup> Wikipedia: definitions of FDI and FPI

partner whether business or individual or government. Types of FDI can be classified by target or motive.

#### **Classified by target<sup>14</sup>**

*Greenfield investment:* It means direct investment in new or expansion facilities. “Greenfield investments are the primary target of a host nation’s promotion efforts because they create new production capacity and jobs, transfer technology and know-how and can lead to linkages to the global markets.”<sup>15</sup>

*Mergers and acquisitions:* Merger means voluntarily combining two companies which are relatively equal in size to form a single company and acquisition means foreign firms acquire whole or part of existing assets from local firms. This is the primary type of FDI in recent years. “Cross-border mergers occur when the assets and operations of firms from different countries are combined to establish a new legal entity. Cross-border acquisitions occur when the control of assets and operations is transferred from a local to a foreign company, with the local company becoming an affiliate of the foreign company.”<sup>16</sup> “Unlike Greenfield investment, acquisitions provide no long-term benefits to the local economy. This is because the owners of the local firms are paid in stock from the acquiring firm in most case so the money from the sale could not reach the local economy.”<sup>17</sup>

*Joint venture:* It occurs when a foreign investor enters into contract with a local businessman or an association or government to form and operate some businesses in the host country. Most FDI inflows into developing countries are in the form of joint ventures primarily for the purpose of sharing risks and exploiting a partner’s expertise.

*Production sharing contract:* It is the least common but mostly can be seen natural resources like oil and gas sector are to be extracted. Foreign investors with modern equipment and know-how extract the natural resources of the host country otherwise cannot be exploited by host country alone due to technological and capital constraints. The benefit is shared between foreign investor and host country based on some predetermined rate.

Another way of classifying FDI is whether it is horizontal or vertical. A

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<sup>14</sup> Wikipedia; types of FDI

<sup>15</sup> I bid

<sup>16</sup> Technically an affiliate company means foreign company control at least 20 percent of assets or voting rights whereas a subsidiary company mean controlled above 50 percent of assets or voting rights in a local company. But control may occur in other means such as through the agreement of shareholders or through the majority of directors sitting in the board of acquired company.

<sup>17</sup> Wikipedia; types of FDI

horizontal FDI is investment in the same industry abroad as a firm operates at home. For example, an automobile acquires another automobile company abroad. Vertical FDI may be backward or forward that occurs along the firm's supply chain. Backward vertical FDI occurs when a firm acquires a foreign firm that provides inputs for the firm's domestic production process. Forward vertical FDI occurs a firm acquires a foreign firm that sells the outputs of the firm's domestic production.

### **Classified by motive**

FDI can also be categorized based on the motivation of investors who want to make investments abroad<sup>18</sup>.

*Resource-seeking:* This involves investments utilizing factors of production (e.g., land, labor, and capital) in a host country are considered more efficient than those that are available in the home country. In some cases, these resources may not be available in the home economy at all (e.g., cheap labor and natural resources). The objective of FDI is to acquire inputs/resources of the host country. This is a common form of FDI inflows into developing countries such as those involving garment factories seeking cheap labor in Southeast Asian countries. "The objective of this type of FDI is to exploit a country's comparative advantage. For instance, countries rich in primary materials, such as oil or minerals, attract foreign investors seeking to develop these resources."<sup>19</sup>

*Market-seeking:* This involves investments, which aim at either penetrating new markets or maintaining existing ones. FDI of this kind tends to take advantages of the opportunities of growing or emerging new markets. FDI inflow into the U.S. and Europe mostly fall under this classification. It occurs as supplier companies invest in customers' countries.

*Efficiency-seeking:* This covers investments which firm's hope will increase their efficiency by exploiting the benefits of economies of scale and scope, and also those of common ownership. This type of FDI comes after either resource or market-seeking investments have been realized, with the expectation of reducing costs or increasing company revenue. It is mostly found in developed economies, especially those within closely integrated markets (e.g., EU).

*Strategic assets-seeking:* This type of FDI occurs when companies undertake acquisitions or alliances to promote their long-term strategic objectives. For example, to serve a local market, a multinational may purchase a state-owned enterprise that is

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<sup>18</sup> I bid

<sup>19</sup> Understanding foreign direct investment module 1, Multilateral investment guarantee agency, Investment promotion toolkit, 2001

being privatized rather than establish a new or Greenfield venture.<sup>20</sup> This may also be a tactical investment to prevent the loss of resources to a competitor. For example, an oil producer may not need the oil at present but attempts to prevent competitors from having it.

### **Bright and dark side of FDI for a developing country**

Numerous literature points out the benefits and costs of FDI for the host country, especially a developing one. The arguments for the positive impacts of FDI centre around three prevalent benefits that are important to a developing country - inflow of physical capital, technology spillovers, and employment. Inflow of physical capital in the form of FDI could also increase the rate of economic growth particularly for developing one where capital is scarce. The leakage of technology spillover from MNEs enables domestic firms to improve their productivity and that allows the host country to enhance its long-term economic development.

“The growth enhancing ability of FDI also depends on the chosen mode of FDI. Greenfield FDI”<sup>21</sup> can result in an increase in the host country’s stock of capital whereas the Brownfield FDI (M&A) can only result in positive externalities of technological spillover.

The effect of FDI on the host country in the form of employment is particularly true in labor-intensive industries like garment. However, in capital-intensive industries, this effect is minimal. Other benefits of FDI frequently cited in the academic papers are as follows:

1. *Revenue effect*: FDI widens the local tax base and contributes to government revenues.
2. *Positive impact on local investment*: FDI inflows tend to lead to improve investment on infrastructure and increased domestic investment as local companies gain access to distribution channels opened by larger foreign companies.
3. *Improved labor skills*: Foreign firms usually carry out more training than local firms, and they also engage in activities that use relatively high levels of skilled workers. These skills can be transferred to other sectors and activities when employees seek new jobs or establish their own businesses.

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<sup>20</sup> I bid p. 4

<sup>21</sup> Greenfield investment means the MNE constructs new facilities of production, distribution or research in the host country whereas Brownfield investment means the MNE acquires already existing facilities in the host country.

4. *Better working conditions and pay:* FDI normally carries better working practices to improve working conditions and environment.
5. *Improved export:* FDI into developing countries are associated with high levels of exports since most of the foreign investors are export-oriented ones.
6. *Improved competitiveness of local firms:* The opportunity to sell inputs or supplies to foreign firms encourages local companies to raise their quality levels and delivery reliability.
7. *Enhanced backward and forward linkages:* Local sourcing and contracts from foreign firms bring considerable economic benefits to a location in terms of job opportunities improved sales and favorable impact on management and organizational methods of local firms.
8. *Weakened domestic monopolies at home:* FDI can replace inefficient but monopoly firms at home with more efficient foreign firms that can lead to improve consumers' welfare.

However, these benefits do not come alone. The adverse effect of FDI inflows to the host country (i.e., developing one) should not be overlooked. Firstly, larger foreign firms may take dominant market shares, thereby reducing competition. Because of their economic power, they can establish monopoly position in the host country market and exploit resources more cheaply. Secondly, large foreign firms lead to negative effects on local firms and employments because they can crowd out small domestic firms. Thirdly, export and import activities of foreign-owned firms may lead to balance of payment volatility. Fourthly, when profits and capital of MNEs are repatriated, the value of the home currency may decline. But such costs can be corrected through appropriate host country policy measures.

According to the OECD report on foreign direct investment for development, the benefits of FDI do not occur automatically. The policies in both host countries and home countries matter. Only enterprises that operate in a generally sound national and international environment can bring the full benefits of FDI on the host economy.



### **III. BARRIERS OF FDI IN DEVELOPING COUNTRIES**

Despite the arguments for and against the impacts of FDI, most scholars agree that it plays a key role in the economic development of a country. Attracting FDI, however, is not an easy and simple task. A number of barriers hinder the inflow FDI into a particular developing country, especially for a Least Developed Country (LDC). These barriers lead to increased risks and costs to foreign investors that can outweigh the location-specific advantages and resource endowments of LDCs. This can impede FDI inflow into the country. Also, foreign investors want to get superior returns from the investment to compensate greater risks. Political instability is one of the most important barriers to FDI. Apart from this, LDCs pose the following broad and interrelated barriers to foreign investors<sup>22</sup>.

1. Administrative barriers
2. Information asymmetries and imperfections
3. Policies barriers
4. Infrastructure shortcomings
5. Constraints of human, social and institutional capital

These barriers can effectively deter FDI from entering, increase costs of doing business, and increase risks and uncertainty. Therefore, it is quite common for foreign investors to carefully investigate the risks of a particular country based on these barriers before making an investment decision. It is paramount for a recipient country to reduce these barriers to attract FDI effectively. Each barrier will be discussed from the point of view of foreign investors.

#### **Administrative barriers**

In some LDCs, the problems start even in the submission of investment proposals at the approval stage. To get an approval, a proposal has to pass various stages of official procedures (which are complicated and subject to frequent change), and require documents and consensuses from various government agencies. This problem is compounded by unclear and overlapping procedures on decision making by the authorities concerned. The procedures involved in the processing an investment proposal for approval takes several weeks or months. These barriers can dissuade foreign investors from making favorable investment decisions.

The persistence of administrative barriers together with the absence of sufficient institutional capacity in LDCs results in situations where trivial procedures like moving a file from one department to another and from one table to the next within

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<sup>22</sup> Discussion of these barriers comes mainly from [www.egdi.gov.se/dev-financing/pdf/risk-study-ch3.4.pdf](http://www.egdi.gov.se/dev-financing/pdf/risk-study-ch3.4.pdf). Experts group of development issues.

the same department becomes major obstacles to progress. These difficulties can be passed through with side payments. Complex procedures and lengthy work process without transparent and standard rules create opportunities for bribes and corruption at the operational levels, where official and unofficial fees are paid to higher levels. Most governments usually try to eliminate these hurdles by creating the so-called one-stop approval shops or one-stop investment promotion agency (IPA). But without clear delegation of authority on IPA, it makes worse the situation due to increase an additional step and overlapping roles.

World Bank and International Financial Corporation did a study of administrative barriers and classified them into four main categories:

1. *General approvals and licenses required of all firms before operation:* These steps include company registration, special registration for foreign investment, application for investment incentives and special concessions given, licenses for business operation from a number of departments and ministries for operations, access to utilities, import and export licenses and foreign exchange transactions, work and residence permits for expatriate staffs and their family members, registration for company and excise taxation and a host of other registrations including patents, trademarks, copyrights, and clearances after the conduct of environmental impact assessment.
2. *Pre-operational, sector or industry-specific approvals and licenses:* These are different requirements depending on types of industries intend to operate. For example, oil and gas, petroleum, mining, tourism, defense industry, deep-sea fishing and banking and financial services. Each industry is subject to different requirements set by respective ministries and regulatory authorities.
3. *Statutory inhibitions and land acquisitions and the provision of utility services for business purposes:* In most LDCs, separate licenses have to be obtained by all firms from different levels of government and authorities for access to land, for construction, for the provision of each utility (water, power, gas, waste treatment).
4. *Post-operating requirements and regulations:* Foreign investors have to follow onerous reporting and clearance requirements for imports and exports, exchange control for money transfer, regular reporting and periodic clearances required from departments of health, fire brigade, social services, labor and environment.

Due to these administrative barriers, there is wider gap between projects approved and projects implemented in LDCs (range between 20 percent-40 percent) and increasing the exit rate of FDI that has already entered. When administrative

constraints are considered individually, they do not seem to be significant, but their combined will pose a real challenge to investors. They often mean delays in application procedures and create disturbances in the operations of foreign firms. The persistence of these administrative barriers effectively impedes all types FDI regardless of how they are classified (e.g., resource- or market or efficiency-seeking), because these create barriers that are common to all investors.

For LDCs, most of the FDI primarily enter labor-intensive industries like garment and industries that are concerned with exploitation of natural resources like power and oil, and as industries. In the case of garment industry, the core competitive factors are reduction of lead time (the time taken between placement and delivery of order) and reducing transaction costs. In some LDCs, even though they are basically attractive in terms of low labor cost and other infrastructures, delay in administrative procedures solely leads to increase unnecessary costs and time. In such a situation, the investment climate of the country shifts from one of extreme attractiveness to unattractiveness. This is also true for investors in resource exploitation industries and investors in services sectors like Hotel and tourism, banking and communication industries.

### **Information asymmetries and imperfections**

There is no doubt that any foreign investor wants to get enough information about the country he wants to invest in before making critical investment decisions. This is especially true for market seekers, since they want to get detailed information about market size, growth rates and changing consumer preferences, so on. But, they are also important for resource-seekers because they want to access information on size, quality and exploitability of resources that they are interested in. The greater is the access to information, the lesser are the risk to investors. Increasing amounts of information allow them to access opportunities more efficiently and risks investing in particular developing countries. The models and techniques used to analyze information for better location decision are more sophisticated day by day.

Foreign investors usually collect information from private sources as well as public sources concerning the countries they have interest for potentially new investment. The private sources they usually collect information are their established business relationships such as commercial banks, consultancy and service firms, their suppliers and customers, marketing distribution firms and advertising agencies etc. If they want to get special information, they hire survey firms in the target country. Officially published data by the country's statistical associations are also additional sources of information for foreign investors. Embassies, foreign ministries, investment promotion and aid agencies, export credit agencies and chamber of commerce and

research institutions are other sources. International associations like UNCTAD, UNESCO, UNIDO and UNDP are also reliable source of information to understand general picture of business environment in the host country.

However, information asymmetries figure in the FDI decision-making process. There may be some errors and incomplete information obtained from outside agencies and they are mostly out of date. Information from these sources is too general and difficult to suit a specific decisionmaking needs for the foreign investors. Another problem is too much information enters from outside sources. This information overload makes it is difficult to pursue the decision making process.

One of the problems frequently encountered by foreign investors is that information obtained does not provide an accurate picture of the business environment in the host country. The changes in investment policies and future trend cannot be easily gleaned from available information. These can lead to a situation where the opportunities given and threats posed by host country are neither known nor adequately appreciated. Wrong interpretations of information may lead to wrong judgments.

The unavailability of such information compounds the difficulties for foreign investors in agriculture, manufacturing and hotel and tourism sectors. Investment in agriculture and hotel and truism sectors is long-term in nature that requires a lot of information for investment decisionmaking. For agriculture sector, since investors need information about climate and soil conditions, yield per acre, water accessibility from dams, road networks, local market conditions, export potential and export route for the products, labor availability and conditions, wages level of the areas he/she is interested to invest in. Likewise, potential investors in the hotel and tourism industry need information like number of tourist arrivals, citizenship of tourists, the common routes that they pass through to get into a particular country, the level of accommodation and services given by existing hotels, transportation and communication infrastructures and networks in the country.

Potential investors in manufacturing sector also want detailed information about the supply and demand conditions, situation of local firms, law and regulations on labor and export/import procedures so on. In fact, all potential investors in any sector and with any motive require more or less information. Therefore, the lack of information and unreliable data makes them disappointed about the country. From the point of view of host countries that attempt to attract FDI, this means that just showing policy changes and providing incentive is no guarantee to secure FDI. The role of investment promotion is to attempt to reduce information asymmetries faced by potential foreign investors in their investment decision process. Inadequate and

unreliable statistics issued by host countries increase complexity for foreign investors to understand real situation in the country. Issuing out-of-date information has the same effect. In this regard, LDCs are particularly weak in establishing adequate databases and disseminating them in a timely fashion to potential investors. Therefore, if a country effectively removes these causes of information asymmetries, collecting and establishing adequate data bases and timely and effectively distribute them to foreign investors the chance to be chosen for FDI will be greatly enhanced.

### **Policy barriers**

Policy barriers may be the most important concern for foreign investors who want to invest longer term in a particular country. These barriers include 1) fiscal policies, 2) monetary policies, 3) trade policies, 4) exchange rate policy, and 5) debt management policy. Each of these policies will be discussed in below.

*Fiscal policies:* Foreign investors are primarily interested in the stability of fiscal policies in the host country, the level of tax revenues, the structure of taxes and long-term stability of tax rates applicable to corporate income and capital gains, tax allowances for accelerated depreciation and amortization, excise taxes and taxes on imports, exports and value-added, tax allowance and tax exemption for export income (these all are commonly included in fiscal incentives given to investors by most countries), the size and sustainability of budget deficits since these all may impact on the future operation once investment is made.

