The Role of foreign Direct Investment in Myanmar after 1988-89

By

TIN AYE HAN

THESIS

Submitted to
KDI School of Public Policy and Management
In partial fulfillment of the requirements
For the degree of

MASTER OF BUSINESS ADMINISTRATION

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Abstract

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Myanmar adopted the market oriented economic system in the year 1988 after practicing the centralized planning economic system for more than two decades. Together with the substantial reform measures, as an initial step, the government promulgated the first new law, the Union of Myanmar Foreign Investment Law (FIL) to induce foreign investment and to boost investment particularly in the private sector. The government created a favorable investment climate for foreign and local investors. Although the government has made all-out efforts to attract foreign direct investment (FDI), there is still need to be improved in order to attract a greater inflow of FDI. This paper examines the overview of macroeconomic situation in Myanmar, the trends of FDI in Myanmar, the current situation of such investment in the country and how should the government promote and fulfill the nation's economic development in the future.

Acknowledgement

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ABBREVIATIONS

ADB…………………………………Asian Development Bank

ASEAN………………………………Association of Southeast Asian Nations

BIMSTEC……………………………Bangladesh, India, Myanmar, Sri Lanka, and Thailand Economic Cooperation

EU……………………………………European Union

FDI…………………………………Foreign Direct Investment

FEC…………………………………..Foreign Exchange Certificate

FIL…………………………………Foreign Investment Law

GDP…………………………………Gross Domestic Product

GNP…………………………………Gross National Product

GSP………………………………….Generalized System of Preferences

IFIs…………………………………International Financial Institutions

IMF…………………………………International Monetary Fund

MIC…………………………………Myanmar Investment Commission

ODA…………………………………Official Development Aid

OPIC…………………………………Overseas Private Investment Corporation

SEEs…………………………………State-owned Eonomic Enterprises

SLORC………………………………State Law and Order Restoration Council

SOEs…………………………………State-owned Enterprises

TB……………………………………Treasury Bills

Chapter I

Introduction

Myanmar is the largest country on the mainland South-East Asia with a total land area of 676,577 square kilometers sharing total international borders of 5858 kilometers with Bangladesh and India on the North-West, China on the North-East, Laos on the East and Thailand on the South-East. The population is over 51 millions with a growth rate of 2.0 percent. Myanmar has a long coastal line, with various climate conditions and geotectonic features, a great variety of mineral resources, fertile land resources, and forest and water resources. Agriculture is the main stay of the economy. Myanmar is one of the newly emerging market economies of South-East Asia.

In late 1988, the Union of Myanmar abandoned the political and economic system that had been practiced for more than two decades and adopted a market oriented system, in which the private sector has been given the opportunity to be involved extensively in almost all economic activities especially in the areas of trade and investment. In this context, the State Law and Order Restoration Council, after assuming the State's power in 1988, promulgated two significant new laws that would play a major role for building up the market-oriented system. The first law was the Union of Myanmar Foreign Investment Law (FIL) enacted in November 1988, which allows and encourages foreign direct investment with the prime objectives of, among others, export promotion and expansion and acquisition of high technology. The second law was the State-owned Economic Enterprises Law (SEEs Law) enacted in March 1989 to provide private sector to invest in all economic activities with the exception of 12 economic activities that are reserved in the domain of the State sector. Even so, those 12 activities can be allowed for the private sector if it is beneficial for the State.

Myanmar's overall restructuring and development policy is based on three main components, namely: (1) the adoption of a market-oriented system for the allocation of resources; (2) the encouragement of private investment and entrepreneurial activities; and (3) the opening of the economy to foreign trade and investment.

Nowadays, Foreign direct investment (FDI) plays major role in developing countries for source of financial flows and major force of market integration in the world economy. FDI can bring numerous benefits such as foreign capital, technology, know-how, employment and so on. It can convert host countries' comparative advantages into competitive advantages. As a result, it can create wealth in a country. For Myanmar, FDI is important to bring not only capital, technology and know how but also to create job opportunities as well as access to international markets. In addition, it can enhance cooperation and long-term relationship with other countries.

This paper tries to highlights how well Myanmar is trying to promote FDI and how much benefits the country achieved and on the other hand, what are the attractions and what are the main obstacles and what are the necessary measures to be done to accelerate the momentum of economic development in the area of FDI.

This paper identifies two channels: the implementation of FDI before 1988 and the role of FDI after 1988. Chapter II represents the economic situation and growth after 1988-89, Chapter III examines the overview on the role of FDI in Myanmar economy and reform measures, Chapter IV analyzes the impact of economic reforms on FDI, Chapter V introduces the existing FDI policies in Myanmar, Chapter VI investigates the current trends of FDI in Myanmar, Chapter VII explores the attractions and obstacles of FDI in Myanmar, Chapter VIII considers the methods of solving obstacles and focus on future prospects of Myanmar, and Chapter IX presents a brief conclusion.

Chapter II

The economic situation and growth after 1988-89

2.1 Economic reforms in Myanmar

In order to achieve sustainable development with its natural resource endowments, Myanmar launched a wide-ranging economic policy changes in 1988. Centralized economy was replaced by market - oriented economy. A number of economic reform measures were initiated to lay the foundations for a market-oriented economic system. Salient reform measures introduced included: decentralizing central control, encouraging private sector development, abolishing price controls and reducing subsidies, allowing FDI, initiating institutional changes, initiating a new financial management system, streamlining taxes and duties, promoting exports by streamlining export and import procedures, diversifying exports through the introduction of new products and emphasizing semi-processed and processed goods, improving infrastructure support, restructuring wages and prices, and allowing farmers to cultivate crops of their choice and to process, transport, and trade freely.

2.2 Development trends in Myanmar

Nowadays, Myanmar Economy can be broadly divided into two sectors namely the productive sector and the services sector. The economy's ability to produce goods and services depends on its stock of capital goods. Therefore, growth in the capital stock is important because it contributes to growth in the gross national product (GNP). After adopted market-oriented system in late 1988, economic growth has accelerated in the

1990s. Annual average Gross Domestic Product (GDP) growth of 7.5 per cent was achieved in implementing the four-year plan from 1992-93 to 1995-96.

Before the assumption of state power by the State Law and Order Restoration Council (SLORC), the economy was an extremely bad shape. During the preceding three years, from 1986/87 to 1988/89. GDP declined and internal and external imbalances worsened.[1] These imbalances pushed the government to take actions aimed at stabilizing the economy. During the period from 1989 to 1991, stabilization programs were formulated to revitalize the economy. Annual plans were drawn up and implemented to manage the Myanmar's economy. As a result of stabilization program, GDP rose by 5.9 per cent and GDP per capita consequently increased.

Table.2.1

GDP and Per Capita GDP
(At 1985/86 Constant prices)

Year	GDP		Per Capita GDP	
	value in Mn kyats	growth rate%	value in Mn kyats	growth rate %
1989/90	48883	3.7	1221	1.8
1990/91	50260	2.8	1232	0.9
1991/92	49933	-0.6	1202	-2.4
Annual average G.R		1.9		0.1
Increase in 3 years		5.9		

Source: Ministry of National Planning & Economic Development, Review of the Financial, Economic and Social conditions, various issues.

Partly as a result of the reform measures and partly because of the government's stabilization program, the economy began to recover. Likewise, investment had recovered during 1989 to 1991. This growth was mainly due to the increases in private investment, particularly in 1991, which was attributed to the implementation of investment incentives

[1] Maw Than and Nyunt Nyunt Swe, Overview of Demand for capital for Myanmar's Development (1999), P.26

and liberalization measures. Similarly, due to special focus on enhancement of production, especially in agriculture and export promotion, export significantly increased in the first three years of short-term plan. It can be seen as a good start for the realization of Myanmar's market-oriented economy.

