

Myanmar Private Sector Perspective

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1. Introduction

1.1. The Greater Mekong Sub-region consists of five countries and one province through which the Mekong River flows. The area covers part of China (Yunnan Province), Myanmar, Lao PDR, Thailand, Cambodia and Vietnam. The geographical land area covers about 2.4 million square kilo meters. The population was 257.5 million in 2002.

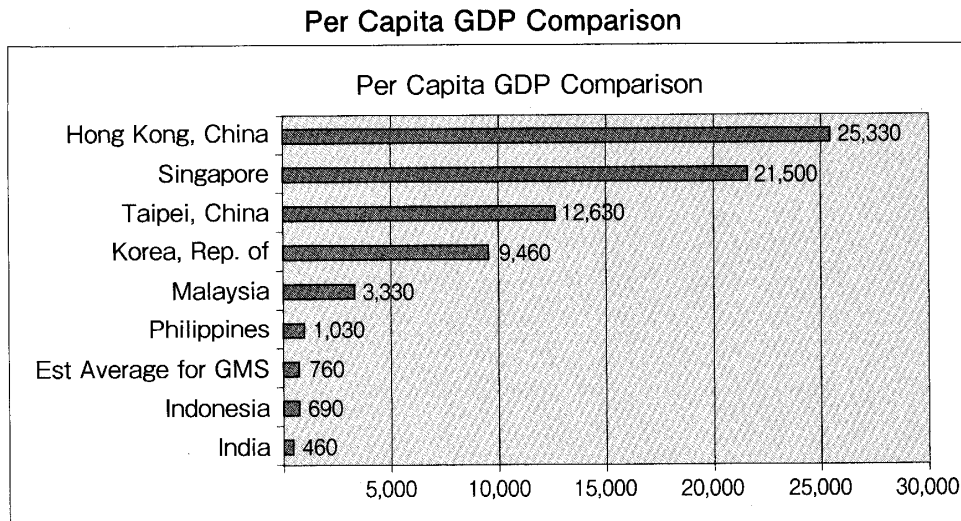
1.2. Even though the GMS member countries share common borders, the economic development stages of each country are different. Despite these differences, there are numerous common elements in each country, which together on a multilateral basis can achieve greater development of the GMS as a whole. The first common element is that the Mekong River flows through all six countries. Second, most of these countries are in transition from a very highly centralized economy to an open market economy. Third, the sweeping economic reforms in the sub-region, including the reversal from inward looking to outward oriented trade policies, has opened a new horizon for economic cooperation among the six countries. The fourth element is that the GMS countries are resource rich and is highly complementary to the faster growing economies in the East and South East Asia. Fifth, interregional trade has begun to blossom, especially between China and Thailand, Myanmar and Thailand. The sixth reason is the poor state of infrastructure and limited trade and commerce in the region, which is a source of development opportunity. Seventh, the sub-region is badly in need of financial capital, which needs to come in part from outside sources. Lastly, the sub-region has a common cultural heritage.

- 1.3. The Mekong region, in which all the new member countries of ASEAN are located, is pivotal for furthering ASEAN's integration. The region possesses potential for economic growth and is essential for the stability and prosperity of the whole of Asia, as it is adjacent to other ASEAN countries, as well as China and India.

2. Economics overview of the Mekong Region

- 2.1. The Mekong Region is the fastest-growing market and most dynamic economy, including those of China, Vietnam, Thailand, as well as the newly emerging but fast-changing economies of Cambodia, Laos and Myanmar and is located strategically in Asia. Major multi-lateral funding agencies (e.g. the ADB, United Nations, World bank), bilateral donors, and leading private Japanese and other multi-national companies are committing massive aid and investment resources into the GMS as they view the GMS as one large, and increasingly integrated market, and highly promising new investment "frontiers," of Asia.
- 2.2. Among the ADB-supported sub-regional economic cooperation projects, the member countries' attention is focused to a large extent on the economic corridors that we are hearing so much about. Above all, serious efforts are under way to make the GMS Economic Cooperation program more business-friendly. Under this programme, major multi-modal infrastructural networks (new trans-national road networks, railroads, and civil aviation and telecommunication systems) are being planned and developed at rapid pace for our GMS region with the plan to enhance connectivity, increase competitiveness and greater sense of community. The east west economic corridor land route stretches 1,500 km road is linking ancient civilizations and promoting sub-regional cooperation bringing new economic opportunities to GMS countries. This corridor will play a major role in integrating the GMS countries economically and physically and also help spark investments in agro-industry, industrial zones and tourism.
- 2.3. It can be seen from the above figure of Per Capita GDP that the GMS countries fall short of other developed countries in the region such as Hong Kong (33 times),

Singapore (28 times), Taiwan (17 times) and Korea (12 times). The main source for the disparity in the numbers is due to the economic mix of the countries.