*Monetary policies:* Monetary policies are those of central banks in the host countries. Foreign investors are interested in the stability of domestic interest rate, the level and trend of inflation, the credit policies, selectively directed credit to priority areas, the health and prudential regulations and supervision of the financial system, and the extent of government domestic borrowing.

*Trade policies:* Foreign firms also concerned about trade policies of host countries. High barriers of import both tariff and non-tariff may be one of the reasons for choosing FDI in these countries. Normally, they want to operate in liberalized trade regimes with fewer restrictions on the procedures of exporting and importing. However, foreign investors may want restricted trade policies in the countries in which they are already operated to reduce the competitions of imported products from abroad. Therefore, MNCs stand on trade liberalization depends on their position whether they are inside or outside of the country.

*Exchange rate policies and convertibility:* The stability of exchange rate and convertibility, permission to repatriate profits, dividends and capital without any restrictions are among the biggest concerns of investors alongside devaluation trends and upward revaluation of domestic currency. The rapid devaluation of home currency

is alarming for foreign investors. Most MNCs hedge this currency risk by entering forward or future currency contracts. However, the costs of these transactions need to be considered. In most LDCs, most of these mechanisms are unavailable.

*Internal and external debt management:* Most LDCs are normally moderate to highly indebted. This, too, is a major concern for foreign investors, knowing that the size of public debt in the host country may introduce high potentials for future risks. Deep indebtedness may lead to new borrowings, cutback of government expenditures on infrastructures and social works, limitation for repatriate capital due to fears of inadequacy of foreign exchange, the threat of printing money to finance repayments of domestic borrowing, which in turn leads to inflation and decreasing external value of home currency. Also causes for concern are when economic gains from FDI are used for servicing debt burden rather than fueling investment and growth. In short, unsustainable debt burdens increase the risk of future taxation, asset-value reduction risk, currency risk, convertibility, and transfer risk for foreign investors.

These policy barriers generally impact foreign investors, regardless of their motivation for investing. The impact is greater on market seekers, since these policy barriers can lead to substantially reduced profit potentials in the host country. Export-oriented investors are very sensitive to government policies toward trade, exchange rate control, and regulations on repatriation profit and capital from the country. They are also interested in how the government manages inflation since it affects the external value of domestic currency. Market seekers who want to focus on the domestic market for their products are also interested in fiscal and monetary policies of the country as well as those meant to protect the local enterprises against undue foreign competition. The existence of these barriers can lead to changes in the modes of entry decision into the country market. For example, a foreign investor may choose to enter a joint-venture contract with government-owned enterprises instead of establishing wholly owned ventures in the country, hoping that his partnering government enterprise may help to reduce some impacts of these policy barriers.

### **Infrastructure barriers**

Poor infrastructure can effectively deter foreign investors to invest in the developing countries. In general, poor infrastructure leads to increased costs and risks of doing business in developing countries. It can increase the costs incurred by foreign investors because they have to bear the cost of infrastructure development such those involving electricity, water supply, and communication facilities. It can increase the risks for foreign investors because they face difficulties in acquiring inputs and distribution products through the market channels in a timely manner. Difficulties in communication and transportation are also major hurdles for smooth business

operations.

The extent to which certain barriers poses obstacle to attracting FDI is more acute in industries such as mining and manufacturing, given the additional costs that foreign investors must assume. These deficiencies of infrastructure may outweigh the benefits of lower labor cost or abundant resources in LDCs. They can severely limit FDI inflows from resource seekers. For potential investors in hotel and tourism and manufacturing sectors, inadequate infrastructure may lead to increased costs for them. Unless these costs are compensated by additional benefits, investors will not want to invest in a particular country. However, these infrastructure weaknesses may create opportunities for some businesses specializing in infrastructure services such as electricity and road construction.

### **Institutional and human resources barriers**

Most developing countries, especially LDCs, are faced with constraints involving human, social, and institutional capital. In terms of human capital, they have a higher proportion of a) adult illiteracy, b) a higher incidence of healthcare problems and absenteeism, c) a higher incidence of absenteeism driven by extended family burdens requiring care of children and of the aged with no social welfare nets to support them. Illiteracy and absenteeism caused by a variety of factors limit the 'trainability' of workers in LDCs. It restricts the type of training and increases the cost of training assumed by foreign firms. This situation can also cause shortage of skilled labor shortage and qualified and experienced managers and technicians in these countries. The availability of human capital is a major driver of FDI. A host country that has larger supplies of high-level manpower able to continually absorb new skills is likely to attract more and better quality FDI than countries without such endowments.

Social capital represents the intangible assets that societies as a whole in all countries have. It takes the form of various types of traditions and taboos, informal organizations, and trust. Social capital comprises the invisible glue that binds societies and cultures together. The dimensions of social capital that are particular concern to foreign investors are constitutions and form of political organization, adherence to the rule-of-law, means of dispute resolution whether formally or informally, crime rate and major crimes happened in the country, level and pervasive of corruption, intrinsic ability to evolve by embracing and adapting to technological and globally induced cultural change in a manner that is positive and constructive.

Institutional capital in any country is usually divided into a) public institutions, b) private institutions geared to generation of profits or to activities on a not-for-profit basis, and c) civil institutions. Most LDCs are characterized by the insufficiency of institutional capital in all three areas. Foreign investors are most concerned about the

efficacy of public institutions and their impact on the quality and responsiveness of governance. Generally speaking, these weaknesses, including administrative barriers, are disincentives to foreign investors.



## **IV. FOREIGN DIRECT INVESTMENT IN MYANMAR**

### **Background of FDI in Myanmar**

Myanmar has been undertaking economic reforms since 1988. Since then, the country has officially adopted market-oriented economy and welcomed FDI inflow. Accordingly, a series of legislation conducive to market economy have been enacted and some of the existing laws were amended to be compatible with the changing economic environment.

Soon after the adoption of a market-oriented economy, Myanmar Foreign Investment Law was promulgated on 30 November 1988 and Myanmar Foreign Investment Commission was formed on 7 December 1988.

Myanmar fully recognizes the advantages of FDI for its economic development. Consequently, the government has been actively encouraging FDI in Myanmar. Its main foreign investment policy and objectives are as follows:

- a. Adoption of a market-oriented system for allocation of resources
- b. Encouragement of private investment and entrepreneurial activity

The basic principles of Myanmar Foreign Investment Law are as follows:

- a. Promotion and expansion of exports
- b. Exploitation of natural resources which require heavy investments
- c. Acquisition of high technology
- d. Supporting and assisting production and services involving large capital
- e. Opening up of more employment opportunities
- f. Development of works which would save energy consumption and
- g. Regional development

To effectively attract investment from foreign countries, the Myanmar Investment Commission (MIC) was founded on 4 May 1994. The MIC is responsible for the affairs of both foreign and Myanmar citizens' investment. It is an initial approving authority for foreign investment proposals like the Board of Investment of Thailand and Economic Development Board of Singapore. Following are its functions:

- a. To scrutinize the proposal to conform with all the rules and regulation as set out in the FIL;
- b. To check to ensure that proposals are financially credible and economically justifiable and the proposed technology is appropriate;
- c. To ensure that the proposed project is environmentally friendly;
- d. To grant approval by the issuance of a permit with stated terms and conditions;
- e. To monitor and evaluate foreign investment after approval has been given;
- f. To relax and amend the terms and conditions previously defined if necessary;

- g. To give suggestions and recommendations, where necessary;
- h. To facilitate and promote foreign investments; and
- i. To take necessary and prompt action in respect of issues regarding promotion of foreign investment

FDI is very important for Myanmar since it needs investment to generate employment for its citizens, technology know-how and foreign exchange to implement development projects. Given the continuous decline in Overseas Development Assistance and bank borrowing from international financial agencies, FDI will continue to be a significant source of finance for development, fulfilling investment and narrowing development gaps. It also helps ensure the sustainability of the recovery process and industrial development in Myanmar. FDI brings along with it not only capital flows that are related to the balance of payments but also a package of other economic benefits such as employment opportunities, export market, technology and entrepreneurial skill enhancement. Thus, FDI is welcome and guaranteed by the Union of Myanmar Foreign Investment Law. Exceptions are FDI that bring inappropriate technology and could potentially cause deteriorating balance of payments in the long run. As of August 2007, a total of 29 countries have invested in Myanmar, whose combined investments have a total value of US\$14,580.559 million. This amount only represents the total approved amount of FDI and may be different from the actual or realized value of investment. Approximately, total realized value of FDI into Myanmar represents about 45 percent of the total approved value.

#### **Allowable economic activities and procedures and approval process**

In Myanmar, almost all the economic sectors are open to foreign investment with the exception of those reserved under the State-owned Economic Enterprises Law (SEE law-1990)<sup>23</sup>. However, if a foreign investor is interested in an activity that is reserved in the SEE Law, he can apply with the state so he can undertake the activity. If the MIC is convinced that the proposed activity will be in line with the interest of the nation,

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<sup>23</sup> SEE Law (1990) defined the sectors that are solely reserved for state. They are 1) extraction of teak and sale of the same in the country and abroad; 2) cultivation and conservation of forest plantation with the exception of village owned fire-wood plantation; 3) exploration, extraction and sale of petroleum and gas and production of products of the same; 4) exploration and extraction of pearls, jade and precious stones and export of the same; 5) breeding and production of fish and prawns in fisheries which have been reserved for research by the Government; 6) postal and telecommunication service; 7) air and railway transport service; 8) banking service and insurance service; 9) broadcasting service and television service 10) exploration and extraction of metals 11) electricity generating of metals 12) manufacture of products relating to security and defense

approval from the Trade Council and Cabinet could follow suit.

The Foreign Investment Law allows foreign investment activities in the form of wholly foreign-owned or joint ventures. For joint ventures, foreign investors may forge partnerships with any Myanmar national, private company, a cooperative society or a state-owned enterprise. In all joint venture projects, the minimum share of the foreign party is 35 percent of the total equity capital. A built-operate and transfer system is allowed for hotel and real estate projects, while production sharing contract system may venture into exploration and extraction of the natural resources. The required minimum foreign capital is US\$ 500,000 for manufacturing and US\$300,000 for services. This can be in kind and in cash. Duration of investment depends on the volume of investment.

According to the existing land laws of Myanmar, a foreigner or foreign company cannot own land but can lease over a long-term period from the state for investment activities. The land lease rate is US \$3 per sq. m per annum at the state-owned industry zone.

*Application procedure:* The potential investors shall submit a proposal to the MIC in a prescribed form. The proposal has to be come with the following support documents:

- a. Business profile and document supporting financial credibility such as the latest audited accounts of the person(s) or the firm intending to make the investment
- b. Bank reference and recommendation regarding the potential foreign investor's business standing
- c. Detailed calculation relating to the economic justification of the proposed project
- d. A draft contract to be executed with a state organization that is responsible for the smooth operation of the enterprise in the respective field if the project is a wholly foreign-owned venture
- e. A draft contract between the partners if the project is joint-venture
- f. A draft land lease agreement (if required)
- g. Draft Memorandum and Articles of Association if the proposed joint-venture is in the form of a limited company
- h. An application for exemption and relief defined under Section-21 of the FIL

The FIL provides an irrevocable state guarantee that an enterprise permitted by MIC under the FIL shall not be nationalized during the permitted or extended period (if any). It also provides repatriation of profit (after all deduction of all taxes and the prescribed funds) as well as legitimate balance of salary and lawful income of foreign

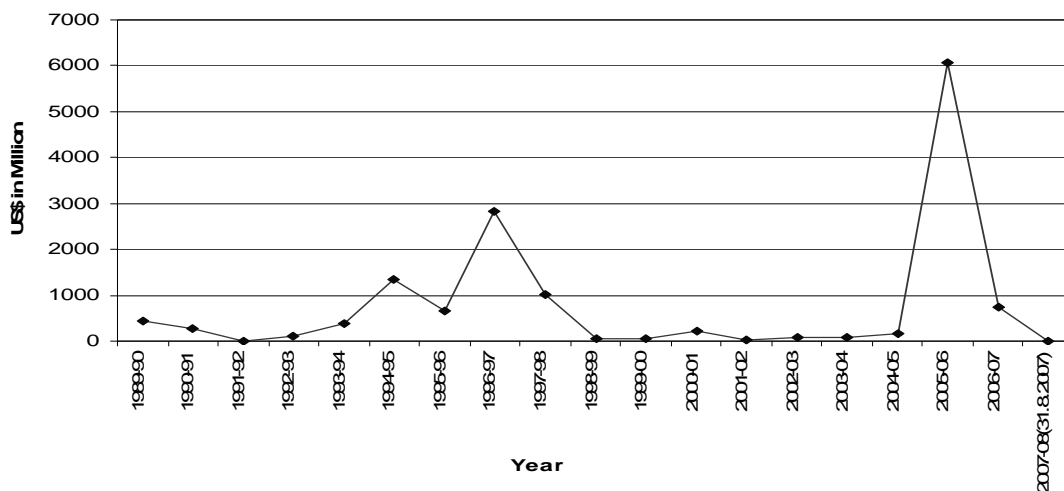
personal (after payment of living expenses and taxes). In the case of termination or dissolution of the business, repatriation of foreign capital can also be allowed.

*Support services:* MIC always provides necessary assistance to the investors, coordinating with the respective ministries and organizations for investment facilitation. It takes about six weeks for the investors to get investment permits if the documents are completed from the time they submit their proposals to MIC. MIC also provides assistance to foreign investors by coordinating with the respective Ministries if the permitted enterprises face any problems and difficulties in their business operation. Resource-based heavy investment, resource-based export-oriented value added projects, labor-intensive export-oriented projects are given priority for foreign investment in Myanmar.

### **An analysis of FDI inflows into Myanmar**

Myanmar is a country rich in natural and human resources. It has vast cultivable land, long coastlines, navigable river systems, abundant materials, gems, forests and a literate population. These plus attractive incentives are expected to entice potential foreign investors. Foreign investments from various countries have been coming into Myanmar since 1989. The pattern of foreign direct investment inflows into Myanmar is shown as follows. Data in all figures represent approved data by MIC.

**Figure 1: The pattern of FDI inflows into Myanmar (1989-2007)**

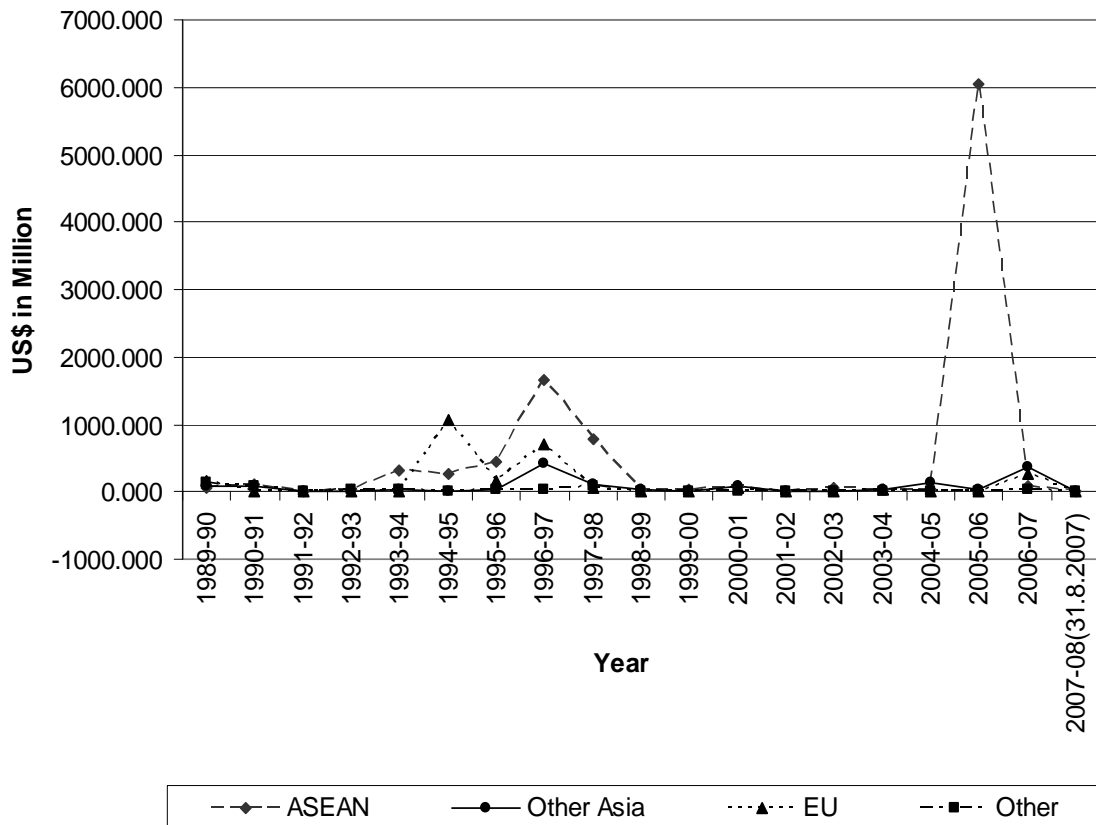


Source: Myanmar Investment Commission

As shown in Figure 1, FDI inflows into Myanmar gradually increased from 1989 to 1996. In 1996, it reached the highest level recorded in the country's history (which was exceeded by the 2005 level). After that FDI declined markedly and became stagnant until 2004. In 2005, FDI inflow dramatically increased and reached its highest ever.