Table 2.2

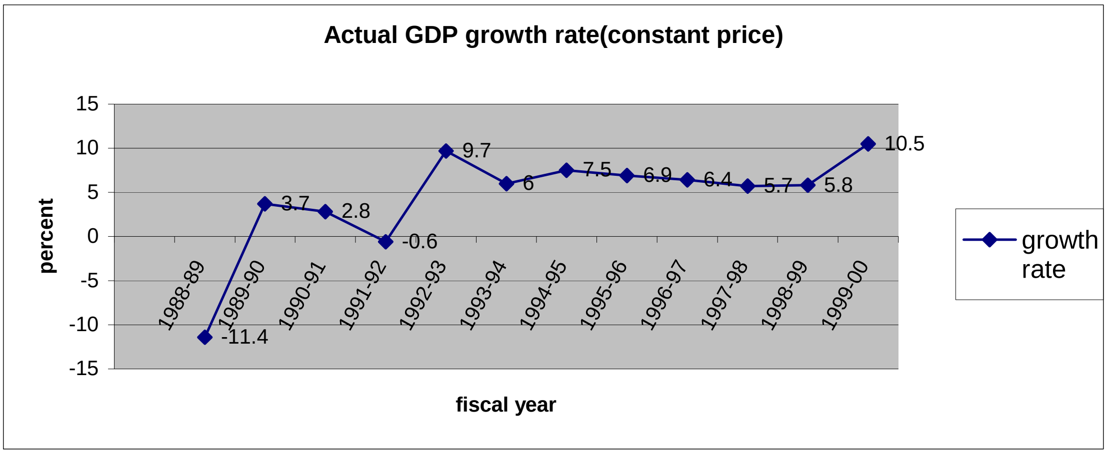
Investment, Export and Terms of Trade

Year	Investment Mn US dollars	Export Mn US dollars	Terms of trade 1985/86=100
1989	7.8	222.8	81.0
1990	161.1	222.6	74.5
1991	238.1	248.2	65.7
1992	171.6	531.3	52.7
1993	95.1	695.6	47.2
1994	138.1	917.4	55.9
1995	324.4	934.4	64.1
1996	315.5	929.9	48.8
1997	418.8	1010.8	37.3
1998	274.8	1054.2	34.1
1999	212.2	1504.7	32.5

Source: Key Indicators of Developing Asian and Pacific Countries: Myanmar

After the success of the Short-term Four-year Plan, the government has laid down the Five-year Short-Term plan (1996-97 to 2000-2001). The GDP was projected to increase at an annual growth rate of 6.0 percent during the plan period. Actual performance growth rate from the 1988-89 to 1999-2000 are –11.4% in 1988-89, 3.7% in 1989-90, 2.8% in 1990-91, -0.6% in 1991-92, 9.7% in 1992-93, 6.0% in 1993-94, 7.5% in 1994-95, 6.9% in 1995-96, 6.4% in 1996-97, 5.7% in 1997-98, 5.8% in 1998-99, 10.9% in 1999-2000 (provisional actual). According to the publication of the Ministry of National Planning and Economic Development, GDP is estimated to sustain an increase of 13.2% in the year 2000-2001 (Provisional).

Figure .2.1



GDP of private sector ownership has increased year by year. The largest contribution to GDP is from the Agriculture Sector; the Trade, Processing and Manufacturing, Livestock and Fishery Sectors are following the agriculture sector. With regard to the Foreign Trade, trade decreased from 22.4% in 1988-89 to 20.9% in 2000-2001. The main export items are the agricultural products, marine products, forest products, manufactured products and mineral products. The country's imports consist largely of manufactured goods particularly the capital goods that constitute more than 40% of total imports♦. In terms of industries, Agro-based industries, Wood-based industries, Textile industries, Steel

♦ Roundtable speech by Myanmar Consul General on March 5 2000, Hong Kong.

industries are major industries at the moment. Major Trading Partners are South East Asian Countries, Japan, PRC, North America and Eastern Europe. More than 80% of total exports go to the Asian region and round about 90% of total imports come from this region.♣

Table 2.3 Structural Changes of GDP by Sectors

(At 1985/86 Constant Producers' prices)

(Percentage)

Structure of GDP	1988.89	1991/92	1995/96	1996/97	1997/98	1998/98	1999/00
Goods	**59.4**	**60.4**	**60.6**	**60.6**	**60.2**	**59.7**	**60.3**
Agriculture	38.5	37.5	37.1	36.2	35.2	34.5	34.3
Livestock& Fishery	8.0	7.6	6.8	7.2	7.3	7.5	7.9
Forestry	1.4	1.9	1.1	1.1	1.0	1.0	0.9
Energy	0.3	0.3	0.2	0.2	0.2	0.3	0.5
Mining	0.4	0.7	1.1	1.1	1.4	1.4	1.5
Processing& Manufacturing	8.7	8.8	9.3	9.1	9.1	9.1	9.5
Electric Power	0.6	0.7	1.0	1.0	1.2	1.0	1.1
Construction	1.5	2.9	4.0	4.7	4.8	4.9	4.6
Services	**18.2**	**17.4**	**18.0**	**18.3**	**18.8**	**19.2**	**18.8**
Transportation	3.5	4.0	4.3	4.2	4.3	4.3	4.3
Communications	0.7	0.8	1.3	1.5	1.8	1.9	1.9
Financial Institutions	3.4	0.6	1.5	1.7	1.8	2.1	2.1
Social &Administrative services	5.9	7.2	6.7	6.7	6.7	6.7	6.5
Rental & other services	4.7	4.8	4.2	4.2	4.2	4.2	4.0
Trade	**22.4**	**22.2**	**21.4**	**21.1**	**21.1**	**21.1**	**20.9**
Gross Domestic Product	**100.0**	**100.0**	100.0	**100.0**	**100.0**	**100.0**	**100.0**

♣ roundtable speech Op.cit

Source: Ministry of National Planning and Economic Development, Myanmar.

Continued:

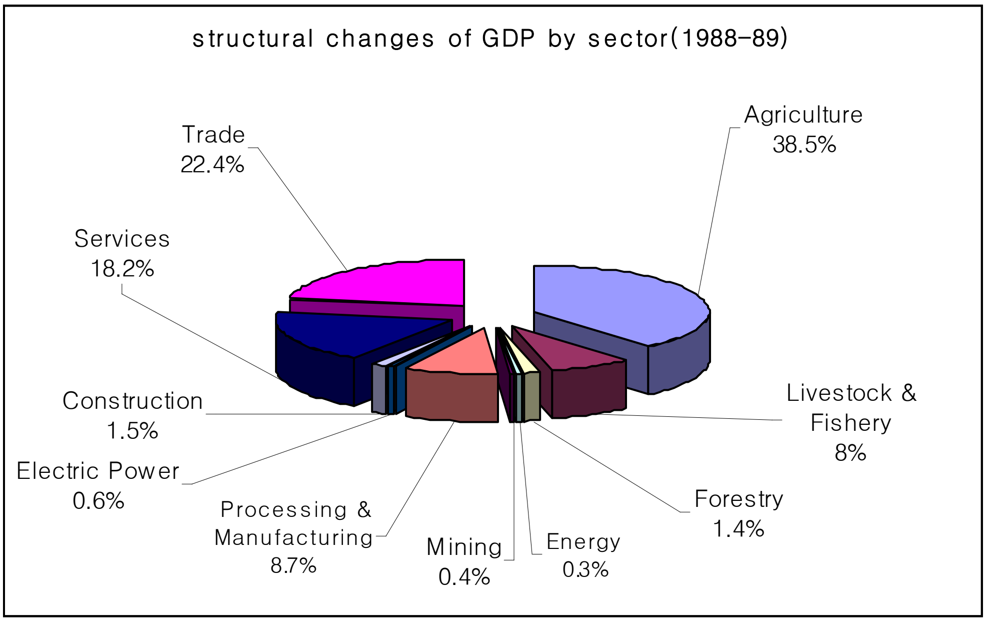
Structural Changes of GDP by Major Sectors

