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Foreign Direct Investment: Clearing the Infrastructure Bottlenecks

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The Pyidaungsu Hluttaw's expected approval of amendments to the foreign investment law in the coming weeks will mark a new milestone in the opening up of the Myanmar economy.

If there is one clear message from the experiences of the East Asian economies over the past few decades, it is that foreign investment can be a strong catalyst both for economic growth and social development – if the process of investment inflows is well managed.

Foreign investment should not only be seen as a way to create employment, although this objective is important. It should also be viewed as a means of helping to promote a more holistic development of the economy and society. A well thought out strategy to attract and support the right kinds of foreign investment and to manage their impact is needed to help achieve these broader objectives.

Importantly, such a strategy does not require intrusive planning and direction on the part of the bureaucrats. Other East Asian economies have shown that it is possible for such a strategy to be market-based without distorting the incentives for foreign investors. A certain amount of tradeoff between short-term and long-term gains is necessary for the government and the foreign investors in order to realise the government's broader objectives and to achieve a win-win outcome for both the government and foreign investors. Other East Asian economies have demonstrated that with the right strategy and the right policy incentives, such tradeoffs are possible without compromising the commercial principles of foreign investors.

A key role for the government in engaging foreign investors is to be an effective facilitator of investment flows. Transparency of policy, both in terms of policy intents and execution, could greatly help to facilitate investment flows at this stage of Myanmar's development. For example, foreign investors want clarity over the amendments to the foreign investment law. More than that, they are looking for a clear roadmap for sustainable economic development in the medium term and the long term, and a better understanding of how they can be a meaningful participant in the process.

The roadmap should spell out the development vision of the government. It could spell out the government's broad economic objectives, such as per capita gross domestic product (GDP) growth, along with other objectives, such as social and political well-being and technological advancement. To be effective, the process should be guided by specific goals to be achieved within stated time frames: for example, long term (10-20 years), medium term (5-10 years) and short term (3-5 years) goals. At each stage of the process there should be a meaningful role for foreign investment.

An area where policy clarity is urgently needed is how the Myanmar government intends to tackle the challenges arising from the lack of adequate infrastructure – both soft and hard, physical infrastructure. Bottlenecks to investment are painfully evident in areas such as low agriculture productivity, unpredictable electricity supply, poor telecommunication and information facilities, poor transportation, inefficient distribution networks for producers and consumers, an inefficient banking and financial sector, and inadequate human resources capacity in both the public and private sectors to manage economic growth and development.

Unless there are active efforts to remove these infrastructure bottlenecks, foreign investment inflows may not accelerate. A clear statement on how the government intends to tackle this issue and how foreign investors could help in this process will go a long way in assuring the latter of the soundness of their investment decisions.

To its credit, the government of President U Thein Sein has been hard at work in this area. Recognising the considerable financial constraints it faces in building up the infrastructure, the government has been actively seeking external resources for this purpose. Already, the efforts are yielding results. Japan provides a shining example is this regard.

Japan is one of the first countries that President U Thein Sein visited after assuming office. The success of his visit has resulted in Japan being among the most generous in terms of aid commitments; the Japanese government has agreed to forgive debt amounting to 300 billion yen ($3.75 billion). In addition, it has committed commercial loans of up to 200 billion yen ($2.50 billion) for the purpose of clearing Myanmar's other debt. With the clearing of this debt, the Japanese government will then be in a position to provide long-term loans in 2013 to support economic development in Myanmar with particular emphasis on improving physical infrastructure and rural development.

Encouraged and prompted by the Japanese government, the World Bank and the Asian Development Bank have also agreed to take necessary measures as early as January 2013 to clear Myanmar's arrears. This will in turn help pave the way for Myanmar to receive financial and technical assistance from these multilateral financial institutions.

Japan is also actively helping to promote special economic zones and industrial parks in Myanmar. President U Thein Sein's government has offered Japan the right to develop the Thilawa Special Eonomic Zone (SEZ), which has a total area of 2400 hectares. The Japanese government has in turn pledged to provide long term yen loans to help develop infrastructure in a 450-acre industrial park area at Thilawa by 2015. The Myanmar government is also seeking an additional $3.2 billion loan from Japan to jointly develop the Dawei SEZ, which covers about 200 square kilometres.

Japan's active involvement is not the only success story. The various initiatives launched by President U Thein Sein in the past one year have helped convince many other countries of Myanmar's commitment to open up its economy. Since the beginning of 2012, Myanmar has made progress in the unification of foreign exchange rates, granted permission to private banks to conduct foreign exchange transactions, reduced tariffs for used cars, revised foreign investment laws, simplified immigration procedures and abolished pre-publication censorship. These changes have encouraged many countries to step up their development assistance programs and as a result significantly expanded and diversified the sources of development assistance available to Myanmar.

As the Myanmar government works to secure more official assistance to help develop infrastructure, it should also make greater efforts to enlist the help of foreign investors. Other East Asian countries have shown that – when suitably incentivised – foreign investors from the private sector can make a huge contribution to infrastructure development too.

A group of dedicated experts from both the public and private sectors could be assembled to help work out a suitable strategy. The experiences of the dynamic East Asian economies could provide relevant lessons in formulating and executing such a strategy. If necessary, the government could also consider involving foreign experts in this process.

There are good reasons why Myanmar is attracting such excitement among prospective foreign investors, particularly in East Asia. Myanmar is rich in natural resources and with a population of more than 62 million has a potentially large domestic market and competitive labour costs. A survey by Japan External Trade Organisation (JETRO), for example, found that the average monthly wage for a worker in the manufacturing sector is only about $68 in Yangon, while the corresponding wages in Phnom Penh, Vientiane and Ho Chi Minh City are $82, $118 and $130 respectively. For the non-manufacturing sector, the average monthly wage for a worker in Yangon is $173, compared with $167 in Vientiane, $266 in Phnom Penh and $320 in Ho Chi Minh. There are not many other economies that hold the same promise as Myanmar.

The momentum for foreign investment inflows into Myanmar could be sustained for a long time, with enormous benefits to the economy. But a well thought-out strategy to manage foreign investment is needed to sustain the momentum.