Such growth was not sustained and declined again to previous levels. The pattern of FDI inflow into Myanmar throughout the period was broken down into three parts in this paper. These are, namely, the period of growth (1989-1996), period of stagnation (1997-2004), and current period (2005 onwards). Before a detailed analysis of the investment pattern during each period, it may be helpful to analyze the

**Figure 2: The pattern of FDI inflow by World region (1989- 2007)**



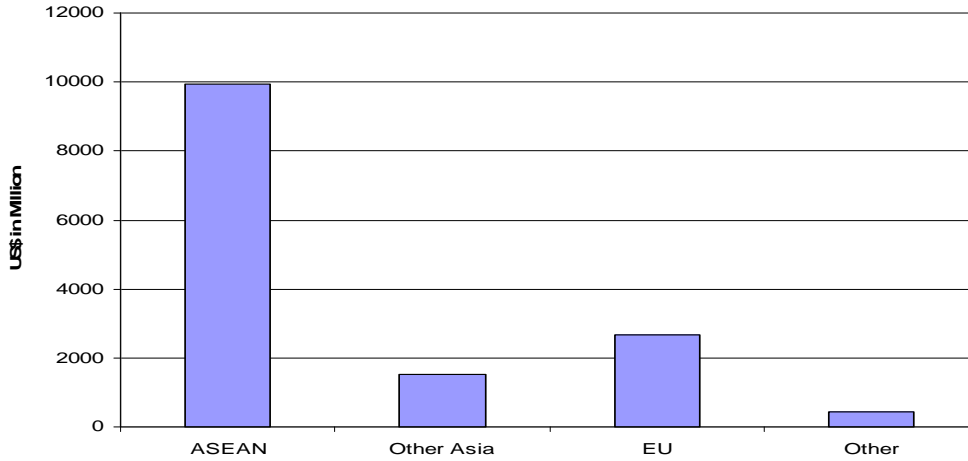
Source: Myanmar Investment Commission

pattern of investment by world region, by nation, by leading country in each region and by sector.

Figure 2 shows the pattern inflow of FDI by the world region throughout the period. Not surprisingly, ASEAN leads all other regions that invested in Myanmar except in 1994.

As seen in Figure 3, the total amount of investment in Myanmar by ASEAN was about US\$10,000 million. It is about four times more than the investment of EU, which ranks second. The total amount of investment by other Asian countries, including Japan, China, and India, is about US\$1,800 million throughout the period 1989-2007. The

**Figure 3: The total value of investment by World region**

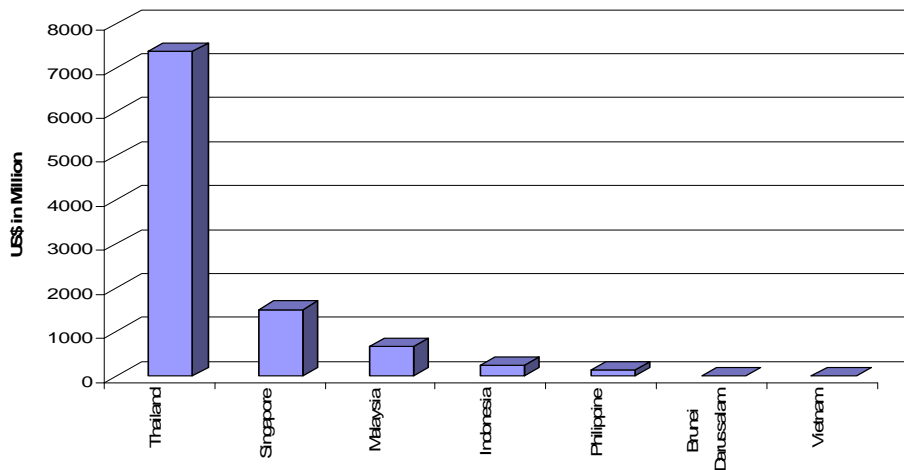


Source: Myanmar Investment Commission

amount of investment by other world regions, including the U.S. is about US\$500 million. This amount is 20 times less than the investment of ASEAN during the period.

The value of investment by each ASEAN country is shown in Figure 4. Again, Thailand leads other ASEAN countries, given that its investment value is more than

**Figure 4: The value of investment by ASEAN countries during the period (1989-2007)**

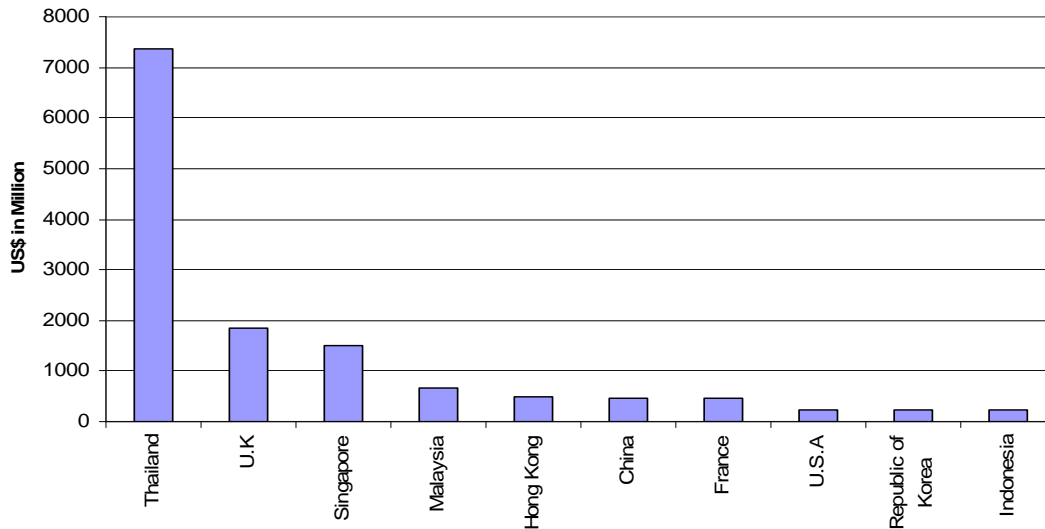


Source: Myanmar Investment Commission

the combined total of other ASEAN countries. Singapore comes second and Malaysia, third. Among ASEAN countries, seven countries invest in Myanmar and of these only three countries can be said to be the active investors, namely, Thailand, Singapore, and

Malaysia. The amount of investment by other ASEAN countries represents relatively insignificant amount.

**Figure 5: The value of investment by top 10 countries during the period (1989-2007)**

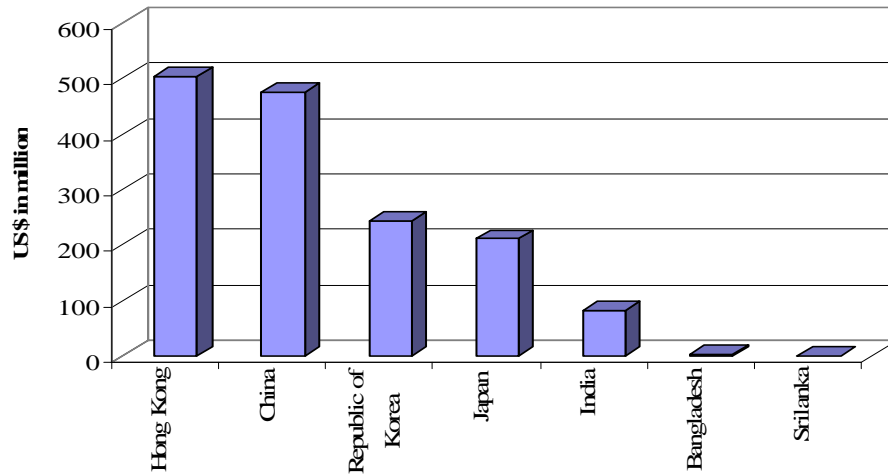


Source: Myanmar Investment Commission

The total amount of investment by top 10 countries in terms of the value of FDI inflows into Myanmar during the period is shown in Figure 5. Thailand significantly leads all other countries with about US\$7,500 million, which represents nearly half of the total investments in Myanmar throughout the period. UK stands second with its investment value of about US\$1,800 million. It is followed by Singapore with about US\$1,500 million; Malaysia is fourth with about US\$700 million; and Hong Kong stands in fifth place with US\$500 million. Among the top ten investor countries, four countries are from ASEAN, two are from EU, and three are from other parts of Asia. The USA is the only other country outside of these regions.

Figure 6 shows the amount of investment made by other Asian countries in Myanmar throughout the period. Seven countries from Asia (excluding ASEAN) have invested in Myanmar. Of these, Hong Kong and China significantly lead other countries. China is second and the Republic of Korea is third; Japan is in fourth place with an investment value of about US\$ 200 millions, followed by India. Investments from Bangladesh and Sri Lanka in Myanmar represent very insignificant amounts.

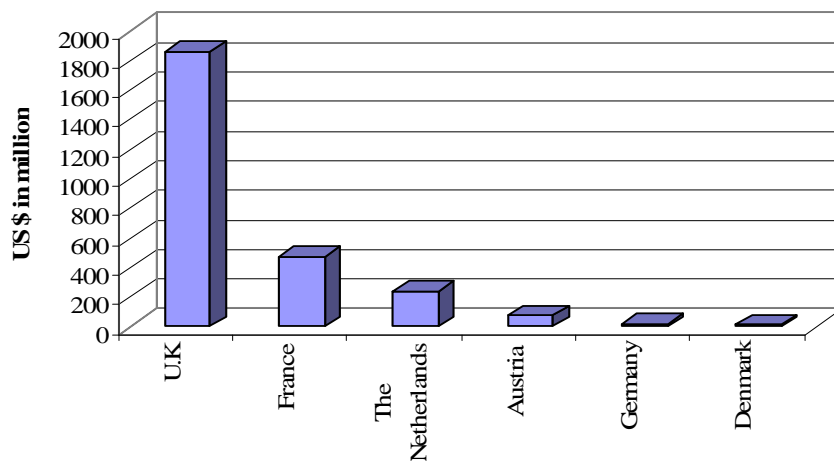
**Figure 6: The value of investment by other Asian countries during the period (1989-2007)**



Source: Myanmar Investment Commission

As seen in Figure 7, six EU countries, led by the UK, have invested in Myanmar. UK's investment surpasses the combined investments of all other EU countries. France and the Netherlands stand at second and third places, respectively. In sum, Thailand and Hong Kong from Asia and the UK from the EU are the biggest investors in Myanmar in their respective regions.

**Figure 7: The value of investment by EU countries during the period (1989-2007)**



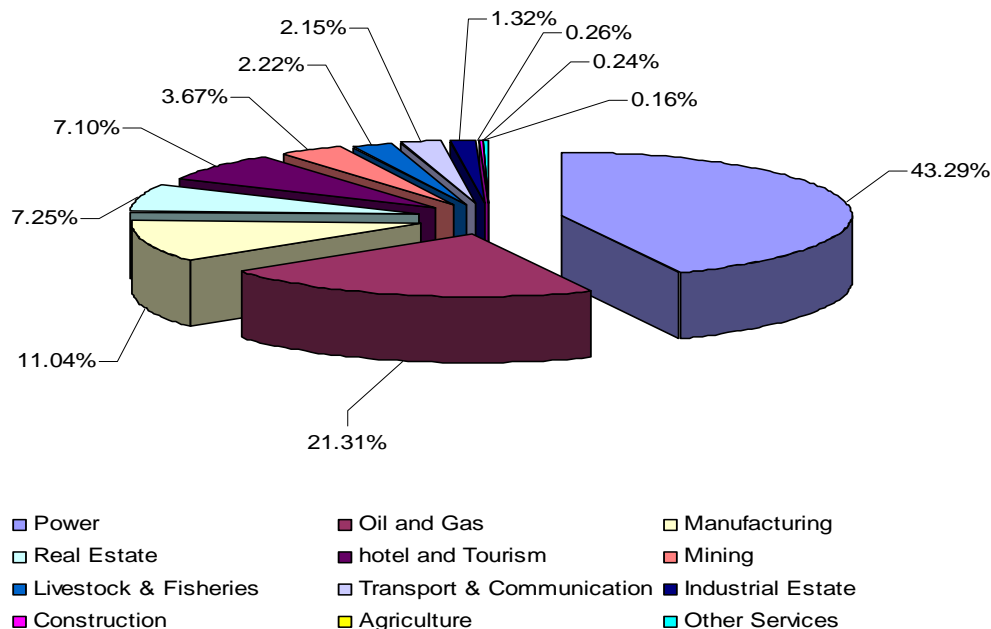
Source: Myanmar Investment Commission

Figure 8 shows the FDI inflow into Myanmar during the period 1989-2007. Twelve sectors benefit from the inflow of FDI into Myanmar. The power sector leads



these sectors, representing more than 43 percent of the total investment value. It is

**Figure 8: FDI inflow by sector during the period (1989-2007)**



Source: Myanmar Investment Commission

followed by the oil and gas sector, comprising over 21 percent of the total investment; the manufacturing sector stands in third overall, with approximately 11 percent of the total share of investment. Real estate and hotel and tourism also receive significant shares of investment, with over 7 percent of the total in each sector. The FDI inflows into the rest sectors are relatively small in terms of their contribution to the total investment.

**Table 1: Foreign Investment by Sector from 1989 to 1996**

Period between 1989 and 1996(Approved data)

Sr.	Sector	Number of projects	Amount (US\$ in million)
1	Agriculture	2	8.681
2	Livestock & Fisheries	17	269.537
3	Mining	42	498.030
4	Manufacturing	82	1117.095
5	Oil and Gas	34	2131.023
6	Construction	1	17.267
7	Transport	10	169.087
8	Hotel and Tourism	39	733.959
9	Real Estate Development	14	903.550
10	Industrial Estate	3	193.113
11	Other Services	3	10.286

	Total	247	6051.628
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Source: Myanmar Investment Commission

*Period of growth (1989-1996):* After Myanmar's Foreign Investment Law was passed in 1988, FDI from various countries increased steadily. FDI inflows into various sectors during this first eight year period are shown in Table 1.

As soon as Myanmar accepted FDI, most FDI were channeled into the oil and gas sector. The amount of investment received in this sector was nearly two times more than that of the manufacturing sector, which placed second. Real estate development was in the third place, followed by hotel and tourism sector. Myanmar's primary economic sector, agriculture, received the least amount of FDI during this period. FDI inflows have gone in the primary sectors (i.e., oil and gas), secondary sector (i.e., manufacturing), and tertiary sector (i.e., hotel and tourism).