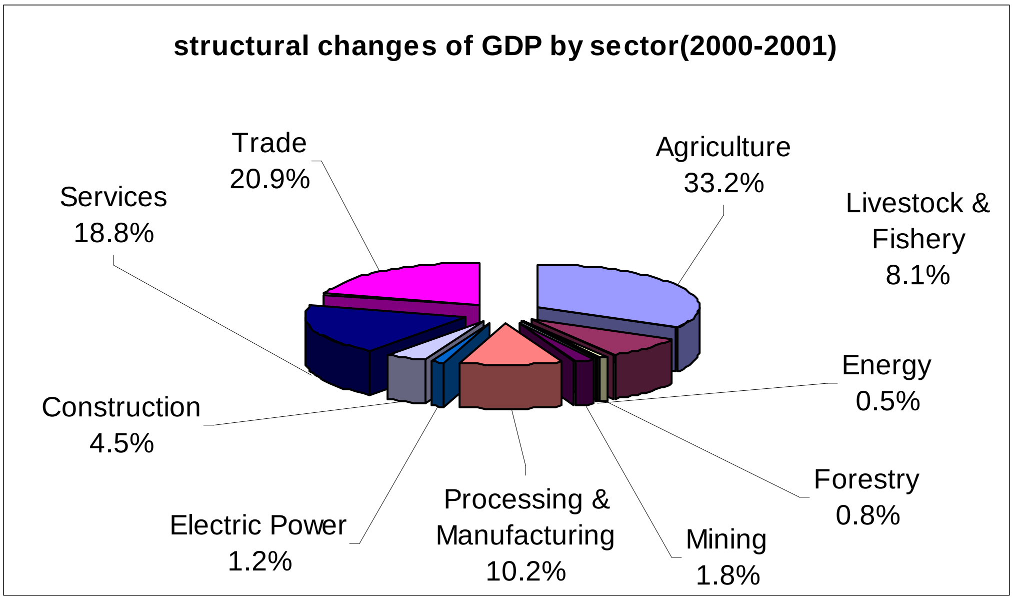
(At Constant Prices)

Sr No	**Year**	**Value (Kyat in Million)**			**Share (percentage)**		
		Agriculture	Industry	Services	**Agriculture**	Industry	Services
1	1988/89	22595	5409	19137	47.9	11.5	40.6
2	1989/90	23589	6240	19054	48.2	12.8	39.0
3	1991/92	23451	6683	19799	47.0	13.4	39.6
4	1995/96	30072	10384	26286	45.0	15.6	39.4
5	1996/97	31563	11492	27987	44.5	16.1	39.4
6	1997/98	32729	12518	29876	43.5	16.7	39.8
7	1998/99	34203	13278	31979	43.0	16.7	40.3
8	1999/2000	37925	15011	34874	43.1	17.2	39.7

Note: Agriculture sector includes Agriculture, Livestock and Fishery and Forestry sectors. **Industry sector** includes Processing and Manufacturing, Energy, Mining, Electric Power and Construction sectors. **Service sector** includes Services sectors and trade sector.

Figure 2.2





In structural changes of GDP by sector, the portion of Agriculture sector decreased from 38.5% in a1988-89 to 33.2% in 2000-2001 (provisional). On the other hand, the portion of manufacturing sector increased from 8.7% in 1998-99 to 10.2% in 2000-2001 (provisional). The most recent economic indicators suggested that macro economic stabilization has brought positive results; therefore Myanmar now presents many splendid opportunities for new investment.

2.3 Investment and savings

In Myanmar, savings are indeed a key determinant of growth. It can be defined as a source of investment particularly in the 1990s, and that the upward trend in growth is closely linked to a similar overall growth trend in investment. After changing the economic policy, beginning from 1988-89, investment and saving ratios were parallel upward trend with GDP growth rate. A modest increase was from 1980/81 to 1989/90 (21.5% and 17.5% respectively in 1980/81 to decreased in 9.2% in 1989/90). From 1989/90, these ratios improved (not more than 15%) but have yet to reach the level of 1980/81♠

However, the investment rate and saving rate of Myanmar is extremely low compared to neighboring countries such as Malaysia, Thailand, Indonesia and Vietnam. The transition of investment rate of Myanmar has not shown any significant change since 1988 because (ODA) for Myanmar has been mostly cut off and current external debts. Similarly, the saving rate remains at about 10%, and has not changed much since 1988.

♠ Maw Than and Nyunt Nyunt Swe; Op. cit ,p.38-39

Table 2.4 Investment rate and Saving Rate in neighboring countries. (% 0f GDP)

Calendar year	Investment rate			Saving rate		
	1980	1990	2000	1980	1990	2000
Myanmar	21.5	13.4	13.4	17.7	11.7	13.0
Malaysia	30.4	32.4	26.8	32.9	34.4	46.7
Thailand	29.1	41.4	19.9	22.3	34.3	32.6
Indonesia	20.9	30.7	17.9	29.2	32.3	25.7
Philippines	29.1	24.2	17.8	26.6	18.7	16.5
Vietnam	N.A	12.6	29.5	N.A	2.9	27.0

Source: ADB, " key indicators of Developing Asian and Pacific Countries 2001"

Note: The figures for Myanmar are based on the fiscal year.*•

From this brief comparison, we can see that Myanmar's investment and saving rates are quite low by ASEAN standards.

*• Fiscal year starts from 1st April to 31st March.

Chapter III

Overview of FDI in Myanmar Economy before 1988 and reform measures

3.1 Foreign Investment situation before 1988

In Myanmar, FDI existed since the fifthteenth century. European investors namely Portuguese, British and the Dutch had participated in Myanmar economy. They procured and exported Myanmar's teak and other natural resources. In nineteenth century, foreign firms based in Great Britain extended their investments and participated actively in the trade of Timber, rice, petroleum, other products. Myanmar's two largest regional neighbors, China and India were also major foreign investors. Accumulations of FDI in Myanmar probably peaked during the years before World War II. After the end of World War II, foreign direct investors were permitted to operate in the country through the early 1960s.

Myanmar achieved her independence in 1948. After its independence in 1948, the history of Myanmar's economy may be roughly divided into three parts. The first period (1948 to 1962) was based on a market economy. Foreign companies once again came to occupy important positions in the petroleum, teak, and other industries. These FDI inflows received official encouragement following issuance of the Burmese government's 1955 Investment Policy statement as well as its subsequent (1959) passage of the Union of Burma Investment Act, the latter off which provided significant tax and other incentives for approved investment projects together with limited guarantees against nationalization.

During the second period (1962 to 1988) a controlled, closed socialistic structure called “Burmese Way to Socialism” was adopted. Based on extreme nationalism, controlled policies were implemented such as nationalization of corporations and the procurement system under which primary agricultural products were procured forcefully at low pries. The economy was closed to foreign countries. The government prohibited FDI in Myanmar for more than a quarter of a century thereafter. The government strictly controlled imports and exports, and banned investments from overseas. Acceptance of foreign aids was also limited.

These controlled, closed policies deprived business and dried up the economy. In

the mid-1970s the government implemented various economic reforms such as agricult ural reforms, state economic enterprises (SEEs) reforms as well as an increase in acce ptance of foreign aids. However, in the mid-1980s the economy became depressed due t o the declining prices of primary commodities, which were

principal exports goods, decreased oil production, sluggish agricultural production and

poor performance of SEEs, etc. In 1987 the country was designed a least

Less-developed country.

During the third period from 1988 to the present, efforts have been made to shift to a market economy and to open up the economy to foreign countries. The government has been reforming and liberalizing various fields such as agriculture, the SEEs, finance and trade based on the objectives of development of agriculture as the base and all-round development of other sectors of the economy as well, proper evolution of the market-oriented economic system, development of the economy inviting participation in terms of technical know-how and investments from sources inside the country and abroad and the initiative to shape the national economy must be kept in the hands of the State and national peoples.

3.2 Reform Measures

In order to be in line with the market-oriented system, adopting wide-ranging economic reform measures is necessary to create new economic opportunities. Among them, to encourage and promote foreign investment and the expansion of trade, financial and fiscal reforms, price and market reforms, enterprises reforms and legal reforms have been made.

Financial and fiscal reforms: In the process of transforming into a market-oriented economy, to develop the financial system and improve efficiency of financial activities in harmony with the new economic policy, financial reforms measures were undertaken by enacting new laws; terminating and substituting redundant laws; amending rules and regulations; reforming financial and banking management system and reforming taxation. The Central Bank of Myanmar law, the Financial Institutions of Myanmar Law and the Myanma Agricultural and Rural Development bank Law were enacted. Rules and regulations were followed by later. Moreover, The new Savings Bank Law and The new Myanmar Insurance Law has been enacted.

