Trade, Foreign Investment and Myanmar's Economic Development during the Transition to an Open Economy

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Abstract

Throughout the 1990s and up to 2005, the adoption of an open-door policy substantially increased the volume of Myanmar's external trade. Imports grew more rapidly than exports in the 1990s owing to the release of pent-up consumer demand during the transition to a market economy. Accordingly, trade deficits expanded. Confronted by a shortage of foreign currency, the government after the late 1990s resorted to rigid controls over the private sector's trade activities. Despite this tightening of policy, Myanmar's external sector has improved since 2000 largely because of the emergence of new export commodities, namely garments and natural gas. Foreign direct investments in Myanmar significantly contributed to the exploration and development of new gas fields. As trade volume grew, Myanmar strengthened its trade relations with neighboring countries such as China, Thailand and India. Although the development of external trade and foreign investment inflows exerted a considerable impact on the Myanmar economy, the external sector has not yet begun to function as a vigorous engine for broad-based and sustainable development.

Keywords: Myanmar (Burma), international trade, cross-border trade, foreign direct investment, economic development, development cooperation
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[Contents]

Introduction

Myanmar's transition toward a market economy began with a series of open-door policies. Soon after the military took power in 1988, the State Law and Order Restoration Council (SLORC), later re-constituted as the State Peace and Development Council (SPDC), allowed private sector businesses to engage in external trade and to retain export earnings, and started to legitimize and formalize border trade with neighboring countries, hitherto an activity that had been deemed illegal. Following this, in November 1988, foreign investment was permitted, by the enactment of a Foreign Investment Law (FIL). Myanmar's economy was released from the isolationist foreign policy of the quarter-century long Socialist era and began to re-integrate into regional and world markets.

Myanmar opened its doors to the rest of the world in the midst of a period of globalization and regionalization, and consequently, the open-door policy drastically changed Myanmar's external sector. Myanmar's foreign trade rapidly increased during the 1990s and up to 2005 and foreign direct investment flowed into the country, albeit with some ups and downs. As the volume of trade grew, Myanmar expanded its trade relations with neighboring countries, having become integrated into the regional markets. The commodity composition of both exports and imports also changed throughout the transitional period.

In the context of advances in globalization and regionalization, an export-oriented and foreign investment-driven development strategy has become an orthodox and most promising policy for developing economies. Myanmar, which experienced a hostile international economic environment, did not follow such a development strategy and apparently failed to achieve rapid economic growth. Nevertheless in Myanmar too, the open-door policy and its attendant trade growth were the most powerful forces affecting the process of economic development and industrial change.

The purpose of this chapter is to examine the development of, and changes in Myanmar's external sector in its transition to an open economy, and to examine the relationship between overseas trade and economic performance. The state of progress toward an open and market-based economy in the sector is also evaluated. The first section reviews the open-door policy and trade performance, and evaluates the extent to which the economy of Myanmar depends on foreign trade. The second section discusses changes in trading partners, and indicates the regionalization of trade that has resulted from the enhanced importance of cross-border trading transactions. The third section examines inflows of foreign investment, and evaluates their impact on Myanmar's overall economic growth. In the conclusion, the authors summarize the discussion and outline some policy implications.

1. The Open-Door Policy and Trade Performance

1.1. Opening the Door

During the socialist period, the Myanmar government for many years pursued self-reliance in both political and economic terms. The idea of self-reliance was, in reality, translated into a closed-door or inward-looking policy, which actually suited the control-oriented socialist economic system. So far as its economy was concerned, Myanmar cut itself off from the rest of the world. In the absence of inflows of foreign capital, agriculture was the most important, and indeed almost the only reliable resource available to the government for financing their industrial projects. As a result, agriculture was heavily exploited and lost its growth potential. From the 1970s onwards, the agricultural sector no longer earned a significant amount of foreign currency (Myat Thein [2004:73-81]).

Against such a background, the socialist government started to accept foreign aid. Coincidentally, some western allies, Japan and West Germany in particular, were happy to provide considerable amounts of official economic assistance to this non-aligned nation, which the United States basically regarded as countervailing power against Communist China. As for the Myanmar socialist government, ODA seems to have come in the form of politically low-cost foreign capital rather than as private foreign investment (Kudo [1998: 161-162]). Between 1978 and 1988, ODA provision amounted to US $3712.3 million, a sum equivalent to 15.1% of Myanmar's total imports for the same period.

Most of the ODA, however, was suspended after the military government came to power. The international donor society took a critical stance toward the military regime on account of its poor human rights record and as a result, the newly-born government encountered a serious foreign currency shortage. To obtain money quickly, the government provided timber and fishing concessions to Thai enterprises. In short, the government shifted its policy and opted for liberalizing international trade and for allowing foreign investments in the territory of Myanmar. The transition to a market economy in Myanmar inevitably and primarily has meant the adoption of an open-door policy as regards the international economy.