Table 2 shows the amount of investment by individual countries during the period between 1989 and 1996. Since FDI was first permitted in Myanmar, ASEAN has played a very significant role in the flow of investment into the country, with a total value of US\$ 2808.433 million. That of Europe is US\$2249.329 million as the second

**Table 2: Foreign Investment Inflows by Country during 1989-1996**

Approved amount (US \$ in million)

No.	Region/Country	No. of project/firm	Total Amount
<b>(a)</b>	<b>Asia</b>	<b>172</b>	<b>3483.742</b>
<b>1)</b>	<b>ASEAN</b>	<b>118</b>	<b>2808.433</b>
1	Thailand	39	1026.808
2	Singapore	55	1101.639
3	Malaysia	19	462.369
4	Indonesia	4	210.950
5	Philippine	1	6.667
<b>2)</b>	<b>Other Asia</b>	<b>54</b>	<b>675.309</b>
6	China	8	28.759
7	Hong Kong	18	402.943
8	Japan	13	167.021
9	Republic of Korea	12	72.629
10	Bangladesh	2	2.957
11	Srilanka	1	1.000
<b>(b)</b>	<b>Europe</b>	<b>39</b>	<b>2249.329</b>
12	UK	27	1440.254
13	France	3	470.370
14	The Netherlands	5	237.835
15	Austria	2	72.500
16	Germany	1	15.000
17	Denmark	1	13.370
<b>(c)</b>	<b>Other regions</b>	<b>36</b>	<b>318.557</b>
18	USA	15	243.565
19	Australia	11	40.061
20	Canada	9	32.531
21	Macau	1	2.400
	<b>Total</b>	<b>247</b>	<b>6051.628</b>

Source: Myanmar Investment Commission  
largest investor. Other Asian countries with investments in Myanmar include China, Korea, and Japan. Even before Myanmar became an ASEAN member, ASEAN countries had had close relationships with Myanmar in the investment and trade arenas. The EU had a great potential to become a large investor group in Myanmar at that time because its investment value exceeded US\$2000 million.

**Table 3: Top ten Investor countries in Myanmar during 1989-1996**

Approved amount (US

\$ million)

No.	Country	No. of project/firm	Investment value
1	UK	27	1440.254
2	Singapore	55	1101.639
3	Thailand	39	1026.808
4	France	3	470.370
5	Malaysia	19	462.369
6	Hong Kong	26	402.943
7	USA	15	243.565
8	The Netherlands	5	237.835
9	Indonesia	4	210.950
10	Japan	13	167.021

Source: Myanmar Investment Commission

The UK led all other nations during this period as an investor in Myanmar, followed by Singapore (see Table 3), whose investment value was slightly lower than UK's. Of the top five countries with investments in Myanmar, three were ASEAN countries and two were EU countries. Although Japan is an active investor in other ASEAN countries, it only stood at ten in Myanmar. Hong Kong stood at number six in the Myanmar's FDI. China was not among the top ten investors in the first period of Myanmar FDI.

*Period of stagnation (1997-2004):* This represents the period between 1997 and 2004. During this second eight-year period, investment inflow into Myanmar significantly declined. Investments from the whole of Asia declined, having been affected by the Asian economic crisis. Though Myanmar was not directly affected by the crisis, the inflow of FDI into the country got stagnant since then, compounded by economic sanctions from the EU and the U.S. FDI inflows into Myanmar during this period were shown in the Table 4.

**Table 4: Foreign Investment by Sector (Total number of enterprises)**

Period between 1997 and 2004 (Approved data)

Sr.	Sector	Number of projects	Amount (US\$ in million)
1	Agriculture	2	25.670
2	Livestock & Fisheries	7	42.821
3	Mining	15	36.160
4	Manufacturing	70	493.313
5	Oil and Gas	34	496.000
6	Construction	1	20.500
7	Transport	6	144.185
8	Hotel and Tourism	5	300.602
9	Real Estate Development	4	152.903
10	Industrial Estate	0	0.000
11	Other Services	3	13.400
	<b>Total</b>	<b>147</b>	<b>1698.554</b>

Source: Myanmar Investment Commission

FDI inflow into Myanmar by country during this period of stagnation is shown in Table 5. The amount of investment by each region and each individual country dramatically declined in this period.

**Table 5: Foreign Investment Inflows by Country during 1997-2004**

Approved amount (US \$ in million)

No.	Region/Country	No. of project/firm	Total Amount
<b>(a)</b>	<b>Asia</b>	<b>120</b>	<b>1458.432</b>
<b>1)</b>	<b>ASEAN</b>	<b>56</b>	<b>1021.603</b>
1	Thailand	16	314.415
2	Singapore	15	332.574
3	Malaysia	14	198.378
4	Indonesia	8	30.547
5	Philippine	1	140.000
6	Brunei Darussalam	1	2.040
7	Vietnam	1	3.649
<b>2)</b>	<b>Other Asia</b>	<b>64</b>	<b>436.829</b>
8	China	17	164.762
9	Hong Kong	13	101.275
10	Japan	11	44.613
11	Republic of Korea	22	121.679
12	India	1	4.500
<b>(b)</b>	<b>Europe</b>	<b>11</b>	<b>148.720</b>
13	UK	11	147.720
14	The Netherlands	n.a	1.000
<b>(c)</b>	<b>Other regions</b>	<b>16</b>	<b>91.402</b>
15	Australia	3	42.019
16	Canada	8	7.250
17	Panama	1	29.101
18	Cyprus	1	5.250
19	Macau	1	2.000
20	Switzerland	1	3.382
20	Israel	1	2.400

	<b>Total</b>	<b>147</b>	<b>1698.554</b>
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Source: Myanmar Investment Commission

**Table 6: Top ten Investor countries in Myanmar during 1997-2004**

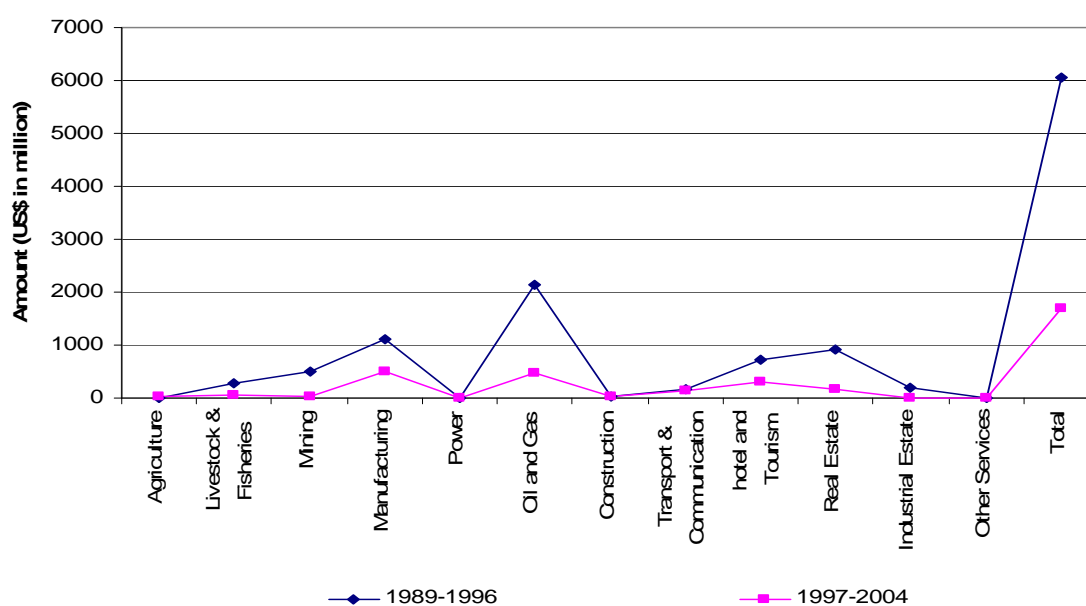
Approved amount (US \$ million)

No.	Country	No. of project/firm	Investment value
1	Singapore	16	332.574
2	Thailand	16	314.415
3	Malaysia	14	198.378
4	China	17	164.762
5	UK	11	147.720
6	Philippine	1	140.000
7	Republic of Korea	22	121.679
8	Hong Kong	13	101.275
9	Japan	11	42.019
10	Australia	3	30.547

Source: Myanmar Investment Commission

The top ten investor countries in Myanmar during second eight-year period are shown in Table 6. Singapore moved to the first place in this period, followed by Thailand and Malaysia. China landed fourth and the UK, fifth. Japan was at the ninth place. Among top five investor countries, three were from ASEAN.

**Figure 9: Comparison between FDI inflows by sector during two periods**

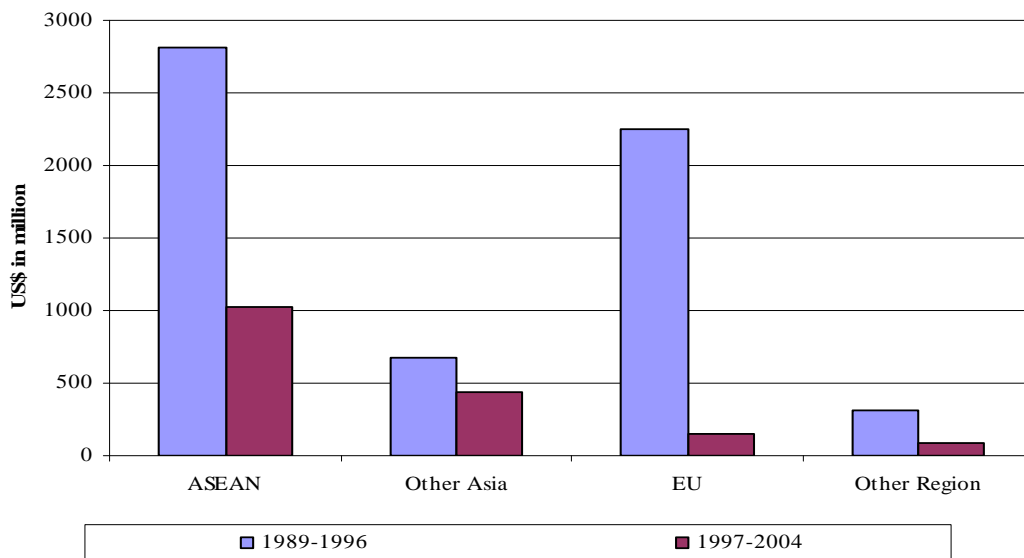


Source: Myanmar Investment Commission

Figure 9 shows that FDI inflow into Myanmar during this second eight-year period was significantly less than that of the first eight-year period. The total inflow of FDI greatly declined from US\$6051.628 million in the first period to US\$1698.554 million in the second period. FDI inflow was significantly reduced in oil and gas sector. Similarly, it was reduced in mining, manufacturing, hotel and tourism, and real estate sectors, respectively.

In the latter period, the FDI inflow into Myanmar by world regions was also significantly reduced. Owing to the Asian crisis, the FDI inflow from Asia reduced more than two times from US\$3483.742 million in the first period to US\$1458.432 million in the second period. EU investment in Myanmar greatly reduced from US\$2249.329 million in the first period to US\$148.72 million in the second period. The EU did not suffer the impact of financial crisis. So, it can be concluded that declining FDI value in the second period was mainly due to the withdrawal of EU investment in Myanmar rather than the impact of the Asian crisis. A comparison of FDI inflow into Myanmar in these two periods is shown in Figure 10.

**Figure 10: FDI inflows into Myanmar by world regions during two periods**

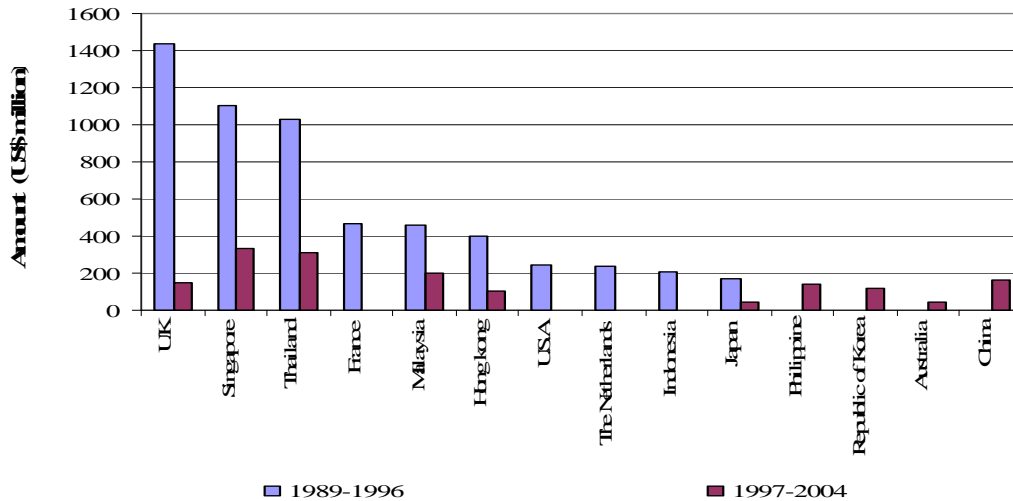


Source: Myanmar Investment Commission

Among top ten investor countries in these two periods, a significant change occurred. UK slipped from number one to number five in the second period while Singapore moved up from number two to number one. Thailand also inched up from

third into second place in the latter period. China as a newcomer into the top ten investors' list ranked four while France was excluded from the list. The comparison on

**Figure 11: Comparison among the position of top ten investor countries between two Periods**



Source: Myanmar Investment Commission

the situation of top ten countries between these two periods is shown in Figure 11.

Figure 11 shows that FDI inflows into Myanmar from the top ten countries significantly declined. Although investments from ASEAN countries like Singapore and Malaysia greatly reduced, their positions in the top ten went up as other countries fell in the rankings. Investment by the UK greatly reduced in the second period, as shown in Figure 11. Other EU countries like France and the Netherlands as well as the U.S. totally dismissed their investments from Myanmar. Investment by Japan was also significantly reduced while the Philippines, Korea, China, and Australia became new investors in Myanmar.

*Current period (2005 onwards):* In 2005, FDI inflows into Myanmar dramatically went up at an unprecedented in Myanmar's FDI history. However, it is difficult to say that Myanmar FDI has been revitalized because this increase mainly comes from the investment in a single project-Thailand's power sector project, which is intended to generate hydro power from Thanlwin River and the single amount of investment in this project is more than US\$6000 million. Nevertheless, it is too huge an investment value for Myanmar such that the 2005 FDI surpassed any FDI inflows in the precedent years.

The situation of FDI inflow into Myanmar in the current period is shown in Table 7.