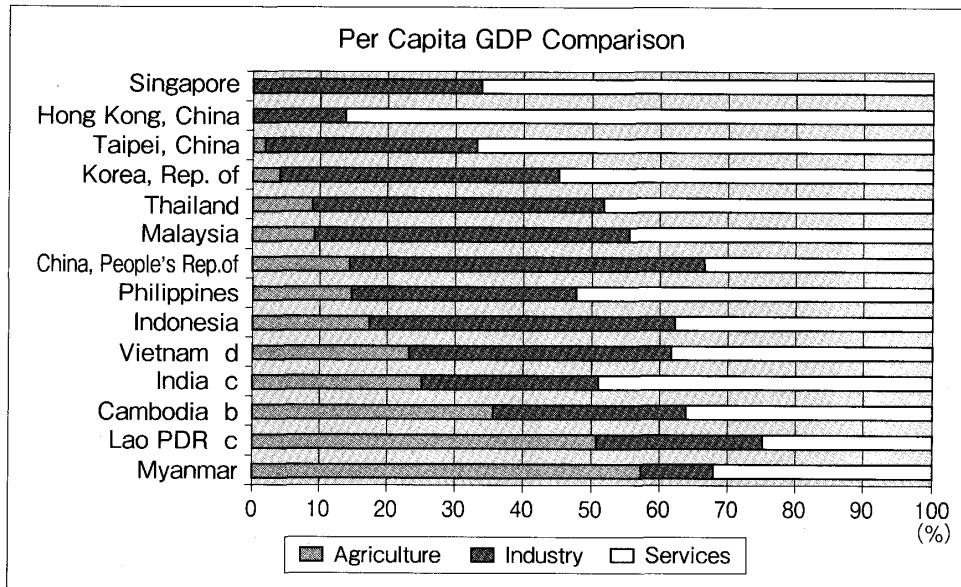


Source: ADB Website; www.adb.org

2.4. Upon examination of the GDP contribution by Sector of the developed countries, it can be seen that generally, their economic thrusts are in the higher value added activities of Industry and Services. Due to this, their main products are higher in value, which contributes to the higher GDP of these countries. It can be seen that Lao and Myanmar have very high dependence on agriculture and their industrial sector is still relatively small. Cambodia and Vietnam have relatively higher concentration in the industrial sector but are much lower in comparison to China and Thailand. If overall economic development for the GMS region is to be materialized, the industrial sector of the lesser developed nations must be strengthened and expanded. Only then will GMS be able to grow as a common unit.

2.5. In this era of globalization, foreign direct investment (FDI) has the potential to contribute significantly to a country economic development and the welfare of its people. The trade and investment flows among the GMS countries fall short of potential due to the lack of market information and sub-region supporting institutions. Without qualified and efficient supporting SME industries, as well as

GDP Contributions by Sector (2003)



Source : ADB Website; www.adb.org

enabling and transparent business environment, FDI could be hardly attracted. GMS states are the least to receive the FDI, where as in the age of high tech and high value addition, massive world FDI in flowed to highly industrialized states. With a view to attract more FDI into the sub-region, GMS-BF with the support of ADB, UNESCAP is going to provide GMS investment environment template in the year 2005. The GMS online trade hub to be set up and expected to provide beneficiaries with trade information, business opportunities and possibility of conducting on-line transaction, thus enhancing the trade volume among the countries and the region and between the region and the rest of the world. It is necessary for setting up the special economic zone in the vicinity of border and transit trade points - cum - nodal growth areas in GMS, in addition to the vicinity of the sea-port areas. Such SEZs will certainly induce and enhance the FDI inflow. To bring about these goals, close consultation, cooperation and coordination between the GMS government, private, business sectors, ADB, UNDP, international institutions and Japanese Government is needed unquestionably.

- 2.6. During the past years, despite difficulties and challenges, the GMS economic cooperation program has been continuously developing. In recent years, a number of events organized such as the GMS summit in Phnom Penh in November 2002

and Ministerial Meetings, forums and working group meetings have strengthened friendship and cooperation as well as supporting the implementation of cooperation program between the GMS countries.

3. Myanmar Performance in the GMS region

3.1. Myanmar has been a member of the six nations GMS being supported by ADB and UNESCAP since its formation in 1992. Myanmar is also a member of the ASEAN as well as other regional organizations such as ACMEC and BIMSTEC. Myanmar is, therefore, a truly cooperating partner in the region. Hence both the government of Myanmar and the private sector are working for economic integration in the region.