Under the Financial Institutions of Myanmar Law, privately owned banks were permitted to operate in financial sector. Up to now, a total of 20 domestic private banks have opened and they are providing domestic commercial banking services including accepting demand deposits as well as saving and time deposits, issuing current loans, while those holding development bank licenses may issue term loans, etc.

Some private banks have been allowed to deal in foreign exchange business. Some private banks are introducing new types of financial activities such as issuance of credit cards in local kyats, hire purchase, leasing, and use of ATM machines. Generally speaking, private banking business is growing very fast. Moreover, two specialized banks, which are established in February 1996 provides the financial assistance to domestic industrial enterprises and livestock breeders and fishery entrepreneurs respectively.

A 1990 banking law permitted foreign banks to open branches in Myanmar but they are not allowed to conduct business in the local market. These offices may serve as a trade and commerce liaison for local and foreign clients. Although government allowed 49 foreign banks to open branches in Myanmar, twenty-seven foreign bank representatives' offices remains in Myanmar. The existence of capital market is a requisite for the development of a financial system. Myanmar Economic Bank and Daiwa Institute of Research Limited of Japan have signed a Joint Venture Agreement to set up a stock exchange and related organizations. Preparations and arrangements have already been made for the emergence of such facilities. In this context, capital market formation will be of existence in Myanmar in the very near future.

At present, the main objectives of monetary policy are to control monetary expansion in support of combating inflation and to promote domestic savings. Interest rate policies, reserves requirements and quantitative credit controls have been the main instruments of monetary control.

For savings promotion and efficient allocation of financial resources, interest rates on savings and lending rates raised across the board in July 1992. Moreover, central bank rate was raised effective January 1, 1995.

As Myanmar is currently in need of foreign exchange reserves, Foreign Exchange Management Department within the Central Bank of Myanmar controls the inflow and outflow of foreign currency in the country. The Controller of foreign Exchange administers Exchange control in accordance with the instructions of the Ministry of Finance and Revenue. At present, it is difficult to adjust in foreign exchange rate. Therefore, alternative measures have been taken as temporary measures during the transition period for convenience in making foreign exchange transactions. These measures include allowing account transfers between different foreign currency account holders, allowing private exporters to retain 100 percent of export earnings, introduction of various liberal trade schemes and issuance of foreign exchange certificates (FECs). FECs were introduced in early 1993 with the objectives of facilitating tourism and increasing foreign exchange earnings. These certificates are exchangeable with foreign currencies such as US dollars, pound sterling and acceptable traveler's cheques.

<u>Price and market reforms</u>: The first step in this regard started with dissolution of price control in agriculture sector, allowing farmers to produce crops of their choice and sell freely in the open market. Next step was launched by dissolution of price control committee for the products of the state and co-operative sectors.

At the same time the government expand the market by regularizing border trade.

Additional trading practices such as" import first and export later system", "import on consignment basis", and " counter-trade system" etc. were also introduced. Providing a range of concessions and incentives encouraged the export/import trade. Transit trade and counter trade were allowed under systematic supervision and proper terms and conditions.

Enterprise reforms: During the time of centrally planned economic system, state ownership was very much prominent and played a major role in Myanmar's economic development strategy. State-owned Economic Enterprises (SEEs) dominated or in some areas maintained monopoly in areas such as forestry, manufacturing, mining, power and energy, communications, infrastructure, trade and financial services. After 1988, major reforms were made in conjunction with the practice of market-oriented system. In this context, SEEs have been granted greater operational autonomy in procurement of required inputs, production as well as pricing.

In procuring inputs, the procedures were relaxed so that SEEs can raise the price of inputs procured so that they can compete with the price offered by private traders. On the other hand, SEEs can also set the selling price of the products more freely in line with the market demand. With regard to production they are allowed to be engaged in special schemes such as buy-back system, counter trade system, consignment system etc.

with private sector.

Other notable reforms involve leasing out the factories to private entrepreneurs, entering into joint ventures with local or foreign investors, leasing excess capacity of the factories to the private sectors, leasing land and/or premises etc. Such kinds of limited nature of privatization were allowed for SEEs in order to prevent under-utilization of capacity thereby enhancing effective allocation of resources as well as efficient management of SEEs.

Such kind of reforms was clearly seen especially in mining and energy sectors. In those sectors, although they are reserved under the State-owned economic Enterprises Law (1989), joint ventures as well as special contractual ventures such as production sharing contracts were carried out with foreign investors and local entrepreneurs alike.

<u>Legal reforms</u>: The State Peace and Development Council, since the time it assumed the total responsibility of the State, has made the legal reforms to be in line with the liberalized economic policy. In this context, a series of legislation were regulated, new laws being promulgated, and moreover, existing laws that are no more appropriate for the new system were amended to be compatible with the changing economic environment. The underlying aspect in doing this is to strengthen the institutional framework for facilitating the market oriented system.

In fact, reform measures had been undertaken to achieve macroeconomic stability and to increase and facilitate private investment and entrepreneurial activity at home or to open the economy to direct foreign investment and to promote exports. Indeed, Myanmar has made some progress, for instance, participation of the private sector in the economy increased significantly, especially in the area of trade and investment, towards a market-oriented economy but it has not yet fully achieved its objectives and reforms are still far from complete. Compared to other transitional countries, the pace of these reforms is rather slow. For example, in Vietnam, the average growth rate of GDP during the period 1986-91 was 5.2 per cent and during 1992-93 was over 7 per cent. In Myanmar, 9.3 percent in 1991-92 and 6.0 percent in 1992-93. Vietnam could reduce the annual rate of inflation from 775 percent in 1986 to 20 percent in 1992. For Myanmar, the rate of inflation averaged 25.7 per cent per annum during 1989-92. While budget deficit as a percentage of GDP in Vietnam fell from 11.4 per cent in 1989 to 2.5 per cent in 1991, Myanmar has continued to incur large budget deficits, with the ratio off deficit to GDP rising progressly from 29 per cent in 1988-89 to 75 per cent in 1992-93. in term of trade, Vietnam registered for the first time a trade surplus during 1992. Myanmar has continued to register huge trade deficits during reform period. Similarly, Myanmar has not been very successful in attracting foreign investment. Total FDI flows into

Myanmar amounted to only US$ 909 million, which pales in comparison with Vietnam's figure of US$ 4 billion in 1993.[#]

[#] Mohamed Ariff; East Asian Transitional Economies (1995), p. 61-65

Chapter IV

Impact of economic reforms on FDI situation

After adopting FIL, which took effect in 1989, due to attractions and incentives, there was an upward trend in FDI up to 1996-97. The amount of FDI in 1996-97 stood at US$ 2814 million. FDI inflows have averaged nearly US$ 800 million annually in 1989/90-1996/97. FDI fell off sharply in 1991/92, but then regained momentum beginning in 1992/93 and peaked in 1994/95 as a result of offshore natural gas projects. In 1997, financial crisis affected the economic situation in ASEAN region. Myanmar did not affect directly because Myanmar has not developed financial market but has slowed down inducement of foreign capital. FDI reduced drastically in 1998 and 1999. But in 2000, FDI increased slightly on account of timely macroeconomic policy. Leading regional investors, whose investment was the source of more than 60% of total FDI, has significantly reduced FDI. In 1997-98 the amount of FDI was US$ 1012 million and reduced to US$ 54.4 million and 58 million in 1998-99 and 1999-2000 respectively. The external factors have played the major role in decline of FDI. Financial crisis in Asia 1997 and certain restrictions to Myanmar made hindrance foreign capital inflow.

The monetary crisis in Asia was the major cause for the decline of FDI. The external constraints that Myanmar is facing at present is the policy of some development countries which have imposed investment restriction on their companies by making away of producing goods in Myanmar and denying investors access to export import bank credits and guarantees. Slow growth of tourist arrivals and delayed receipt of gas export revenues. Foreign exchange earnings from offshore gas fields have yet to be realized owing to lower energy demand in Thailand.