In Table 7, although FDI inflows into Myanmar in 2005 reached the highest level throughout the whole period, it was mainly due to huge amounts of investment by

Thailand. More importantly, new investments in 2005 came from only three countries—Thailand, China, and India. Apart from Thailand’s investment, the amount invested by

**Table 7: FDI inflows by countries in the period between 2005 and 31.8.2007**

Approved amount (US \$ million)					
No	Country	2005-06	2006-07	2007-08 (Up to 31.08.07)	Total
<b>(a)</b>	<b>Asia</b>	<b>6065.675</b>	<b>446.722</b>	<b>12.000</b>	<b>6524.397</b>
<b>1)</b>	<b>ASEAN</b>	<b>6034.400</b>	<b>81.000</b>	<b>-</b>	<b>6115.400</b>
1	Thailand	6034.400	-	-	6034.400
2	Singapore	-	81.000	-	81.000
3	Malaysia	-	-	-	
4	Indonesia	-	-	-	
5	Philippine	-	-	-	
6	Brunei Darussalam	-	-	-	
7	Vietnam	-	-	-	
<b>2)</b>	<b>Other Asia</b>	<b>31.275</b>	<b>365.722</b>	<b>12.000</b>	<b>408.997</b>
8	China	0.700	281.222	-	281.922
9	Japan	-	-	-	
10	Republic of Korea	-	37.000	12.000	49.000
11	India	30.575	47.500	-	78.075
12	Bangladesh	-	-	-	
13	Srilanka	-	-	-	
<b>(b)</b>	<b>Europe</b>	<b>-</b>	<b>272.980</b>	<b>-</b>	<b>272.980</b>
14	UK	-	272.980	-	272.980
15	France	-	-	-	
16	The Netherlands	-	-	-	
17	Austria	-	-	-	
18	Germany	-	-	-	
19	Denmark	-	-	-	
<b>(c)</b>	<b>Other regions</b>	<b>-</b>	<b>33.000</b>	<b>-</b>	<b>33.000</b>
20	USA	-	-	-	
21	Australia	-	-	-	
22	Canada	-	-	-	
23	Russia Federation	-	33.000	-	33.000
24	Panama	-	-	-	
25	Cyprus	-	-	-	
26	Macau	-	-	-	
27	Switzerland	-	-	-	
28	Israel	-	-	-	
	<b>Total</b>	<b>6065.675</b>	<b>752.702</b>	<b>12.000</b>	<b>6830.377</b>

Source: Myanmar Investment Commission

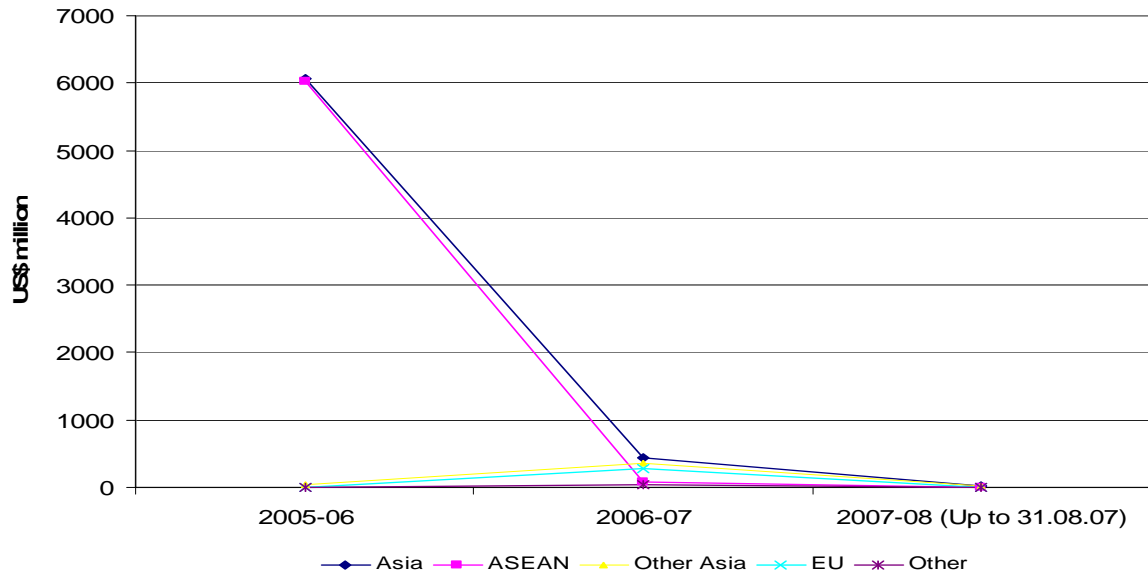
the other two countries is negligible, US\$0.7 million from China and US\$30.575 million from India.

The amount of ASEAN investment was significantly reduced in 2006. Only Singapore invested in Myanmar in 2006 among ASEAN countries, estimated at US\$81 million. China’s investment significantly increased in 2006 to US\$281 million. The UK, Russia, India, and the Republic of Korea funneled new investments during the year, bringing the number of country investors in 2006 to six.



The situation of FDI inflows into Myanmar from April 2007 to August 2007 (fiscal

**Figure 12: The FDI inflows during the period between 2005 and 31.08.2007**

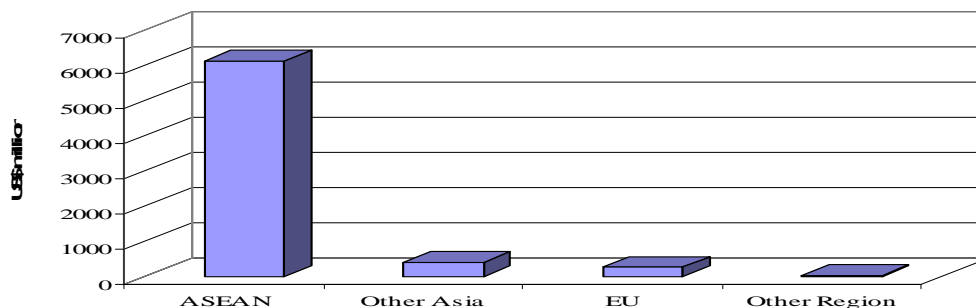


Source: Myanmar Investment Commission

year of Myanmar) was not encouraging at all, since the total amount of FDI into the country stood only at US\$12 million, which came mainly from Korea, the sole investor in the year.

Figure 12 shows FDI inflow into Myanmar for the period 2005-2007. The condition of FDI inflow by world region is shown in Figure 13. As shown in figure, ASEAN only becomes the major investor in Myanmar. The investment of other region decline apparently. The amount of investment by other Asia countries stands in the second place after ASEAN. However, the amount of their investment does not increase significantly. The investment by other regions is very insignificant amount in Myanmar.

**Figure 13: FDI inflow into Myanmar by world region (2005-31.8.07)**



Source: Myanmar Investment Commission

The amount of FDI inflows into Myanmar in terms of sector during the same period is shown in Table 8.

**Table 8: FDI inflow by sector during current period (2005-31.08.07)**

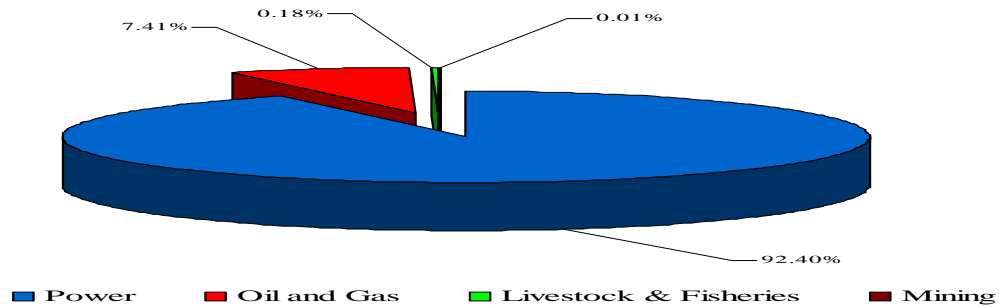
Approved amount (US \$ million)

Sr.	Sector	2005-06	2006-07	2007-08 (Up to 31.08.07)	Total
1	Agriculture	-	-	-	-
2	Livestock & Fisheries	-	-	12.000	12.000
3	Mining	-	-	-	-
4	Manufacturing	0.700	-	-	-
5	Power	6030.000	281.222	-	6311.222
6	Oil and Gas	34.978	471.480	-	506.455
7	Construction	-	-	-	-
8	Transport	-	-	-	-
9	Hotel and Tourism	-	-	-	-
10	Real Estate	-	-	-	-
11	Development	-	-	-	-
12	Industrial	-	-	-	-
	Estate				
	Other Services				
	<b>Total</b>	<b>6065.675</b>	<b>752.702</b>	<b>12.000</b>	<b>6830.377</b>

Source: Myanmar Investment Commission

FDI inflow by sector during the period from 2005 to the end of August 2007 is shown in Figure 14.

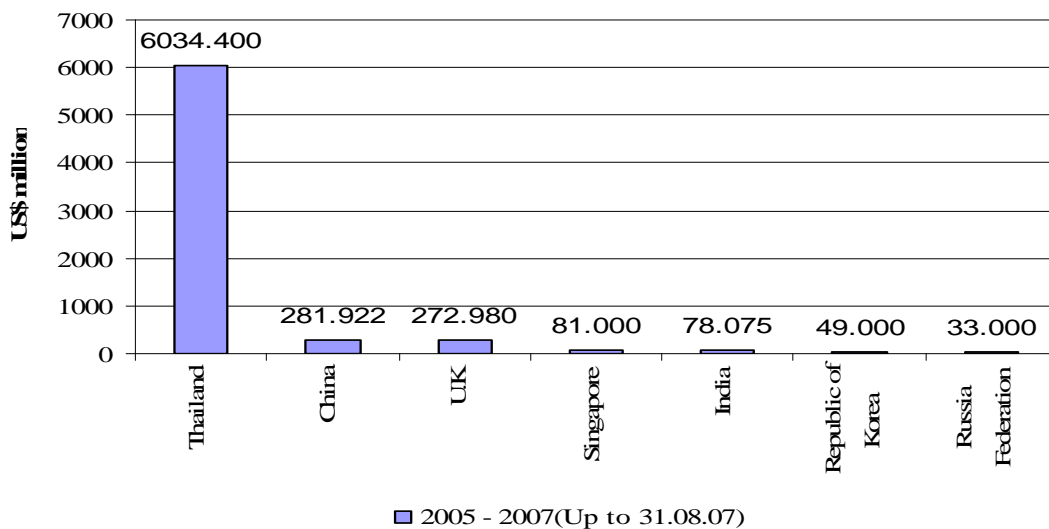
**Figure 14: FDI inflows by sector during 2005-2007**



Source: Myanmar Investment Commission

As shown in Figure, the amount of FDI inflow is disproportionately concentrated in the power sector. Although investment in this sector was lacking throughout the period since 1989, it surpassed all other sectors in investment terms owing to a single project by one country within one year. The historically leading sector, oil and gas, slipped down to second place in the current period. There are no new investments in other sectors like agriculture, hotel and tourism, real estate and construction. Investments in livestock and fisheries and mining sector represent negligible amounts during the period.

**Figure 15: FDI inflows by individual country during the current period (2005-31.8.2007)**



Source: Myanmar Investment Commission

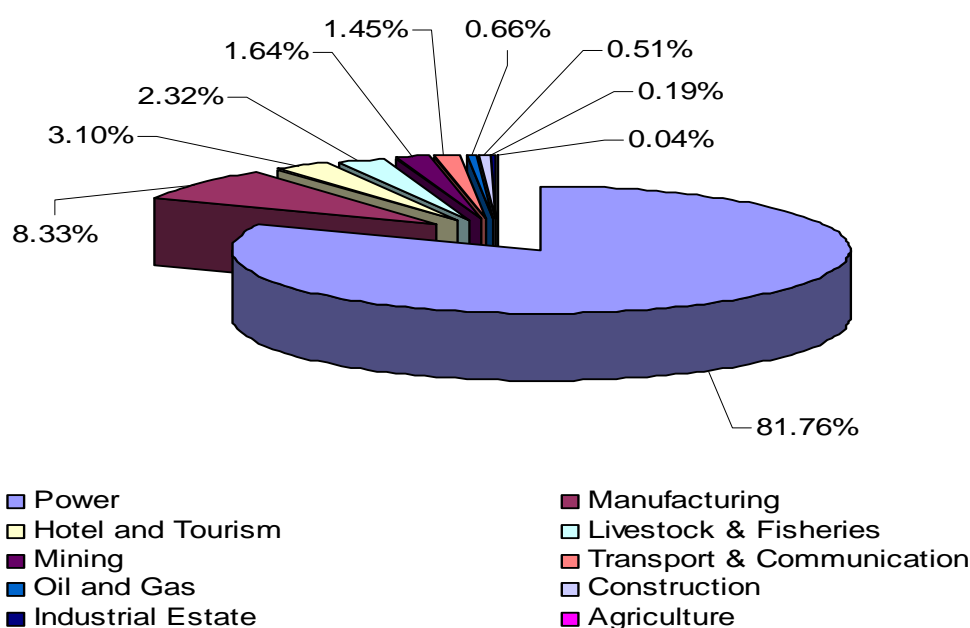
Investments by individual countries during this period can be seen in Figure 15. Among the ASEAN member states, only Thailand and Singapore have invested in Myanmar. New investments from China and the UK and those from three other

countries, namely, India, Korea, and Russia, represent relatively small amounts in the total FDI during the period. It is worth noting that almost all investments during this period are from Asia, while the UK and Russia are the only non-Asian country with investments in Myanmar. In this sense, the role of ASEAN and the rest of Asia have assumed increased importance for Myanmar's FDI in the recent years. This trend is expected to continue in the future. Moreover, ASEAN has a very high potential of expanding its role in Myanmar investment in the power and oil and gas sectors. Other Asia countries like China, India, and Korea are potentially major investors in these sectors as well.

### V. FDI RELATIONS BETWEEN MYANMAR AND ASEAN

Investments from ASEAN as the biggest investor in Myanmar today is about five to 20 times more than any those from other regions in the world (see Figure 3). In terms of contribution by individual country, Figure 4 shows that even in ASEAN countries, only three countries, namely, Thailand, Singapore, and Malaysia, play dominant positions in the area of FDI inflow into Myanmar. It is interesting to note the primary interest areas of these countries in Myanmar, which could reflect their motivations for investing in Myanmar.

**Figure 16: Thailand's investment in Myanmar during the period between 1989 and (31-8-2007)**

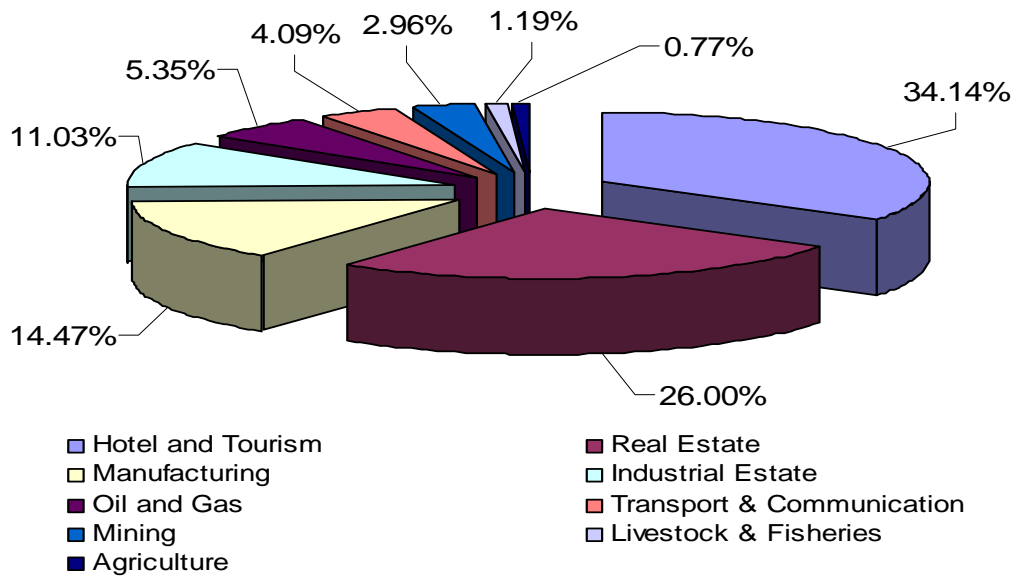


Source: Myanmar Investment Commission

As shown in Figure 5, Thailand stands first among the countries that invest in Myanmar with the total investment value of US\$ 7,500 million during the period. Figure 16 shows that Thailand's interest in Myanmar is concentrated in the power sector. Such investment only started in 2005, the approved value of which is only for a single project. Subtracting the project from investment list will significantly reduce the amount of Thailand's total investment in the country. The second largest sector of Thailand's investment lies in manufacturing, but investment in this sector is about 10 times less than that in the power sector. Hotel and tourism is the third priority sector for Thailand's investment; Livestock and fishery sector is in fourth place.

Thailand's main interest in the power sector reflects the increased demand for power within this country due to rapid industrialization. The ThanLwin River in the eastern part of Myanmar has a great potential to extract hydroelectricity, which can be used for Thailand's local industries. The potential to access large amounts of energy at relatively a lower cost from hydropower projects in Myanmar can greatly benefit to industries in Thailand especially those located near Myanmar's border. Many industries in Thailand are already located on the border areas with Myanmar, which is a cheaper source of labor of the former. These industries mainly rely on Myanmar's labor force. To supply increased power usages to these industries, Thailand uses hydropower from Myanmar Rivers, which are still unexploited. Thus Thailand greatly benefits from extracting from Myanmar's cheaper source of power and tapping its cheap labor force. This may explain why Thailand makes large investments in hydropower project in Myanmar.