3.2. As the national private organization, the Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI) had participated in the GMS-BF since its establishment in 2000 together with the Chambers from Cambodia, Lao, Thailand, Vietnam and Yunnan Province of China. Currently, a Vice-President of UMFCCI is acting as the Chairman for GMS-BF for a term of 2 years. The goal of GMS-BF is to promote economic and social development by strengthening the economic linkage in the Mekong Sub-Region. Also GMS-BF can initiate step to realize concrete business opportunity in various economic corridors, which are being developed by GMS countries.

3.3. In order to achieve closer cooperation with other members of the GMS, Myanmar is now speeding up its economic development in all sectors of the national economy. Due to financial constraints, Myanmar could not carry out most of the GMS region priority projects particularly in transport and energy sector. Myanmar can be regarded as a regional hub. It is situated at the strategic geographical location and can facilitate as a land-bridge connecting Southeast Asia and South Asia as well as with China. Road links connecting India and Thailand through Myanmar is now being planned. The following are some of the achievements and status of implementation of the projects in Myanmar being carried out with her own

financing programs as well as potential participation of the private sector.

- Construction of Yangon-Mandalay Highway and other roads linking the States and Divisions.
- Construction of airports linking key cities and towns with air transport.
- Construction of new railroads linking underdeveloped areas with the developed regions.
- Construction of new hydroelectric power stations with the aim to supply an additional 2000 MW within the next three years.
- Development of telecommunication networks spanning inaccessible towns.
- Development of information and communication technology with the introduction of e-government, e-business e-learning centres, etc.
- Construction of several new universities and colleges including technological universities and colleges.

3.4. Trade with neighboring countries especially India, China and Thailand had been thriving and in reality on the increase every year. The total trade volume with China (Yunnan), and Thailand are 40.21% and 36.60% of the total Myanmar trade volume for the year 2002-2003 and 2003-2004 respectively. In terms of total border trade, the percentages were 88.11% and 87.57% respectively. It was found that the border trade with Thailand was higher than that of China. Bilateral trade with Lao was only 20.79% of the total trade volume in 2001-2002 whereas the bilateral trade with Vietnam amounted to a total of Kyat 72.15 million in 2000-02 and 53 million in 2001-2002. Of these GMS countries, China, Thailand and Vietnam had been holding trade fairs, exhibitions in Yangon every year.

3.5. The government of Myanmar has been adopting market-oriented measures since 1988 when the Foreign Investment Law (FIL) was promulgated. The FIL currently serves as the framework for promoting and regulating FDIs in Myanmar. Leading FDI sectors in Myanmar include oil and gas, manufacturing, hotel and tourism, and real estate for more than half of total FDI. The post Asian crisis period has witnessed a slight recovery in FDI into Myanmar as the ASEAN

countries recovered. Myanmar is promoting resourced-based, labour-intensive, and export-oriented industries for FDI.

- 3.6. In uplifting Myanmar's economy, China plays a leading role. In the construction of bridges, hydro electric power stations, inland petroleum drilling and other large construction works, China had supplied the necessary iron and steel structures and other assistances. In the industrial sector, China had assisted in the supply of machinery, equipment and technical know-how for both the State and private sector. In the 19 industrial zones, quite a number of new industries had been put up using Chinese machinery and equipment and even the raw materials. It is presumed that China has become a key player in the economies of GMS as well as ASEAN.
- 3.7. Myanmar has great potential to develop as a major industrial nation in the GMS and Asia because of it is endowed with abundant labour and agricultural, forestry and fisheries resources as well as mineral energy and tourism resources; occupying a strategic location in the high growth region of Asia sharing its borders with giant China and India; and having, as a late-starting developing nation, the possibility of leapfrogging other nations amid global technological innovations. While the share of the industrial sector in GDP is over 40% in Thailand, Malaysia and Indonesia, that in Myanmar is only approximately 10%. The slow development of the manufacturing sector in Myanmar can be attributed to long vicious cycle.
- 3.8. Being in crossroad, in conjunction linking by overland route with Bangladesh and India in the west, and with China, Laos and Thailand in the east, Myanmar is the gate-way to the Andaman sea for those landlocked countries as Laos or Yunnan Province of China which is the member-state of Greater Mekong Subregion (GMS), as well as for Thailand in search of short-cut way-out to Andaman sea, from Kachanaburi by skipping the ever congested Malacca Strait, economizing time and money. In this context, with reference to ASEAN highway and GMS East-West-North-South Economic Corridors and regional linkages, Myanmar is in the geo-economically pivotal position offering high potentials both in trade and

trade related investments in such areas as building up special economic zones in the vicinity of the said trade routes and infrastructural developments, in agriculture, agro-food industries, extracting industries, and intra-regional eco and cultural tourism.