Table 4.1 Approved and Actual Amount of Foreign Direct Investment

(In US$ millions)

Particular	1990/91		1991/92		1992/93	
	Approved	Actual	Approved	Actual	Approved	Actual
Solely foreign Owned venture	78.5	7.7	-	0.3	-	0.3
Joint venture	131.2	21.2	5.9	6.4	25.9	19.8
Production Sharing	70.9	196.2	-	228.4	77.9	128.9
Total	**280.6**	**225.1**	**5.9**	**235.190.0**	**103.8**	**149.0**

Source: Myanmar Investment Commission

Continued:

Particular	1993/94 Approved	1993/94 Actual	1994/95 Approved	1994/95 Actual	1995/96 Approved	1995/96 Actual
Solely foreign Owned venture	238.2	13.1	246.1	47.6	453.7	210.7
Joint venture	99.0	10.2	65	30.8	181.3	106.6
Production Sharing	40.4	66.7	1040	56.8	33.2	0.3
Total	**377.6**	**90.0**	**1351.9**	**135.2**	**668.2**	**317.6**

Continued:

Particular	1996/97 Approved	1996/97 Actual	1997/98 Approved	1997/98 Actual	1998/99 Approved	1998/99 Actual	1999/2000 Approved	1999/2000 Actual
Solely foreign Owned venture	1374.6	310.5	518.7	220.5	32.4	126.5	34.13	57.1
Joint venture	1031.8	267.1	316.3	290.3	22	204.8	2.72	117.1
Production Sharing	407.8	33.1	177.9	368-		352.3	21.25	130
Total	**2814.2**	**580.7**	**1012.9**	**878.8**	**54.4**	**683.6**	**58.1**	**304.2**

Source: Myanmar Investment Commission

FDI plays an important role in the growth and development of economies. It is necessary to maintain and increase the level of FDI flows within the country. Obliviously, FDI flows rose at the beginning of after reform period but due to the financial crisis and other external constraints, FDI flows drastically decreased. For Myanmar, FDI is a major source of capital inflow and it could absolutely assist in the process of economic development. Not only Myanmar, other Asia countries: Indonesia, Republic of Korea, Malaysia, Philippines and Thailand have been affected negative trend in FDI because of financial crisis. However, these countries could build up fundamental strengths that make for long-term growth, such as high domestic savings rates, skilled and flexible human resources and could liberalize their FDI policies to facilitate business. For example, Thailand made currency devaluation. It caused decreasing in wages and other operating costs. Therefore, export-oriented industries: electrical appliances and electronics had risen considerably. Nevertheless, as FDI depends upon the precise combination of the economic opportunities available, the friendliness of the policy framework, and the ease of doing business, if Myanmar could manage and control the existing situation on time, it is expected to clearly increase in a country.

Chapter V

FDI Policies in Myanmar

Myanmar opened her closed economy to foreign investors since late 1988 after practicing the centralized planning economic system for more than twenty-fifth years. Appropriate measures have also been taken for active participation of the private sector in the economic activities and for the promotion of investment by local and foreign entrepreneurs so as to accelerate the development of the economy.

For opening up the economy to the world, the Union of Myanmar Foreign Investment Law (FIL) was promulgated on 30th November 1988 to induce foreign direct investment together with high technology and also to mobilize its natural resources. The procedures relating to the said law were prescribed on 7th December 1988.

The objectives of the foreign investment policy are as follows:

a. promotion and expansion of exports

b. exploitation of natural resources which require heavy investment

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 that would save energy consumption and

g. regional development

The Myanmar investment Commission (MIC) was formed in May 1994 as an initial approving authority for both foreign and local investment.

<u>Types of Economic Activities Allowed for FDI</u>

In order to provide more specific guidance to foreign investors, a notification listing the types of economic activities allowed for foreign investment has been issued. It is not an exhausted list but it covers most activities with the exception of those reserved under the State-owned Economic Enterprises Law (SEE Law). However, if foreign investors is interested in an activity not specified in the notification or an activity defined in the SEE Law, he can apply to MIC stating his interest and reasons as to why it will be mutually beneficial to the State and to himself for the activity to be undertaken. If MIC is satisfied that the proposed activity will indeed be in the interest of the State, it may approve the application.

<u>Incorporation</u>

Under section 5 of the FIL, a foreign investor can organize his activity in Myanmar in the following manner:

1. Wholly-owned by the foreign investor

An individual foreign investor can establish his business as a sole proprietorship by bringing in 100% foreign capital. Similarly, a partnership firm or a limited company that is incorporated outside Myanmar can do business as a foreign branch by bringing in the total capital required by such a branch.

2. Joint-venture business

A foreign investor can enter into a partnership with his local counterpart or set up a limited liability company with shares held by local investors. He can also join with any individual, firm, company, cooperative or State-owned enterprise of Myanmar to establish a joint venture either as a partnership firm or a limited company. In all such cases, foreign capital to be brought in must be at the minimum 35% of total equity capital.

However, if the investment involves a state enterprise, incorporation must be made under the Special Company Act 1950.

Minimum Foreign capital

Minimum Foreign capital to be brought into Myanmar has been notified by MIC. It is US$ 500,000 for manufacturing and US$ 300,000 for services.

Types of Foreign Capital

Foreign capital can be brought into Myanmar in the following categories:

a. any foreign currency acceptable to the Myanma Foreign trade bank

b. machinery, equipment, machinery components, spare parts, instruments etc, actually required for used in the business but not available in Myanmar
c. license, trade marks, patent rights and other rights which can be evaluated
d. technical know-how and
e. re-investment out of profits accrued to the enterprise from the above or out of share of profit.

Land Ownership

Foreigners are not allowed to own land in Myanmar. However, land may be acquired on long renewable lease up to 30 years, and extendable on a case-by-case basis.

Application Procedures

The potential investor shall submit a proposal to MIC in a prescribed form. The proposal has to be supported by the following documents:

a. business profile and documents supporting financial credibility such as the latest audited accounts of the person or 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 enterprise in the respective field if the project is a wholly-owned venture

e. a draft contract between the partners if the projects is a 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 and

h. an application for exemptions and relieves defined under Section-21 of the FIL

Incentives

An enterprise permitted by the FIL shall enjoy a tax holiday period of three years inclusive of the year the enterprise commences its commercial operation and also to a reasonable period upon application, provided that MIC, in the interest of the State, considers appropriate. In addition, MIC may grant one or all of the following exemptions and relieves

a. exemption or relief from income-tax on reinvested profits within one year

b. accelerated depreciation rates approved by the Commission

c. fifty per cent relief from income-tax on profits accrued from exports

d. right to pay income-tax on behalf of foreign experts and technicians employed in the business and the right to deduct such payment from the assessable income

e. right to pay income-tax on the income of foreign employees at the rates applicable to Myanmar national

f. right to carry forward and set off losses up to three consecutive years from the year the loss is sustained

g. exemption or relief from customs duty or other internal taxes or both on import of machinery, equipment, instruments, machinery components, spare parts and materials used in the business during the period of construction and

h. exemption or relief on customs duty or other internal taxes or both on imported raw materials for the first three years of commercial operation after completion of construction

<u>Guarantees</u>

The FIL provides an irrevocable State guarantee that an enterprise permitted by MIC under the FIL shall not be nationalized during the permitted period of extended period. It also provides repatriation of profit (after all deduction of all taxes and the prescribed funds0 as well as legitimate balance of salary and lawful income of foreign personnel (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.

Employment of local workers

Foreign investors may hire local workers without restriction according to the existing law. Employments of foreign technical staff are not restricted. Foreign personnel may also be engaged if necessary, with the approval of the MIC.

Chapter VI

Current trend of FDI in Myanmar

Since the promulgation of the foreign investment law in 1988, a total of 360 foreign enterprises from 25 countries have been permitted to invest in 11 sectors of the economy with a total pledged amount of US$ 7409 million, up to the end of November 2001.

There were 148 projects in manufacturing sector, 51 in oil and gas, 51 in mining, 43 in hotel and tourism, 20 in livestock and fisheries, 18 in real estate, 14 in transport and communication, 6 in other services, 4 each in agriculture, 3 in industrial estate and 2 in construction.

The leading sectors are oil and gas, manufacturing, hotel and tourism, real estate and mining sectors. The leading investors are Singapore, United Kingdom, Thailand, Malaysia and United States of America.