**Figure 17: Singapore's investment in Myanmar during the period between 1989 and (31-8-2007)**



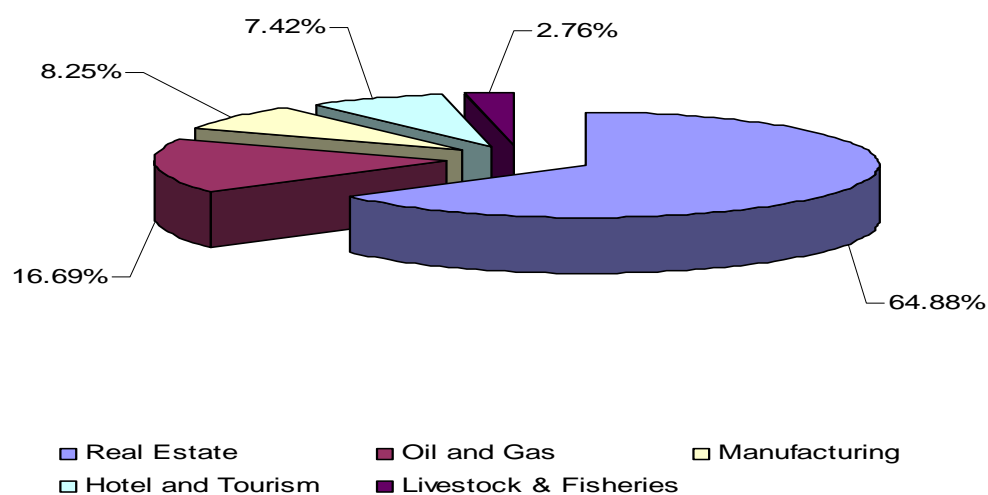
Source: Myanmar Investment Commission

Singapore's investment in Myanmar throughout the period is shown in Figure 17. It generated about US\$1515.213 million during the period. Singapore's investment is in a more balanced position than that of Thailand. Its investment is more concentrated in services sectors like hotel and tourism and real estates rather than resources extraction, as in the case of Thailand. Unlike Thailand, power is of no interest to Singapore. As a country with extensive experience in the services industry, it is not surprising that investments in Myanmar go mainly to the latter's services sector. This may be a golden opportunity for Myanmar's own services industries to learn from Singapore. Investment in manufacturing and industrial estate represents the third and fourth interested areas of Singapore. Therefore, from the development perspective, Singapore's investment is more likely to benefit Myanmar in the long term. This is because investments in manufacturing and services generate more employment and technological spillovers than investment in the resources sectors even if these earn a large sum of dollars in the short term.

Malaysia's investment in Myanmar is about US\$660.747 million during the period. Its investment is concentrated in real estate, which comprises around 65 percent of the total investment. One of the resource extraction sectors, the oil and gas sector is in second place. The manufacturing sector stands in the third place. Malaysia is the largest investor in Myanmar's real estate sector. Its investment represents more than 40 percent of the total investment in the said sector. Malaysia also shows interest in the oil and gas sector of Myanmar, which is second largest investment sector of Malaysia. Malaysia's investment in Myanmar seems to be long-term in nature rather than ad hoc

basis. The investments of Malaysia in Myanmar are shown in Figure 18.

**Figure 18: Malaysia's investment in Myanmar during the period between 1989 and (31-8-2007)**



Source: Myanmar Investment Commission

The manufacturing sector is the second biggest investment area in Thailand and third in Singapore and Malaysia. This means the three leading investor countries in Myanmar from ASEAN are keenly interested in the manufacturing sector. Their investment values in this sector have huge potentials to increase. The investments of four other ASEAN countries - Indonesia, the Philippines, Brunei, and Vietnam - represent insignificant amounts in total so they are excluded in this analysis.

Myanmar's FDI outflow is found in part in the manufacturing and service sectors in Singapore, Thailand, and Malaysia, the combined amounts which is relatively insignificant. Myanmar's oversea FDI investment can be seen in Laos with US\$0.68 million and in Thailand, with US\$3 million<sup>24</sup>.

<sup>24</sup> ASEAN-JAPAN Statistical Pocketbook 2007

## **VI. ANALYSIS OF THE ATTRACTIVENESS OF MYANMAR FDI**

Investments in Myanmar present exciting opportunities as well as risks. Opportunities come from Myanmar's rich natural resources like natural gas, forest resources, mineral resources like gems and jewelry, marine resources, and large areas of cultivable land. Its geographical location, cheap and relatively educated workforce, and accessible routes of transportation from sea and road are also potential incentives to investors. Myanmar's attractiveness as an investment site also comes from incentives and policies that have been put in place by the government. Risks come from political and unfavorable macroeconomic factors such as exchange rate control, poor infrastructure, unstable policies and level of openness.

From the investors' perspective, they need to examine each of the abovementioned factors in detail before they make investment decisions concerning Myanmar. The perspective of investors must be taken into account when analyzing FDI attractiveness in Myanmar. The analysis will be made on Myanmar relative to Cambodia, Laos, and Vietnam (or the CLMV group).

### **A. Basic Economic data**



**Table 9: Basic Economic data of CLMV countries**

Sr.	Data	Cambodia	Laos	Myanmar	Vietnam
1	Land area	181,035 sq miles	236,800 sp miles	677,000 sq miles	331,690 sq miles
2	Population (2006)	14.10 Million	6.06 million	56.51 million	84.37 million
3	Nominal GDP (2006)	7,096 US\$ million	3534 US\$ million	13,002 US\$ million	60,995 US\$ million
4	GDP per capita (Nominal)	503.27 USD	567.10 USD	230.10 USD	722.97 USD
5	Annual GDP growth rate (2006)	9.5 percent	7.6 percent	7.0 percent	8.2 percent
6	Export (US \$ million)	3,562	1,101	4,353	39,531
7	Import (US \$ million)	2,985	1,635	3,834	47,941
8	Inflation *	4.7 percent (2006)	6.8 percent (2006)	10.7 percent (2005)	7.5 percent (2006)

*Source: SEAN-JAPAN Statistical Pocketbook 2007 \*Asian development outlook (2007)*

As presented in Table 9, Myanmar is the second largest market among CLMV countries, next only to Vietnam in terms of population, GDP, and trade volume. However, Myanmar has lowest GDP per capita and highest inflation rate among the CLMV countries. Foreign investors, especially in the case of market-seeking FDI, pay attention to the market size of the host country. Market size represents population and purchasing power of the host country. GDP per capita serves as a proxy of purchasing power of the country. Among CLMV, Vietnam is the largest market, having the largest population and highest per capita GDP at the same time. Although Myanmar has the second largest population, its GDP per capita is lowest among CLMV. Low GDP per capita means lower income that limits the size of market.

### **B. GDP by Economic origin**

Economic sector contribution to GDP can show the state of industrialization and the primary economic sector in the country. It also reflects the economic strategy of the policymakers of that country. Among CLMV, Myanmar is the lone country whose economy relies heavily upon the agricultural sector, since the sector contribution to GDP is more than 50 percent. Concerning manufacturing sector contribution to GDP, only Myanmar among the CLMV has between 10 and 20 percent output whereas those of other countries in CLMV have more than 20 percent.

**Table 10: Sectoral contribution to GDP by CLMV countries (2005)**

Sr.	Sector	Myanmar	Cambodia	Laos	Vietnam
1	Agriculture	50.6 percent	32.9 percent	47.0 percent	20.9 percent

3	Manufacturing	9.8 percent	21.5 percent	20.4 percent	20.7 percent
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Source: ASEAN-JAPAN Statistical Pocketbook 2007 p. 16

### C. Resources endowment

Where resources are concerned, Myanmar endows resources more than Cambodia and Laos and relatively as par with Vietnam. Especially, Myanmar has diversity of natural resources such as timber, precious stones and natural gas. This is Myanmar's comparative advantage and a strong attractiveness for resources seeking FDI.

**Table 11: Resources endowment of CLMV countries**

	Cambodia	Laos PDR	Myanmar	Vietnam
Forest Area	70 percent (2006)	75 percent (2006)	50 percent (2006)	42 percent (2006)
Cultivable land	20.44 percent(2005)	4.01 percent(2006)	14.92 percent(2005)	20.14 percent(2005)
Coastal line	443km	0	1930km	3444km
Natural resources	Timber, gems, manganese	Timber, hydro power, gems, gold	Timber, gems, Oil & Gas, Mineral, hydro power	Phosphates, coal, mineral, oil & gas, hydro power
Labor force	7 millions (2003)	2.1 millions (2006)	28.49 millions (2006)	44.58 millions (2006)
Oil and Gas production	-	-	Oil-9500bbl/day(2006) Gas-12.47billion cum (2005)	Oil-400,000bbl/day (2005) Gas-3.836billion cum (2005)
Oil and Gas reserve(Proved)	-	-	Oil-<50 million bbl (2006) Gas- 271.6 billion cum(2006)	Oil-3.3 billion bbl (2006) Gas-184.7 billion Cum (2006)

Source: <http://en.wikipedia.org/wiki/country>

### D. Economic freedom

Foreign investors are deeply interested in the economic freedom of a particular country before making investment decisions. Economic freedom has a significant impact on FDI inflow since the potential inflows of FDI require ease of doing business, free trade flow, and capital movement.<sup>25</sup> Degree of freedom is measured by using degree of freedom alongside many variables such as business freedom, trade freedom, fiscal freedom, freedom from government, monetary freedom, investment freedom, financial freedom, property right, freedom from corruption and labor freedom<sup>26</sup>.

**Table 12: Scores of Economic Freedom among CLMV (2007)**

Country	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Rank of The World
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<sup>25</sup> Rahim Quazi (2007), *Economic freedom and foreign direct investment in East Asia*, Journal of the Asia Pacific Economy Vol.12, No.3,329-344, Aug 2007

<sup>26</sup> Economic freedom Index of Heritage Foundation (2007)

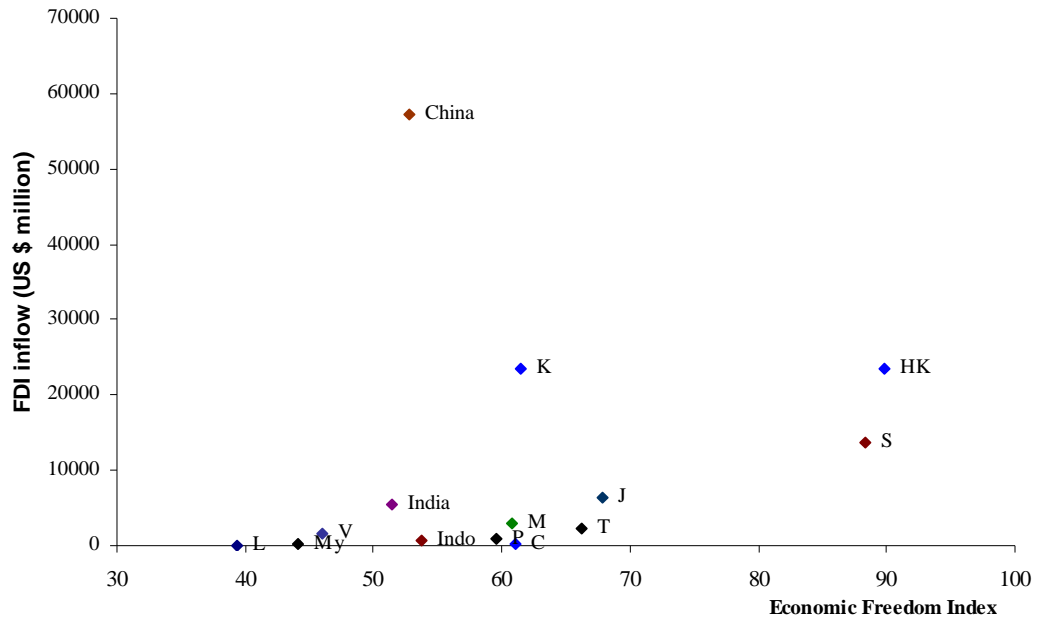
Cambodia	58.9	59.4	58.5	61.0	62.0	65.0	62.1	58.7	59.2	56.5	102
Lao PDR	25.4	25.4	28.1	30.4	32.9	36.9	37.7	39.2	46.8	49.1	140
Myanmar	36.9	37.8	46.4	44.9	42.9	41.3	38.8	37.1	39.6	40.1	153
Vietnam	38.1	38.4	39.4	40.3	43.5	43.9	43.7	44.2	50.0	50.0	138

Source: Index of Economic Freedom, 2007 *WWW.Heritage.com*

Scores	Category	Scores	Category
80-100	Free	60-69.9	Moderately Free
70- 79.9	Mostly free	50-59.9	Mostly unfree
		0-49.9	Repressed

Scores on economic freedoms show that Cambodia is highest for foreign investors among the CLMV countries though scores in other years fall under “Mostly Unfree” category. But its scores are relatively better than the rest of the countries in CLMV. The Lao PDR and Myanmar’s score in all years have fallen into repressed category. In terms of world ranking, Myanmar ranks lowest in terms of economic openness.

**Chart 1: Relationship between Economic Freedom Index and FDI Inflow**



Sources: (1) Index of Economic Freedom, the Heritage Foundation  
 (2) ASEAN – Japan Statistical Pocket Book (2007)

Notes: K= Republic of Korea, S=Singapore, HK= Hong Kong, J= Japan, T=Thailand, M=Malaysia, C=Cambodia, V=Vietnam, L=Laos, P=Philippines, My=Myanmar, Indo=Indonesia

### E. Physical infrastructure

Foreign investors view well-established infrastructure as a major decisive factor in investment decisionmaking. Generally, poor infrastructure increases the cost of doing business and the concomitant risks. Infrastructure covers roads, ports, railways, telecommunication, electricity, and institutional development.

Among CLMV countries, Vietnam has better infrastructure facilities overall compared to the other member states, as shown in Table 13. Myanmar has lower-quality communication infrastructure compared to the rest of CLMV. On a positive note, Myanmar has a higher literacy rate and better transportation infrastructure than Cambodia and the Laos PDR.

Table 13: Infrastructure Development of CLMV countries

Particulars	Cambodia	Lao PDR	Myanmar	Vietnam
Road Infrastructure (total length km)	38257 (2004)	31210 (2003)	27000 (2005)	222,179 (2004)
Railway	602 km (2006)	-	3955km (2006)	2600km (2006)
Waterway	2400km (2005)	4600km (2007)	12800km (2007)	17702 km (2005)
Electricity production(kwh)	134 million (2005)	1.715billion (2005)	5.806 billion (2005)	51.33billion (2005)
Telephone	32800 lines (2006)	90067 (2006)	503900 (2005)	15.845 million (2005)
Mobile phone	1.14 million (2006)	638,200 (2006)	214200 (2006)	15.505 million (2006)
TV station	9 (2006)	7 (2006)	2 (2006)	6 (2006)
Internet hosts	941 (2007)	935 (2007)	101 (2007)	6 (2006)
Internet user	44,000 (2005)	25,000 (2005)	31500 (2005)	106772 (2007)
Airport	17 (2007)	42 (2007)	86 (2007)	14.684 million (2006)
International Seaport	2 (2007)	-	3 (2007)	44 (2007)
HDI index	0.583	0.553	0.581	3 (2007)
Literacy rate	73.6 percent (2006)	68.7 percent (2001)	89.9 percent (2000)	0.709 90.3 percent (2002)

Source: <http://en.wikipedia.org/wiki/country>

## F. Administrative procedures

FDIs are welcomed by many developing countries with attractive incentives given at the government level. With the exception of Myanmar, all CLMV countries have clearly defined duration of screening process for FDI approval.<sup>27</sup> In all CLMV countries, the procedures look relatively simple on paper but pose difficulties in actual practice. In Myanmar, MIC accepts proposals, makes preliminary review and presents them to the Trade Council (TC). Final approvals are made in the cabinet level.

Each CLMV country has preferred types of investment as well as limitations in some economic sectors. For example, Myanmar allows certain forms of investments from foreign investors such as joint ventures with state-owned enterprises (SEEs) and the private sector. It reserves certain types of economic sectors for state-owned enterprises.

Land ownership right is also another important factor for foreign investors. All CLMV countries do not allow any foreign individuals to own land according to their laws and regulations. However, land can be leased in Cambodia for 39 years, which can

<sup>27</sup> Myo Tint Tun, Foreign Direct Investment in Myanmar Agriculture: In the Context of New ASEAN (CLMV) countries, 2004

be extended based on a case-by-case basis. Myanmar also allows investors 30-year land lease rights. This too is renewable.