3.9. Tourism is undoubtedly a sector where Myanmar can take part in the GMS in cooperation with other countries. The realization of EWEC would pave the way for not only an increase in border trade and the opening up of industrial zone near Thai border but also the influx of tourists from Yunnan, Thailand. Then there is a plan to construct a bridge across the Mekong River between Lao PDR and Myanmar. This bridge will lead to the flow of tourists between Lao and Myanmar and Lao PDR will benefit by having access to the Indian Ocean for its trade.

3.10. Myanmar has been facing shortage of qualified human resources in several areas especially in science and technology. It is because of decade long isolated conditions and most of the industries are underdeveloped. Technology is also lagging behind than other countries and thus skill training in the industrial sector is much needed. SMEs require more skill training programs and the funding for establishing training center. This type of assistance would enables to bridge the existing gap between local SMEs and large enterprises including foreign companies.

4. Role of SMEs and Contributions to Economic Development

4.1. SMEs sector in GMS region is confronted with a wide range of structural fiscal and non-fiscal issues and challenges such as limited access to finance, technology and market. There are also insufficient entrepreneurs with venture spirit and management skills among SMEs in the GMS region.

4.2. Unlike large enterprises, SMEs especially the private SMEs have the comparative advantage in its flexibility and dynamism in terms of response to the changing economic and social environment. Thus encouragement and promotion of competitiveness and innovation of SMEs is necessary in contributing to greater

economic growth of the country and the GMS region as a whole. The SMEs could play the main economic role and become the backbone of the national economies.

- 4.3. SMEs had been predominant in Myanmar for centuries. As Myanmar is still an agricultural country, the contribution to GDP by agriculture, livestock and fishery and forest accounted for 60 percent while the processing and manufacturing sector accounted for about 10 percent and the services sector shared about 30% of the GDP. In Myanmar total number of SMEs in the manufacturing, mining, construction, trade and services was estimated at 99% of the total number of enterprises. The number of workers employed by SMEs was estimated at 78% of total non-agricultural labour force. Therefore SMEs play a significant role in the national economy. Having recognized this fact, greater attention is needed to promote the SMEs by framing policies in line with the State's objectives and short term plans may also be put in place within the overall industrial master plan.
- 4.4. Across the Mekong region, SMEs face similar challenges and opportunities for the development. These constraints generally include lack of effective financial services, lack of technical, human and capital resources, weak communication facilities, economic policies that favor larger enterprises, significant competitive pressure from globalization and rapidly changing technologies and inefficient marketing system.
- 4.5. The SMEs in manufacturing sector in GMS region faces a number of major challenges,
 - The government's tight money policy, capital intensity and high interest rates.
 - Inadequate capacity of SMEs for subcontracting to large enterprises
 - The lack of HRD programmes in the field of jobs creation for vocational and entrepreneurship trainings, marketing know-how, management expertise and outsourcing capability for regional, sub-regional and international trade competition.
- 4.6. To respond to the above mentioned issues and challenges, the national governments must implement following necessary measures for activating the role of SMEs in

the Mekong region with the objectives of enhancing the environment cooperation among the GMS countries, China and Japan:

- Improve infrastructure for industrial development through development of economic corridors, inter corridor linking and SEZ (Special economic zone)
- Establishment of R & D and skills development center
- Establishment of national export financing / credit guarantee scheme for SME
- Promote information networking between SMEs
- Enhance incentive investment package among GMS member countries
- Creating a conducive business environment
- To develop and implement the human resources cooperation agreements, cross training programs, degrees, vocational cooperation scheme.
- Tripartite negotiations among Government, business sectors and academic on how to incorporate entrepreneurial training needed by the private sector.
- Improve supply chain linkages between GMS member countries.

5. Conclusion

5.1. It is evident that trade, investment, industrial development and cooperation can be achieved through the GMS initiative. Cross border, industrial cooperation and sourcing can be implemented to take advantage of the various bilateral and multilateral initiatives in GMS and ASEAN. This will increase the competitiveness of the member countries. In turn, this competitiveness will lead to greater export capabilities, import substitutions and local resource development. With the sharing of technology and knowledge, greater specialization can ensue. More developed countries can focus more on high-tech solutions while the low-tech, labour-intensive activities can be pushed to the developing countries. In this way, mutual developments and implementation of comparative advantages that each country possesses can be realized. Human Resource Development is the most valuable infrastructure development that the GMS countries can hope for through cooperation and sharing of resources. Once the gap between the human resources of member countries are reduced, greater levels of cooperation in all sectors of the economy can be realized. In this regards assistance from ADB, UNESCAP, and

Japan will be of paramount importance.