Investment of ASEAN countries

Among the five leading investors in Myanmar by country, there are three ASEAN countries namely, Singapore, Thailand and Malaysia. At present, five ASEAN countries are investing in Myanmar. As at the end of September 2001, the ASEAN countries have already committed US$ 3818.50 million in 161 projects in Myanmar, realizing 51.58 percent of the total permitted amount of foreign investment.

The following tables show sector-wise and country-wise composition of investment in Myanmar.

Table 6.1 Foreign Investments of Permitted Enterprises as of (30-11-2001)

(By Sector)

(US $ million)

Sr No.	Particulars	Permitted Enterprises		
		No.	Approved Amount	%
1	Oil and Gas	51	2355.923	31.80
2	Manufacturing	148	1589 .3 72	21.45
3	Hotel and Tourism	43	1059.661	14.30
4	Real Estate	18	1025.140	13.84
5	Mining	51	523.358	7.06
6	Livestock and Fisheries	20	283.372	3.82
7	Transport and Communication	14	283.272	3.82
8	Industrial Estate	3	193.113	2.61
9	Construction	2	37.767	0.51
10	Agriculture	4	34.351	0.46
11	Other Services	6	23.686	0.32
	Total	**360**	**7409.015**	**100.00**

Source: Myanmar Investment Commission

Table 6.2. Foreign Investment of Permitted Enterprises as of (30-11-2001)

(By Country)

(US $ in million)

Sr No	Particulars	Permitted Enterprises No	Approved Amount	%
1	Singapore	70	1541.626	20.81
2	U.K*	37	1404.011	18.95
3	Thailand	49	1290.203	17.41
4	Malaysia	28	598.501	8.08
5	U.S.A	16	582.065	7.86
6	France	3	470.37	6.35
7	Indonesia	12	241.497	3.26
8	The Netherlands	5	238.835	3.22
9	Japan	24	237.57	3.21
10	Republic of Korea	32	156.108	2.11
11	Hong Kong	27	148.322	2
12	Philippine	2	146.667	1.98
13	Australia	14	82.08	1.11
14	Austria	2	72.5	0.98
15	China	12	60.901	0.82
16	Canada	16	59.781	0.81
17	Panama	1	29.101	0.39
18	Germany	1	15	0.2
19	Denmark	1	13.37	0.18
20	Cyprus	1	5.25	0.07
21	India	1	4.5	0.06
22	Macao	2	4.4	0.06
23	Bangladesh	2	2.957	0.04
24	Israel	1	2.4	0.03
25	Srilanka	1	1	0.01
	Total	**360**	**7409.015**	**100**

*****Inclusive of enterprises incorporated in British Virgin Islands, Bermuda Islands and Cayman Islands. **Source**: Myanmar Investment Commission

Table 6.3 ASEAN Investment In Myanmar

Sr. No	Country	No. Of projects	Amount of Investment US$ in Million
1	Singapore	70	1541.63
2	Thailand	49	1290.20
3	Malaysia	28	598.50
4	Indonesia	12	241.50
5	Philippines	2	146.67
Total		**161**	**3818.50**

Source: Myanmar Investment Commission

Chapter VII

Attractions and Obstacles

7.1 Attractions

Myanmar's comparative advantage is natural resources, human resources and cultural heritage. Numerous aspects of Myanmar's economic environment attract potential foreign direct investors. Myanmar still has a vast potential of land resources for cultivation and for further expansion of the cultivable land with the total area of 67.6 million hectares, of which only 13% is under cultivation.

In livestock and fishery sector, vast pasturelands with suitable climate are available in different regions of the country and having a long sea coastline associated with vast continental shelf and exclusive economic zone provide excellence potential for expansion of the fishery sector in Myanmar.

Myanmar also has forest preserves containing valuable species of timber and still maintain efficient forest conservation system and a high sustainable yield.. The country possesses estimated three-quarters of the world's teak forests, which include some of highest quality varieties, together with other valuable tropical hardwoods. In this context, highly value added ventures in wood-based industry could be most appropriate in exploiting forest reserves especially for export.

Myanmar possesses extensive reserves in the mining sector. Varieties of metallic and non-metallic minerals are available for development. Projects with regard to prospecting, exploration, development and production of such minerals have been allowed for investment.

Likewise, the country's unspoiled natural beauty associated with different types of flora and fauna, ancient cities like Pagan, Nyaung O, etc and Myanmar's tropical beaches and inland terrain create opportunities for tourist development.

Myanmar still has the comparative advantage in wages compared to other developing countries. Existence of fairly literate and hard working labor force attracts labor-intensive industries such as garment manufacturing projects.

Moderately strong economic growth in recent years shows another important attraction for foreign investors.

Myanmar lies closely to several fast-growing regional economies, including ASEAN members Malaysia, Singapore, Thailand, and Vietnam, as well as the economies of India and China's Yunnan Province.

In addition to above-mentioned attraction, in Myanmar, the investment approval process is highly centralized. In filing an application under the foreign investment law, a potential investor needs only obtain the permit from MIC to undertake investment and receive incentives provided under the law. In Vietnam, where permission to invest often requires numerous official approvals at the local and provisional as well as national levels[⊗].

Components of the British legal and accounting systems remain operative in Myanmar except some changes, which are not appropriate, market economy. It established in the country during colonial days, these systems provide a useful framework for the establishment and operation of business enterprises often not found in developing countries.

Myanmar acceded to full membership in ASEAN in July 1997. Admittance to ASEAN should enable Myanmar increasingly to integrate its markets with those of its numerous economically dynamic neighbors. Myanmar is also a member of BIMSTEC.[∅]

7.2 Obstacles

While attractions and opportunities are created for foreign investors, at the same time, there are many obstacles, which are being faced by government. The most important problem is internal political situation. It is greatly limited foreign investor's interest.

[⊗] Burma, Prospects for democratic future(1998), p.219

[∅] BIMSTEC stands for Bangladesh, India, Myanmar, Sri Lanka and Thailand Economic Corporation.

International sanctions are also a major deterrent to foreign companies investing on Myanmar. US investors are one of the mainly investor in Myanmar. Since May 1997, the US government prohibits new investment by US persons or entities. A number of US companies withdrew from the Myanmar due to US government's sanctions. Also, the US didn't provide assistance to Myanmar government and opposed assistance from International Financial Institutions (IFIs) including the International Monetary Fund (IMF), World Bank, Asian Development Bank (ADB), and/or other institutions. They do not consider giving assistance. Besides, the United States suspended economic aid, withdrawn generalized system of preferences (GSP) and Overseas Private Investment Corporation (OPIC) benefits, denied credits from the commodity credit corporation, refused Export-Import Bank assistance, restricted the importation of Myanmar's oil and gas and unilaterally imposed import quotas on Myanmar's textile exports. Similarly, European countries and other countries supported sanctions to Myanmar. The EU and Canada withdrew GSP trade benefits from Myanmar's agricultural and industrial products.

Other non-economic factors also discourage greater FDI in Myanmar. The most critical issue is the dual exchange rate system. In Myanmar, the difference between the official rate and market rate is huge. The official exchange rate is a key impediment to foreign trade and investment. In fact, the Kyat is officially valued at roughly six per dollar, whereas the prevailing market rate is 100 times to dollar. In addition to its higher rate, the Kyat is non-convertible. In order to unify the exchange rate, as a temporary measure, the government introduced Foreign Exchange certificates (FECs), which is equivalent to US dollar. The FEC and the Kyat are basically exchanged at the market rate. They cannot be taken out of Myanmar. As a result, foreign investors have to try to get official foreign currency by trading. At present, most business transactions are made at the market exchange or the FEC exchange rates. If government devalues of Kyat, it will reflect to public sector transactions such as repayment of foreign debts and SEEs imports and exports, as well as evaluation of FDI. It is the biggest issue in the environment for investment. For example, when foreign and domestic corporations establish joint ventures, foreign direct investment is underestimated by being converted to Kyat by the official rate. Thus, " the dual exchange rate" is the factor that hinders FDI. The "high inflation" is another obstacles for foreign investors. Myanmar's high inflation rate increased from 30 to 35 percent in mid 1997 to more than 40 percent by the end of the year. It still stood at around 30 percent in most of 1990's.[ψ] Due to high inflation,

[ψ] UN, Economic and Social survey of Asia and Pacific (1999), p.24

government’s revenue decreased and increased in budget deficit. The basic commodity prices and business transactions cost are instable. Inflation generally tends to discourage savings and investment, which are essential for increasing the nation’s stock of capital and enhancing its economic growth. This was in contrast to the upward trend of most of its ASEAN neighbors.