1.2. Growth of Trade and the Economy's Dependence upon Trade

Opening up external trade to private enterprises greatly increased the number of exporters and importers in Myanmar. While about 1000 exporters/importers had registered in FY 1989[1], the number increased to about 2700 in the following fiscal year, and reached nearly 9000 by FY 1997. Accordingly, the trade volume grew. Myanmar's exports increased by 6.8 times between 1985 and 2003; during the same period its imports grew by 5.5 times (Figure 1)[2]. For the said period, GDP grew by only 1.8 times.

However, despite this increase in the volume of foreign trade, the share of exports and imports in GDP constantly decreased, from 13.2 % in FY 1985 to 5.6 % in FY 1990 and further to 2.5 % in FY 1995, 1.1 % in FY 2000, and 0.4% in FY 2003.[3] The external

[1] FY stands for Fiscal Year starting from April and ending in March.
[2] Figure 1 is based on two different sources of information, namely the United Nations Comtrade and the customs data from twenty-six major trading partners. See the Appendix for a more detailed discussion of Myanmar's trade statistics.
[3] Calculated from CSO [2004: 315].

transactions are recorded at the official exchange rate, which has been fixed to about 6 Kyat per US dollar. As the disparity between the official exchange rate and the parallel market rate has widened, so the volume of external trade recorded at the official exchange rate has become underestimated.[4] For this reason, it is difficult to measure the openness of the economy simply by the share of external trade in GDP.

Trade volume per capita can be another indicator for measuring the openness of an economy. Myanmar's trade volume per capita steadily increased from US $25 in 1985 to US $35 in 1990, US $85 in 1995, US $92 in 2000 and US $106 in 2003. Indeed, the increasing importance of imported goods in daily life has been palpable to anyone visiting Yangon since around the mid-1990s. A visit to City Mart, one of the biggest supermarket chains in Myanmar, reveals a very wide range of imported consumer goods, most of which lay well beyond people's reach during the socialist period (Kudo [2001: 24]).

Be that as it may, Myanmar's trade volume per capita is still lower than those of the other new ASEAN members, including Cambodia, Laos and Vietnam, all of which launched their drive toward a market economy at almost the same time as Myanmar. Cambodia's trade volume per capita was US $345 in 2003; Laos's was US $ 140 and Vietnam's was US $561 in the same year (ADB [KI 2005]). These figures reflect the underdevelopment of Myanmar's external trade.

1.3. Trade Structure and Import Controls in the 1990s

The open-door policy substantially increased Myanmar's external trade throughout the 1990s and up to 2005, although exports and imports did not grow in parallel (Figure 1). Imports grew more rapidly than exports in the 1990s. Imported goods poured into the emerging markets for consumer goods, the demand for which shot up following the many years when daily commodities and durables were in short supply during the socialist period. Moreover the 1990s saw the emergence of preliminary import-substitution industries, which were heavily dependent on imported machinery and raw materials.[5]

During the 1990s, Myanmar's exports consisted mainly of primary commodities. Among them, cash crops such as beans and pulses and sesame, and marine products such as fish and prawns occupied the lion's share. After the late 1990s, however, the export structure apparently changed. Garment exports surged, followed by an

[4] The parallel market rate was 1320 Kyat per US dollar as of October 20, 2006 according to Irrawaddy Online News.
[5] See Kudo [2005a].

expansion in natural gas exports.

One major cause for the slow growth of exports is thought to lie in the government's maintenance of a monopoly and restrictions on major export items. Teak exports, for example, have been monopolized and strictly controlled by the government. The extraction and export of teak is in the hands of a single state-owned enterprise, namely Myanmar Timber Enterprise (MTE) a company controlled by the Ministry of Forestry under the State-owned Economic Enterprises Law of 1989. For very many years up to the present, rice exports have been monopolized by Myanmar Agricultural Produce Trading (MAPT), a company run by the Ministry of Commerce.[6] Since 1998, the government has also restricted the handling of sesame exports to state-owned and military-related enterprises.[7]

The relatively slower growth of exports combined with the rapid expansion of imports generated a huge trade deficit, which in 1997 reached US $ 1879.9 million, 1.7 times larger than Myanmar's exports in that year. At the same time, the inflow of foreign direct investment dropped sharply because of the Asian Economic Crisis of 1997. Confronted by a severe shortage of foreign currency, the government reacted by applying a series of restrictions on trade and on the foreign exchange system. In July 1997, a newly-established extra-ministerial committee, the Trade Policy Council (TPC), was put in charge of strengthening controls on the private sector's economic activities.[8] The TPC imposed many severe restrictions on external transactions in particular.