All countries in CLMV have enacted their FDI laws. Only Vietnam, however, has amended its FDI law to adapt to changing circumstances and to meet the needs of foreign investors more effectively. Each country has a specific agency tasked to handle FDI proposals and give priority to certain economic activities, which they promote; other sectors are reserved for the state.

In Myanmar, the SEE law limits some economic activities for the state economic enterprises, but may be opened to foreign investors if the project has a potential to fulfill state's interest. Myanmar has opened most types of business to foreign investment, but set foreign ownership at 35 percent minimum thresholds for joint ventures.

**Table 14: FDI Environment in CLMV Countries**

	Cambodia	Lao PDR	Myanmar	Vietnam
FDI Laws	Law on Investment (1994)	Law on the Promotion and Management of Foreign Investment (1994)	Myanmar Foreign Investment Law (1988)	Law on Foreign Investment (1987,1996,1998,2000)
Responsible agency	Council for the Development of Cambodian (CDC)	Foreign Investment Management Committee	Myanmar Investment Commission (MIC)	Ministry of Planning and Investment (MPI)
Eligible /encouraged economic sector	All sector are allowed except limit of 49 percent foreign equity in some sectors, publishing, printing, radio and TV	- Energy, agri-business, tourism, mining, light manufacturing and services - Prohibited in sectors affecting national security or detrimental to environment or public health	Listed activities in -Agriculture, Livestock and fishery -Forestry -Mining -Industry -Construction -Transport and communication -Trade	-Export production -Agricultural product -Industry high tech and know-how involved -R&D activities -Environment protection -Labor intensive Industries -Major infrastructure and production capacity projects
Types of business allowed	Wholly-owned enterprises	-Wholly owned enterprises -Joint-venture (30 percent minimum equity capital)	-Wholly-owned enterprise - Joint-venture (35 percent equity capital) - BOT for hotel & tourism - Production sharing for exploration of natural resources	- The business cooperation contract - Joint venture - 100 percent owned enterprise - BOT
Application	- Application to	- Approval within	-Application to MIC	- Application to MPI

n Procedure	CDC - Approval will be made within 45 days	15 days for promoted sector (capital<1 million USD) - 45 days for opened sector with restrictions (capital<5million USD) - Application to FIMC - 60 days for large scale project (capital>5 million USD)	-Review in Trade Council (TC) - Approve in Cabinet	-Approval will be made within 45 days
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Source: Myo Tint Tun: Foreign Investment in Myanmar Agriculture, 2004

### G. FDI related Policies

A country's FDI policies can either hinder or promote FDI inflows into the country. Hence they must be carefully studied prior to making any investment.

**Table 15: FDI related Polices in CLMV**

	Cambodia	Lao PDR	Myanmar	Vietnam
Foreign Exchange Control	Liberalized	Liberalized	-Controlled -Multiple exchange rate	Liberalized
Axes	-Top income tax rate is 20 percent - Marginal rate for average taxpayer is 5 percent - Top corporate income tax is 20 percent -Government expenditure was 20 percent of GDP in 2000 - Budget deficit was 1.26 percent of GDP (2000)	- Top income tax rate is 40 percent - Marginal rate for average tax payer is 10 percent - Top corporate income tax is 35 percent -Government expenditure was 21.9 percent of GDP in 2000 - Budget deficit was 1.31 percent of GDP (2000)	- Top income tax rate is 30 percent - Marginal rate for average taxpayer is 10 percent - Top corporate income tax is 30 percent -Government expenditure was 6.6 percent of GDP in 2000 -Budget deficit was 4.97 percent of GDP (2000) - Imposition of 10 percent export tax (1998)	Top income tax rate is 50 percent - Marginal rate for average taxpayer is 0 percent - Top corporate income tax is 32 percent - Government expenditure was 23.8 percent of GDP in (2000) - Budget deficit was 2.79 percent of GDP (2000)
Repatriation	Allow remittance	Allow repatriation of	Allow remittance of	Allow

	FE currencies to aboard as payments on loan, payments of royalties and management fees, profit remittances and repatriation of capital	earnings and capital	the profit, capital and income for investors and foreign employee	remittance of the profit, capital and income for investors and foreign employee
Average wage for industry	Minimum 40 US\$/month for unskilled labor	27 US\$/month (1997) for unskilled labor	15-30 US\$/month for unskilled labor	40-45 US\$/month for unskilled and around 150 US\$/month for skilled labor

*Source: Myo Tint Tun: Foreign Investment in Myanmar Agriculture, 2004*

As part of their FDI policies, only Myanmar among CLMV members has exchange rate control. Its taxes are comparable with those of other CLMV except for the 10 percent export tax imposed by the state, which is not favorable to export-oriented foreign investors. Vietnam has higher tax rates for corporate income and profit. Among CLMV, Myanmar is the least-spending country in terms of government expenditure, which makes up only 6.6 percent of GDP whereas other CLMV countries are at upwards of 20 percent. However, Myanmar has the greatest budget deficit among CLMV, with 4.97 percent of the GDP as of 2000. The average industry wage is lowest in Myanmar for unskilled labor. It has no minimum wage and labor unions, considered the best incentives for FDI in labor-intensive industries.

#### **H. Incentives**

Foreign investors are deeply interested in incentives offered by the host countries. Countries attempt to attract FDI investors by offering various competitive incentives. Fulfillment of promised incentives is an incentive in itself.

In terms of FDI incentives, Myanmar offers very attractive incentives, which are comparable to those of other CLMV countries. All CLMV members limit land ownership rights for foreigners. There is nothing disadvantageous in incentives offered by Myanmar relative to other CLMV countries.

**Table 16: FDI Incentives offered by CLMV countries**



Country	Income tax incentives	Profit tax rate	Import tariff exemption	Notes/Conditions
Cambodia	Up to 8 year holiday	9 percent	100 percent on inputs and capital goods if exporting 80 percent of production or located in special promotion zone	-Incentives apply to a wide scope of priority activities -Future sub-decrees to clarify tax exemption
Laos PDR	Available, but unspecified	20 percent	1 percent duty on machinery and spare parts; re-exported raw materials/intermediate components exempted	-Tax holidays considered case by case for large-scale and significant impact projects
Myanmar	3- year holiday, may be extended if in state interest	30 percent 10 percent for export tax	Exemption or relief on machinery; 3 year exemption or relief on raw materials	-Depends on location -Export conditions apply
Vietnam	1-4 year holidays	10-20 percent	Machinery, raw materials, parts and components used for export fully exempt	Tax rate determined on the basis of priority activities

Sources: Myanmar Trade and Investment Potential in Asia, United Nation, 1996

## I. External Impact

International pressures like economic sanctions and favors given through bilateral or multilateral arrangements greatly influence FDI inflows. A host country's membership in the WTO and participation in international agreements are also attractions to foreign investors. Myanmar is relatively disadvantaged in this regard.

**Table 17: Advantages and disadvantages of Myanmar to attract FDI relative to other CLMV**

Sr.	Category	Advantages	Disadvantages
A	Basic Economic Factor	-Large population -Trade volume	-Lowest GDP per capita -Highest inflation rate
B	Level of Industrialization	-	Lowest manufacturing sector contribution to GDP
C	Resources endowment	Gas, Oil, Timber, Gems, cultivable land, costal line	-
D	Economic freedom	-	Lowest rank among CLMV
E	Infrastructures	High literacy rate and transportation infrastructure	Communication infrastructure
F	Administrative procedures	Allow more forms of economic enterprises	-No time limit for approving FDI application
G	FDI related Policies	-Lowest wages -Lower income tax rate than Vietnam and Laos	-Foreign exchange rate control -10 percent export tax -Largest budget deficit
H	Incentives	-Accelerated depreciation right -Allowance for R&D expenditures	-
I	External Impact	WTO member since 2005 BEMSTEC member GMS participants ACMECS participants	Various forms of sanctions imposed by USA and EU countries

## VII. OPPORTUNITIES FOR DIVERSIFYING FDI: ANALYSIS BY SECTOR

As previously discussed, power and oil and Gas sector receive major shares of FDI inflow into Myanmar, representing about 65 percent of the total throughout the period. The power sector alone received about 43 percent of total FDI inflow, followed by oil and gas, which represents about 23 percent of the total. The manufacturing sector represents 11 percent of the total. A decrease in the inflow of FDI in either or both of these sectors will lead to a substantial decrease in the amount of total FDI inflow into the country. Thus, in the long term, Myanmar needs to attract FDI inflows and encourage investors to invest in other economic activities. By doing so, Myanmar can balance its position of FDI inflow and secure its economic well-being.

The two sectors that host majority of FDI inflows into the country fall under the resources extraction sectors. Investments in these sectors lead to substantial inflow of hard currencies, which can be used in other development activities of the country in the short term. However, such a situation fails to provide long-term benefits for the countries involved unlike investments in other sectors unlike those in the manufacturing, transportation, and communication sectors. Foreign investment in manufacturing has the potential to increase technology diffusion and employment for the local economy. Foreign investment in transportation and communication sector can improve the country's infrastructure substantially. Likewise, investments in agriculture and hotel and tourism offer opportunities for other businesses. FDI in resources extraction cannot provide such benefits for the country.

Apart from the major two sectors cited above, the manufacturing sector has a potential to develop since Myanmar has labor-cost advantage and relatively low cost of land and abundant resources that can be readily processed and exported. Currently, the sector represents 11 percent of the total FDI inflow into Myanmar. There is still a large room for further improvement. So, FDI in this sector should be encouraged through appropriate measures.

## **1. Opportunities in resources sector**

### *a. Agriculture*

The agriculture sector contributed more than 50 percent of Myanmar GDP and about 60 percent of the total employment in 2005. The country has significant land and water resources, low cost labor, and eco-system varieties, and is strategically located given in proximity to markets in East Asia, Middle East, Southeast Asia, and South Asia, which allow agro-industry to become a major foreign exchange earner for the country.

Myanmar possesses a large proportion of land area in the Southeast Asian region and over 60 different varieties of crops such as rice, wheat, maize, beans and pluses, and oilseeds, as well as industrial crops such as cottons, jute, rubber, sugar cane, palm and tobacco can be cultivated. Its agriculture is almost in the hands of private

farmers, and cultivation is carried out on small farms even if land ownership right is still in the hands of the state. Given the land availability in Myanmar and the dominance of the private sector in Myanmar's agricultural sector, prospects are high for strategic business cooperation with foreign investors who enjoy capital and technological advantages. The growing demand for agricultural products from industrial developed countries like Japan and the EU, as well as staple products for developing countries like India and Bangladesh holds a great profit potential for those who want to invest in agriculture.

Organizations or persons who want to invest in this sector will be granted the right to utilize cultivable land of up to 5,000 acres. The duration is fixed for a maximum period of 30 years for cultivation and utilization of land for plantation crops. The period may be extended upon negotiation. A number of companies took this advantage and invested in Myanmar's agricultural sector. However, from the negative side, the complexity of procedures for getting imports of agriculture inputs and exports of processed agriculture products, limited availability of data and poor infrastructure especially road networks in the country side hinder FDI inflow into this sector. Government encourages the development of the agriculture sector by constructing appropriate infrastructure such as large dams and reservoirs throughout the country.

#### *b. Livestock and fisheries*

Myanmar's livestock sector consists mainly of cattle, pigs, and poultry. They are primarily bred in rural areas, though most of them are not for commercial consumption. Currently, a small volume of animal products are exported even as Myanmar's central plains are suitable for commercial breeding of hardy beef cattle. This means there is a high potential for animal breeding in the country. Even though Myanmar does not have a well established livestock or dairy sector, it can significantly increase it has dairy production, provided there is available foreign capital and technology, which may be combined with Myanmar's land resources and favorable climate. The availability of pasturelands shows potential for future cattle ranching with meat production and processing.

Myanmar possesses 1930km-long costal line, which provides great opportunities to trade in a wide variety of marine products for export. The western Rakhine coast is renowned for its shellfish, while the southern islands are rich in various kinds of marine products. In fact, Myanmar has already exported a number of seafood products, including fresh and frozen fish, preserved fish, and shellfish. Export volume can still be vastly increased, given the growing demand for sea products from the world market. Fresh fish and shell fish can be exported to Japan, Singapore, Malaysia, and China while salted fish and preserved fish can be exported to India, Bangladesh and China.

This is another area where foreign investors can invest, particularly in cold storage facilities, fishmeal plants, and canning plants. There is a significant scope to develop an export canning industry.

*c. Wood-based industries*

Myanmar has large forest areas from which large tons of timber and forest products like bamboo and rattan can be extracted. Myanmar is well known for its teak resources, and it furnishes approximately 90 percent of the world's commercial teak supply.<sup>28</sup> Its forests provide more than 8,500 different plant species, including 2,300 types of trees and 850 types of orchid, and its covers more than half the country. Export of timber product is 816 cu. ton in 2004-05. Instead of exporting these forest products in their raw forms, processed and value-added products should be developed with foreign technology and access to international market. In this area, foreign investment can provide not only the needed capital but also the technology and design that can improve the marketability of value-added wood products. Wood products such as furniture enjoy a strong demand from every foreign market. Likewise, wood-related products like plywood and veneer can be exported to China, India, Malaysia, Singapore, Japan and some western countries.

*d. Mineral products*

Myanmar has considerable mineral resources, most of which are still unexploited. It shows another opportunity for foreign investors. Even though the state has the sole right to develop and extract pearls, jade, precious stones and metals, the law allows the provision of permits to the private sector and FDI if the pursuit of a project will meet the state's requirements. UK-based Ivanhoe Company currently invests in the Monywa area to extract minerals such as zinc and copper. Such mining activities are commonly carried out through joint ventures, production sharing, or purchase contracts. Combined with foreign technology and capital, there is a potential to increase some mineral products for export such as silver, lead, tin, ores, coal and gemstones to Japan and other neighboring countries.

Myanmar is well known for its ruby and jade in the world market and it has considerable indigenous supplies of gold, silver, pearl, and other precious stones and metals. Again, this sector is reserved for the state but some types of FDI may be considered for the interest of the state. Foreign investments can also be flowed in the form of gem cutting, processing, and relevant export services. There are major world markets for such products and they offer attractive opportunities for foreign investors. Regional countries such as China, India, Indonesia, Malaysia, and Thailand have

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<sup>28</sup> Myanmar Trade and Investment Potential in Asia, United Nations, 1996

specific expertise in mineral prospecting, extraction, and processing. Companies from Singapore and Thailand are now doing feasible projects in Myanmar's tin industry. China also finds opportunities in Myanmar's mineral extraction and processing sectors.

However, poor infrastructure in electricity, transportation and communication networks is a disincentive to potential and existing investors in these sectors. Also, complexity in export and import procedures is major bottleneck for them. If Myanmar can reduce deficiencies in these areas to some extent, the great potential of FDI inflow into these sectors can be expected.

## **2. Opportunities in Manufacturing**

This sector holds promise for growth, particularly in the area of light industries. These include textiles, foodstuffs, pharmaceuticals, ceramics, rubber, paper and chemical. Currently over 60 percent of all manufacturing outputs in the country fallen under food and beverage. With FDI and private sector involvement, the manufacturing sector is expected to increase and diversify from basic domestic industries to more export-oriented and dynamic ones.

In the light industries sector, joint ventures have been formed with companies from Hong Kong, Korea, Singapore, Thailand, and the UK. The textile industry is a major recipient of FDI. FDI in light industry has been dominated by companies from Hong Kong, Singapore, and Thailand while heavy industries have been dominated by Japan.

### *a. Garment industries*

Given the much lower wage rates in Myanmar than Thailand, Malaysia, and even Cambodia and its abundant labor supply, the country has attracted foreign investors to invest in this labor-intensive industry. Indeed, investment in the manufacturing sector generates benefits to the country in terms of employment, technology, and speedy industrialization in the country. With the agreement of the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS), new industrial zones are being set up for garment industries in Myawadi and Pa-an near Thailand's border, which can take advantage of cheap labor. Since Myanmar has relatively intelligent, hardworking, not to mention cheap labor source, it has comparative advantage in relation to other countries in the garment sector. The major bottleneck in this sector is delay in export and complex import procedures, which affect the lead time for exporting garments and substantially reduce the country's competitive edge. By removing unnecessary delays in this process, the country's competitiveness in the garment industry will be greatly improved.