An adequate infrastructure is a precondition for the sustained development of the country. ODA, which is essential for infrastructure development, remains the largest component of resources flows into Myanmar. Lack of access to IFI lending, thus infrastructure upgrade was accomplished by relying on internal resources, including public sector deficit spending. Myanmar has been striving for the development of infrastructure with concerted efforts using its own resources. Roads, bridges and dams are being built in all the regions of the country. Likewise, it is used in social sectors such as education, which is important in persuading FDI to come in to the economy, health, etc. Most foreign aid has been ceased since 1988. It now represents less then one percent of GDP. Myanmar largely receives grants of technical assistance mostly from Asia. There have been no World Bank loans to Myanmar since July 1987. Apart from limited technical assistance to improve statistics collection, there are no IMF assistance programs. The ODA levels provided to Myanmar are low, much lower than those provided to other economies in transition in the region. It can be said that government's efforts for infrastructure development is improving though, overall infrastructure remains poor and it is a major impediment to economic expansion and distribution of goods and services. It is clearly need to improve more infrastructures; physical infrastructure such as airport, seaport, telecommunications, information technology and social infrastructure like health, education. They are still insufficient. Even in Vietnam, there are three international airports. Myanmar has only one international airport.

Consumption of electricity exceeds the available power supply. This situation results in rolling power cuts during certain periods of the year. Most of the fledgling industrial sector and expatriate home rely on independent diesel generators to ensure a steady power supply. The development of the electric power sector is especially delayed. Even though the electric power sector has high potential for development with affluent hydraulic power and natural resources, they have not fully utilized. Insufficient electricity is a big obstacle to operation of private corporations.

Under the FIL, investment disputes between the parties are settled according to Myanmar Arbitration Act (1944). As Myanmar has not ratified The United Nations Commission on International Trade Laws (UNCITRAL), The International Center for Settlement of Investment Disputes (ICSID), The International Chamber of Commerce

(ICC) yet, foreign companies are concerned about dispute resolution occurring in Myanmar. Although Myanmar had been signed the protocol relating to Arbitration Clause (1923,Geneva Protocol), the enforcement of a foreign arbitral award is not recognized by the existing Arbitration Act. It is a disincentive to foreign investors to do business in Myanmar.

The second concern of foreign companies is Intellectual property rights. Even through Myanmar has the laws concerning intellectual property rights; implementations are very weak and protection in Myanmar is underdeveloped and under-utilised. Although Myanmar has The Burma Copyright Act 1914, the India Patents and Designs Act 1911, they are not reliable. In fact, these acts were enacted under British colonial rule and continue to govern the registration of patents and designs, and copyright. Moreover, Myanmar has no trademark law. Trademark registration is possible but not compulsory. Investors can protect their goods by declaring in local newspaper. The absence of trademark law cause often trademark infringes. In short, intellectual property rights are not well work in Myanmar.

Chapter VIII

Challenges and future prospects

The most critical challenge Myanmar faces is the management of exchange rate system. Myanmar’s dual system of an official exchange rate in a parallel market is a cause for concern to investors. It influences many factors in business and the economy especially in the area of foreign trade and investment as well as in state budgetary practice.

The second important issue that Myanmar needs to resolve is the large fiscal deficit, which result from a small revenue base. Major source of revenues are taxes and contributions from SEEs. Despite the government has undertaken tax reforms to increase tax revenue and a significant reduction in government expenditures, the public sector deficit has still continued. Moreover, poor performance of SEEs causes increasing deficit year by year.

It is not surprising that investors concern poor infrastructure facilities including transport and communications as well as power and utilities. They also concern about skilled labor. Even if the stable of political environment, FDI goes to countries where can be available of skilled labor and the high-quality infrastructure combined with reasonable production cost.

The government trade policies have been often changing according to the condition of foreign exchange. Limited number of exportable products, import controls, no transparency in customs valuation and sometime heavy tax burden are big challenges for export industries.

Myanmar located in the fastest growing part of the world, namely East Asia. These economies can benefit enormously from the positive spillover effects emanating the East Asian dynamism. Many economies in South Asia, Myanmar will have to compete with many other countries for FDI. It is unlikely that foreign investors will rush in just because the doors are open. Most investors want to invest in countries with proven track record like economic growth rate and macroeconomic stability. Political stability, flexible educated labor force, large market, fast growing market, high profit market, helpful transparent government, and profitable operations to purchase attract them. Competing for FDI means not just offering cheap labor and tax incentives but also providing infrastructural and institutional supports and consistent, coherent, and transparent policies with continuity. Moreover they consider the high political risks and uncertainties of investing in Myanmar.

It is more important to assure foreign investors of a certain level of security and predictability in the legal and administrative guarantee to protect their investments against arbitrary abuse of power, reduce and simplify bureaucratic procedures, and permit some currency convertibility.

According to author " Stiglitz and Squire"(World Bank Economists)♥, Stable and credible policy environment is important because entrepreneurs will not invest in countries where the policy regime is unstable, investors require certainty. Basic fiscal and monetary discipline, including a properly managed exchange rate will establish credibility for economic policy. Credibility is also served by a transparent and effective legal and judicial system. In deed, it is very important for Myanmar to become stable and credible policy environment.

Unpredictability of frequently changing economic policies affects the operation of business activities. Accordingly, Government has not publicized statistics since June 1997. If accurate statistics are not publicized timely, that may incur the unnecessary distrust of the international community and the market.

Therefore, Myanmar must do along the same path that the other developing countries did with the same kinds of domestic-level changes. Government should throw off traditional and inefficient ways of doing things and move to modern democracy.

To sustain and accelerate economic growth, there is obviously a need for investment and for mobilizing adequate resources to finance the investment.

♥ World bank economists, Joseph Stiglitz and Lyn Square; Int'l development: It is possible? (2000) p.

Firstly, it must promote a healthy macroeconomic environment. In order to introduce more foreign direct investment, it is clearly necessary to be stabilized the macroeconomic situation. Macroeconomic stability is needed for successful growth and convergence. Macroeconomic stability includes stable monetary and financial policies for controlling inflation, an appropriate exchange rate regime, a trade regime, and tax and investment policies. These are the minimum conditions necessary for enterprises to operate efficiently and for investors to invest in the long-term.

The most important challenges relate to fiscal policy. High level of government expenditures and lack of an effective tax collection system generate pressures for large fiscal deficits. The budget deficit is the fundamental cause of unstable macroeconomic situation. In Myanmar, most of the deficit covered by underwriting of treasury bills (TB) by the Central Bank, which issues additional paper money. To cover the budget deficit and to increase of TBs and government bonds buying power by private sector, it should be considered to increase interest rate. In addition, it is desirable to make the Central Bank independent. By ensuring independent, the Central Bank will be able to fulfill the fundamental role of stabilizing value of the currency and increase people's confidence in currency. Not only Myanmar but also other countries has been striving ideas to make the Central Bank independent.

Moreover, it is important to reinforce the tax collection base. The first point is to increase custom duties. In order to increase revenues from custom duties, the government should seek ways to make the custom valuation rate closer to the market rate. The difference between the current customs valuation rate (180 kyats to the US dollar) and the market rate (about 450 kyats to the US dollar) is still huge. The second point is to simplify the taxation system. The current taxation system has many rules concerning tax exemption/reduction, tax-exempt items and tax rate classification. If the taxation system remains complicated, it is likely to distort resource allocation and to induce tax evasion.

If the dual exchange rates exist over a long period of time, the economy will be distorted. The official rate should be unified with the market rate as soon as possible. If the government solves the dual exchange rates, it is expected to increase domestic and foreign investor’s confidence and to increase private investment including those from foreign corporations. The unification will rectify the distorted economy and create an environment to facilitate investment by foreign corporations.

The SEEs generally have weak operational structures. To improve the performance of the SEEs, government shall have to be free to SOE from intervening and to operate as a separately accountable entity, which apply to commercial activities in the private sector.

Also, changing the SOE's management system from bureaucratic and hierarchical to a system, which emphasizes delegation of authority and accountability and enhancing the SOE's managers and other employees.

The government is already aware of the need to reform the SEEs, and has undertaken privatization program. The government has formed the Privatization Commission on January 9, 1995. Up to January 2000, 105 SEEs were sold out by the decision of the privatization commission[Ω]. But some SEEs remain unsold and some are still in the process of privatization. The main reasons are lack of funds in the private sector, lack of experience in privatization, a significant gap between floor prices and proposed prices, difficulties in selling enterprises with a deficit and insufficient disclosure of information on the enterprises for sale.

Although government privatized some SEEs for smooth operation of a market oriented economy, most of SEEs continue to operate as before and some are still facing deficit due to the previous practice of the planned economy. Participation of foreign investors can expedite the privatization process. Privatization is now seen almost universally as a vital process to restructure national economies and to optimize economic efficiency. The government should release control of some SEEs, for instance, telecommunication,

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[Ω] Country report of Myanmar participants; economic development policy for which is solely carried out by the government. If so, it will solve some problems of facing investors today and promote efficiency of business transactions.

In Myanmar, although the government has been improving the infrastructure projects, there is still room for infrastructure improvement. Development was being hindered by bottlenecks in power, transport, water and telecommunications. Instead of monopolize these industries, government should allow private sector particularly in infrastructure services. If it is difficult to allow wholly private sector, it can partially permit to invest to investors. Private sector can efficiently invest in capital and improve the efficiency and quality of such service. In this context, government should specialize in planning, structuring and regulation while the private sector should specialize in management, investment, construction and financing.

Human capacity building is essential for economic development. Shortage of skilled labor is a major bottleneck to attract foreign direct investment flows. So far, Myanmar's educational level has been said to be high. However, in the entire industry, capacity building is important especially it is important to develop skilled labor in major industry as well as financial sector. In Myanmar, private sector participation in human capacity building is a small amount number. Private sector can contribute to upgrading of

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Myanmar(2000)

professional skills; provide efficient management and technology diffusion. Therefore, government should encourage private investors to participate in human capacity building by means of joint partnership between the public and private sectors. It can serve as an effective instrument to mobilize the private sectors.

Trade has been closely associated with economic growth and development. To expand the size of the potential market, to boost productivity of trade sector, and to gain benefits from free trade, it is desirable to shift from the current inward-looking policy to outward looking export-oriented policy. For export promotion, foreign corporations play a major role. In this regard, emphasis should be put on improvement of seaport facilities, improvement and custom collection systems and reinforcement of foreign exchange functions. It is desirable to implement policies on the trade as consistently as possible. Also, it is desirable to abolish import controls, which are big obstacles for promotion of export industry, and it should be considered to allow private sector to export major items monopolized by the government at present, such as rice. Furthermore, in order to facilitate the private sector’s activity, procedures should be simplified to obtain import and export licenses, which have to be obtained for each transaction at present. It covers budgets deficit and enhance relationship with trade sector.

One measure for introducing more foreign investment is to establish a export processing zones. Export processing zones illustrate a specialized application of a consistent trade and FDI policy package. They require coordinated trade and FDI policies to promote value-added processing, domestic employment and increased exports. Specific trade policy mechanisms, such as tariff-drawback schemes are central to their operation. FDI and trade are related and they support one another. In order to avoid the problems caused by the dual exchange rates and to make business customs in compliance with international rules by such measures as easing or abolishing regulations for import, export, and remittance.

Frequent policies changes discourage investors in doing business. In order to prevent them, government should do timely review and constant monitoring of results, and the ability to change policies and adapt them to new circumstances. But, when changes are envisaged, it is good practice to consult existing investors and business associations like Philippines[∞].

Regarding the investment disputes, while government has not ratify the international settlement and dispute organization, to lessen foreign companies' concerns, it should be accept independent arbitrator (to be appointed by International Chamber of Commerce, for example) is the most practical measure for it.

[∞] WIR 1999,p.176

Like neighboring countries such as Indonesia, in order to facilitate the process of approval for business, to lower the transaction costs and to protect bureaucratic barriers, Thailand, it is necessary to establish one-stop services; consisting of counseling, accelerating the various stages of the approval process and providing assistance in obtaining all the needed permits.

To enhance country's economic performance, government shall set up strategic target of investment that is most appropriate to longer-term development objectives together with liberal framework, priorities and a well-targeted promotion program. During the early 1970s Malaysia's Industrial development Authority (MIDA), particularly targeted on the electronic sector. In 1978, Malaysia was the world's largest exporter and third largest producer of semiconductors□.

For the benefits of our State, we shall put down roots and build long-term relationships with the countries of the world and build strong, lasting alliances with the communities.

It is essential to clarify the Government's resolution in order to increase the confidence f rom the international community and foreign investors.

The absence of developed capital market has created additional obstacles for potential foreign direct investors. Banking sector alone is not sufficient to mobilize domestic

□ WIR 1995, p.277

resources. Capital market is an important to mobilize and allocate domestic and foreign resources. It indicates the country's level of saving, investment efficiency and economic growth. For capital market formation, it needs to establish a legal framework for the activities of the stock market, to train staff to manage, operate and supervise the stock market and to develop the infrastructure of the stock market gradually.

Financial sector weakness has caused problems in overall economy. Lack of experts in management position, lack of financing and banking services, insufficient disclosure of information on corporations, low capability of financial institutions and insufficient knowledge on capital market are main reasons for weakness. In order to promote banking sector, it is necessary to utilize experts, to place managers and executives who are conversant with financing and banking business. It is important to implement adequate supervision of banks and to improve finance related law and regulations.

Mobilization of domestic resource is critical important for investment. There has been a growing realization in Myanmar that FDI inflows alone will not enable the country to meet its ambitious economic growth targets. At the same time, Myanmar has limited access to foreign loans from the international agencies and industrialized countries. Myanmar lagged behind the more successful Asian countries simply because of its poor performance with regard to domestic resource mobilization.

The most fundamental factor for economic growth is investment. Other things being equal, the higher the rate of investment, the higher the rate of economic growth. High rate of investment requires high rate of savings, however. While external resources may be relied upon from time to time, the surest way to finance high rates of investment and to sustain growth over the long run is by improving the mobilization of domestic resources. Interest rate policy was effective as increases in the interest rates were followed by increases in total bank savings. Among them are the lacks of incentives for depositing money in the banks and the exchange rate regime in Myanmar. In short, unless the macroeconomic environment is sound and appropriate exchange rate policy is pursued, all efforts to stimulate domestic savings cannot be successful.

Chapter IX

Conclusion

Many countries have carried out fundamental economic reform program over the last two decades and create favorable conditions for FDI. These market- oriented reforms not only led to more liberal trade and investments policies, but also improved general economic conditions, making these countries more conducive and accommodating environment for FDI inflow.

Like former centrally planned economies, such as China and Vietnam, Myanmar has opened the door to the world. Various reform measures have been made to encourage foreign direct investment and still continue to take necessary actions for stable and sustained economic growth of the national economy. So far, it can be said that the growth rate of Myanmar is positive results but the total amount of foreign direct investment are not significantly increased. Myanmar had already existed the comparative advantage of human and natural resources, what necessary is influx of capital, technology, managerial skills and access to international markets. Foreign investment brings not only financial means, but also management know-how, best business practices and advanced technology.

The prospects of investment generally depend on a host country's conditions, including overall economic environment and investment environment. The overall economic environment could be improved by reducing budgetary deficits and by cutting unnecessary expenditures. As for the investment climate, it could improve by unifying the two exchange rates, formulating and spelling out long-term industrial policies, reviewing some of the tax and expenditure policies, well-developed infrastructure and so forth,

Therefore, in order to greater inflow of foreign direct investment, it is essential to create market-based policies that would create a better incentives structure and improve efficiency, liberalization of public sector reforms, removal of trade restrictions, unification of exchange rate and more transparent decision-making process. If these measures are successfully implemented, with political stability, Myanmar could prove highly attractive to foreign investors.

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