### *b. Electronics and IT industries*

Since Myanmar enjoys high literacy rate in the region and intelligent labor that

can absorb advanced technology, electronic and IT industries are promising sectors for FDI inflow into Myanmar. If Myanmar could improve its infrastructure requirements, these sectors are likely to be major recipients of FDI. Japan and Korea are interested to invest in these sectors, since Myanmar has a considerable large home-based market and can serve as an export base to highly populated neighboring countries like China and India. Myanmar has already put up an IT park in Yangon and is constructing an IT city between Mandalay and PyinOoLwin. Government, for its part, has been undertaking intensive infrastructure development programs in this area since 2006. This shows an opportunity for foreign investors that want to invest in Myanmar IT sector. The major setback in these sectors are shortage of electricity and communication networks which, however, are expected to be removed in the coming few years, since government is intensely pursuing hydropower projects to fulfill electricity requirements and launching extensive communication networks in the country. Training programs to develop highly skilled technicians are also extended to build competency in this area.

*c. Foodstuffs and pharmaceutical industries*

Since Myanmar has a large agricultural sector, which provides various crops that serve as inputs to foodstuffs industries. Moreover, over 60 percent of domestic private small industries in Myanmar are already concentrated in foodstuff industry. This is a very promising opportunity for foreign investors that want to invest in this sector for export, since most of the domestic industries only focus on the local market. The pharmaceutical industry is also another potential area to attract FDI, since the country is in short supply for pharmaceutical products from domestic state-owned factories. Developing business linkages with local suppliers is an important requirement for investors who want to invest into these sectors.

### **3. Opportunities for Services Sector**

*a. Hotel and tourism*

Myanmar possesses a host of tourist attractions like other Southeast Asian countries such as Thailand and Cambodia. These include traditional cultural heritages like Bagan, Mandalay, Sagaing, Bago and Myauk-U and historical attractions ranging from the Buddhist temples and images in Yangon and to a considerable number of temples and pagodas spread around the whole country. Unspoiled beaches with beautiful scenes along the Rakhine coast at Sandoway and the islands off the Tanintharyi coast could offer many attractions to foreign travelers. Snowcapped mountains in the north, deep sea in the south of Myanmar, and scenes of exotic beauty all over the country are other attractions. The dense forests in Myanmar's three mountain ranges offer the beauty of tropical rainforests and savanna together with the cool highland hill stations. Future developments of these and other resources that are

far from the central region, including potential ski resorts in the upper northern region, are potential be foreign investment sites in Myanmar grows.<sup>29</sup>

However, the potential to earn substantial revenues from this sector remains largely unexploited. The arrival of tourists in Myanmar is far less than it should be. However, the existing capacity of hotels rooms and services is not sufficient if the tourists are arrived more than expected. Foreign investment is essential to provide the necessary infrastructure and services to accommodate the visitors. International chain hotels are needed to accommodate yearly increasing visitors. Opportunities for hotel and tourisms sector are shown in the long-term future. The only weakness in this sector is the country's limited transportation and communication infrastructure. The government spends a large portion of its budget for infrastructure projects each year. This should address this weakness in the future.

*b. Real estates and industrial estates*

Hotels and apartments, and similar facilities are another promising sector for foreign investment. This sector has already received substantial FDI but there is still a lot of room for further development.

*c. Transportation*

Myanmar has road networks of 27,000km and main roads are the most important element of its transport system. However, the quality of highway networks needs to be improved. The roads linking to Yangon and Mandalay (the largest and second largest cities in Myanmar), Yangon to Thailand's border, and Mandalay to China's border need upgrading to accommodate the growing volume of trade and traffic flows with these countries. Myanmar is one of the countries included in Asia highway project, linking Maesot-Myawaddy-Thingannyinaung-Kawkareit-Mawlemyine, currently under construction. This section of the highway will be connected with Mawlemyine-Danang land route, part of the East-West Economic Corridor under the Greater Mekong Subregion (GMS) program. On completion of this project, Myanmar will become a key sea port in the GMS region and will benefit from being located in the corridor. On the other hand, a 1,360km long highway connecting India-Myanmar-Thailand is in the pipeline as part of a trilateral agreement. These developments of international highway can greatly enhance the economic development of the country. In this sense, Myanmar needs to improve its road infrastructure along with 80 highways around the country.

With respect to rail transportation, Myanmar's railway system is poised for improvement. Rail transportation holds high potential as cargo routes around Myanmar.

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<sup>29</sup> I bid p. 106

Air transportation is another potentially attractive area for foreign investors. Myanmar Airways now has an international airline, Myanmar Airways International, made possible through a joint-venture arrangement with Singapore-based Highsonic Enterprise Pte Ltd. Holding.

As tourism and regional trade from Bangladesh, China, India and Thailand grow rapidly year after year, all elements of the transport network will be required for further development. Since domestic investment alone could not possibly fund the needed infrastructure, foreign investments are required to upgrade the air, rail and marine transportation systems of Myanmar. The country's shortage in infrastructure is a great opportunity for foreign investors who want invest in infrastructure development projects.

#### **SUGGESTIONS FOR FUTURE ACTIONS: TOWARD INCREASED FDI INFLOW FOR MYANMAR**

Myanmar has a relative advantage in resource endowments, large population, educated labor force, and comparable FDI incentives. However, the inflow of FDI into the country is relatively small as a proportion of total FDI inflows into the region (see Table 18). Myanmar only ranks eight of 10 ASEAN countries whereas one of the CLMV countries Vietnam stands at 4. Myanmar and Vietnam hardly differ in terms of natural resources, but the inflows of FDI between them are quite different. To improve total FDI inflows into Myanmar, the country's attractiveness needs to be enhanced. The attractiveness of Myanmar FDI is determined by the combined impact of each dimension ranging from basic economic factors to external ones. In each and every dimension, Myanmar needs to minimize the negative impacts (disadvantages) and maximize the positive ones. Some dimensions, however, can be improved only in the long term while others can be improved substantially by taking appropriate measures in the short term.

Concerning basic economic factors, Myanmar has a relatively low GDP per capita and higher inflation rate compared to its counterparts in the region. The level of industrialization cannot be improved in the short term, only in the long term by adopting the right policies in the industry sector. In terms of economic freedom, Myanmar is at the lowest rung compared to other CLMV countries. Economic freedom affects FDI substantially, so it should improve the level of freedom in each dimension in the index. Vietnam, in contrast, offers favorable conditions that make it attractive to FDI investors. This puts it in a much superior position compared to Myanmar.

Barriers that hinder FDI inflow into Myanmar consist of some weaknesses in all aspects: administrative, information, policy, infrastructure, and institutions. Improving

#### **Table 18: Inward FDI Inflow into ASEAN countries (by host countries)**



Host country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	1995-2004	Rank
Singapore	11502.7	9302.9	13532.5	7594.3	16067.	16485.4	14121.	5821.3	9330.6	16059.	119817.	1
Malaysia	5815.0	7297.0	6323.0	2714.0	4		7	3203.4	2473.2	1	9	2
Thailand	2070.0	2337.6	3881.8	7491.2		3787.6			1952.0			3
Vietnam	1780.4	1803.0	2587.3	1700.0	3895.1		553.9	947.0	1450.1	4623.9	40686.0	4
Philippines	1577.0	1618.0	1261.0			3350.3		1200.1	319.0			5
Brunei	582.8		701.7	1718.0	6090.8		3886.0	1111.0	3123.0	1414.0	33420.6	6
Indonesia		6194.7	4678.0	573.3	1483.9		1300.3		-595.6	1610.1	16203.9	8
Myanmar	4346.0	580.7	878.8			1345.0		144.7	291.2			9
Cambodia		293.7	168.1	-356.0	1725.0		982.0	191.4		469.0	12125.0	10
Laos	317.6	128.0				549.2		145.1	84.0			
			86.3	683.4	747.6	-4550.0	526.4			161.2	8654.1	
	150.7			242.9	-2745.1	208.0		25.4	19.5	1023.4	4860.9	
	88.4			45.3	304.2		148.5			145.1	3792.5	
						34.0		192.0				
					232.3			149.4		131.4	1746.0	
					51.6		23.9			16.9	519.3	
ASEAN	28230.6	30208.6	34098.6	22406.3	27852.8	22646.7	18457.1	13824.7	18447.0	25654.2	241826.4	
percent of Myanmar into ASEAN	1.13	1.92	2.58	3.05	1.09	0.92	1.04	1.38	1.58	0.57	1.57	

Source: ASEAN statistical year book (2005)

infrastructure, policy and institutional aspects cannot be achieved within a short period of time. Yet, removing or reducing existing administrative and information hurdles can be accomplished in a relatively short span of time. The ensuing benefits from these actions will usher in enormous benefits in the short term. Therefore, they should be prioritized. In FDI-related policies, foreign exchange rate controls in Myanmar effectively disturb FDI inflow, because other countries in ASEAN have adopted liberalized schemes. Exchange rate control makes foreign investors difficulty in doing business in the host country while market exchange rate fluctuations create uncertainties in the business environment. On the other hand, the 10 percent tax imposed on export earning reduces the incentives to export and limits the inflow of export-oriented FDI.

In Vietnam, incentives offered to investors are not much different than Myanmar's. Yet, it receives larger amount of FDI than Myanmar, because it does not contend with the impact of sanctions and trade embargo by the U.S., which were lifted in 1994. Substantial U.S. investments have since been flowing into Vietnam.

An appropriate strategy to promote FDI into Myanmar is either country diversification or sector diversification. At present, Myanmar relies a great deal on ASEAN countries in terms of trade and FDI. External sanctions from the U.S. and EU do not favor on country diversification. Therefore, Myanmar needs to rely on its ASEAN counterparts and other Asian countries for FDI inflow. Their investments into Myanmar have a great potential to increase. It is inevitably that their roles will be much more important in Myanmar in the future. Myanmar thus needs to tailor its environment FDI to the ASEAN requirements. It should strengthen its FDI relationships with the leading ASEAN countries, especially Thailand, Singapore, and Malaysia. In the long term, Myanmar should expand its FDI customer base to include other countries in Asia like Japan, Hong Kong, and Korea and rich countries in the Middle East like Saudi Arabia and the UAE. Myanmar needs to encourage them to invest in other sectors of its economy apart from primary resources-based sector.

As previously discussed, FDI inflows into Myanmar are concentrated in the power and oil and gas sectors. In this regard, Myanmar needs to show the attractiveness of other economic sectors to potential foreign investors and encourage them to increase their investment in these sectors through using appropriate measures. These other sectors are agriculture, manufacturing, and services. Myanmar should take full advantage of these opportunities. At the same time, opportunities for FDI in each sector should be opened and foreign investors should be invited to sample these opportunities.

## VIII. CONCLUSION

Myanmar is rich in natural resources, human resources, cultural and national heritages that are very attractive for foreign investors for many years. Since the enactment of the Myanmar Foreign Direct Investment Law in 1988, a number of foreign investors have taken advantage of the opportunity available to them. Consequently, foreign direct investments from various countries rapidly increased. From 1989 to 1996, the total FDI inflows into Myanmar led to 247 projects, with a combined value of at least US \$ 6,000 million (approved value). Most of the FDI inflow in this early period was concentrated in oil and gas sector, followed by manufacturing sector and hotel & tourism sector respectively. Share of ASEAN countries represented more than half of FDI total during this period. The UK stands at the top among top ten investors during this period.

However, after the Asian crisis in 1997, FDI inflows into Myanmar suddenly slumped and stagnated. FDI inflow into Myanmar during the period 1997-2004 was only US\$1698 million, or five times less than that of the first eight-year period (1989-1996). FDI picked up in 2005 to an unprecedented level in Myanmar's history

In terms of FDI relationship, ASEAN countries are major investors in Myanmar throughout the period, with total investment representing about 70 percent of the total FDI inflows into the country.

Policy barriers such as exchange rate control and the 10 percent export tax are severely limited to export-oriented foreign investment. In terms of economic openness, Myanmar ranks the lowest among ASEAN countries. This factor also impedes foreign investment.

Among CLMV countries, Myanmar's vast natural resources put it at par with Vietnam and at a superior position compared to Cambodia and Laos. But disparities in FDI inflow put Myanmar at a disadvantage compared to these countries. At the moment, larger amount of FDI comes from its fellow ASEAN members. The challenge for Myanmar is not only to strengthen its relationships with these countries but also to tap powerful economies like Japan, Korea and Hong Kong as well those in the Middle East.

FDI inflow into Myanmar is highly concentrated in the power and oil and gas sectors. Myanmar needs to expand FDI inflows to other sectors, since its resources sector cannot provide the features and advantages inherent in FDI like technology transfer and employment effect for the country. Other sectors will have to develop as well, since they can potentially attract foreign investors. These include agriculture, livestock and fishery, wood-based and mineral industries, to name a few. Myanmar should take advantage of the attractiveness of these sectors and take appropriate measures to attract FDI inflows into the country.

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#### **Appendix : FDI Incentives given by CLMV countries**

Cambodia	Lao PDR	Myanmar	Vietnam
<ul style="list-style-type: none"> <li>- Treated in non-discriminatory manner except for land ownership</li> <li>- Guarantee for no nationalization</li> <li>- No price control</li> <li>- No restriction on the conversation of capital</li> <li>- 9% corporate tax which is lower than standard rate of 20% (Natural resources FDI are subject to 30% corporate profit tax)</li> <li>- Exemption from corporate profit tax up to 8 years depending on type and location of project</li> <li>- 5 year loss carry forward</li> <li>- tax free on dividends, profit and proceeds of investment</li> <li>- tax free on repatriation of profits</li> <li>- Exemption from import duties on construction materials, machinery, equipment, spare parts, raw materials, semi-finished products, packaging materials during construction period and for first year of operation</li> </ul>	<ul style="list-style-type: none"> <li>- Exemption from imports of raw materials and intermediate components for processing of export oriented FDI</li> <li>- Exemption from imports of raw materials and intermediate components for processing of export oriented FDI</li> <li>- Special duty reduction allowed for import substitution FDI</li> <li>- Reduction or exemption from profit tax and/or from import duty for the project relating to the socioeconomic development of Lao PDR</li> <li>- Guarantee for no nationalization</li> <li>- Tax holidays available for large projects</li> </ul>	<ul style="list-style-type: none"> <li>- Exemption from tax on profit held in reserve and ploughed back into the business within one year</li> <li>- Accelerated depreciation of capital assets</li> <li>- Up to 50% relief of income tax on the profits arising from the exports of goods produced by enterprise concerned</li> <li>- Dividends and share-profits are exempted from tax</li> <li>- Allowance for R&amp;D expenditure incurred within the state</li> <li>- Right to carry forward and set off losses up to 3 consecutive years from the year the loss is sustained</li> <li>- Right to deduct an amount of income tax paid to the state on behalf of a foreign employee, custom duties or other taxes exemption on machinery, equipment, components, spare parts, instruments and other materials imported during the period of construction</li> <li>- Similar exemption on raw materials imported in the first 3 years commercial production following the completion of construction</li> <li>- Exemption from import license fee (1993) for fertilizers, agricultural machinery and inputs, pesticides)</li> </ul>	<ul style="list-style-type: none"> <li>- Preferential income tax rate (20%, 15%, 10%) allowed on the basis of different sectors and different criteria (usually 25%)</li> <li>- Profit remittance tax rate to 5% for the capital between US\$ 5 and 10 million, 3% for capital more than 10 million US\$. (Usually rate is 7%)</li> <li>- 10% income tax, tax free grace period of up to 8 years exemption from certain import and export duties</li> <li>- exemption from land use fees for BOT projects</li> <li>- Income tax refund for reinvested profits</li> <li>- Allow carry forward losses for 5 years from the first year under which a profit is made</li> </ul>

*Source: Myo Tint Tun: Foreign Investment in Myanmar Agriculture, 2004*