The most important policy change was to rescind the "import first" policy, and replace it with an "export first" policy, in which the importer can import only against export earnings. The purpose of the series of restrictions and controls was to reduce imports and particularly those imports that the government deems to be non-essential, including luxury goods. Essential goods are described in list A of the obligatory imports, the share of which should be more than 80% of total imports according the Ministry of Commerce (notice No. 15/98 of October 1998). On the other hand, the articles of non-essential and/or luxury goods are set out in list B of non-obligatory imports. The share of this category is not permitted to exceed 20% of total imports. The government has urged private traders to reduce imports of non-essential and/or luxury goods and to give priority instead to essential goods, which have been determined by the government to be necessary for economic development. Moreover in July 1997, the central bank set

[6] See Okamoto [2005] for details.
[7] The few exceptions are beans and pulses and fish and prawns, all of which categories have enjoyed free trade and rapid growth.
[8] See Kudo [2001] for details.

limits on the foreign currency transfers of private firms (transfers overseas) to US $50,000 per month. The Bank thereafter progressively tightened the limit, to US $30,000 per month in January 1999, US $20,000 per month in April 1999 and US $10,000 per month in August 2000. The private banks were also deprived of foreign transactions, which were afterwards monopolized by three government-owned banks, namely Myanmar Foreign Trade Bank (MFTB), Myanmar Investment and Commercial Bank (MICB) and Myanmar Economic Bank (MEB).

As a result, Myanmar's imports decreased from US $ 3010.6 million in 1997 to US $ 2469.9 million in 1998 and further to US $ 2285.9 million in 1999. From then until 2002, its imports stagnated around this level, albeit exhibiting some fluctuations. Even though the government intended to restrict its controls to the importation of non-essential items and/or luxury goods, figure 2 shows that the volumes of almost all imports decreased substantially. There were remarkable declines in imports not only of consumer goods such as food and beverages and automobiles but also in imports of machinery and industrial raw materials such as iron, cement and plastic resin. The government's new trade policy deprived private factories of access to imported machinery and raw materials, which were indispensable inputs in the preliminary import-substitution industrial development stage.

1.4. Export Growth and Relaxed Import Controls in the 2000s

Myanmar's external trade sector dramatically improved toward the end of the twentieth century and in the early twenty-first century. According to a variety of sources, the trade account recorded a surplus and since 2001 has been more or less in balance (Figure 1).[9]

Both exports and imports have contributed to this outcome. Strict import controls no doubt contributed to the improved trade balance. However, the most important explanation of the improvement seems to lie rather on the export side, and must be sought in the rapid growth of garment and natural gas exports. Garment exports enjoyed a boom from 1998 to 2001 in response to strong demand from the American and European markets. However, the expansion of garment exports soon lost momentum as a result of the imposition of international trade sanctions. Particularly damaging were

[9] According to the UN Comtrade, Myanmar's trade showed a surplus in 2001 and 2002, although it again recorded a deficit in 2003. The data from twenty-six countries also showed a surplus in 2001 and 2002. After having plunged into a deficit in 2003, Myanmar's trade account kept in balance in 2004 and showed a surplus in 2005. By contrast, the Myanmar government statistics recorded continuous surpluses for the period between FY 2002 and FY 2005.

the American sanctions of 2003, which banned all imports of Myanmar products to the United States.[10] However, the decline of garment exports was not only compensated for but was in fact surpassed by the increased natural gas exports from 2001 onwards.

Since the early 1990s, two large gas fields named Yadana and Yetagun in the Gulf of Martaban have been developed by consortia led by Total/Unocal and Texaco respectively and from 1998 onwards, gas from these fields was exported to Thailand by pipeline. In 2005, gas exports amounted to US $1497.4 million, a sum equivalent to more than 40% of total exports. Gas exports have greatly improved Myanmar's foreign currency situation. Foreign reserves doubled from US $ 239 million to US $ 440 million in August 2001, when the export revenue was apparently paid in. By June 2006, they had reached US $ 939 million. All the revenue from the gas exports goes into the national treasury, and the inflow of funds must have significantly improved the foreign currency position of the public sector including administrative organizations and state-owned enterprises. According to government statistics, the public sector recorded a trade surplus of Kyat 7675.1 million, equivalent to US $ 1321.1 million for FY 2005 with the conversion at the official exchange rate. This must also have contributed to the stabilization of the local currency, the Kyat.

The improved foreign currency position of the public sector may have weakened the government's incentive to commandeer foreign exchange earned by the private sector for its own use by imposing import restrictions and controls on the private sector. After having undergone a period of stagnation between 1998 and 2001, imports steadily recovered up to 2005, according to data from twenty-six trading partners of Myanmar. In short, Myanmar's external trade, both exports and imports, greatly improved in the early twenty-first century.

These facts seem to contradict the widespread impression that the government continues to impose import restrictions and controls. Indeed, many domestic manufacturers have complained that they have found it difficult to obtain imported machinery and raw materials. Moreover, government statistics show that Myanmar's imports declined from Kyat 18377.7 million (equivalent to US $ 2734.5 million) in FY 2001 to Kyat 11514.2 million (equivalent to US $ 1981.9 million) in FY 2005.

It is difficult to determine which of the statistics are accurate. It should be noted that the government's rules and regulations, whether on economic or on other policies, are seldom changed or withdrawn once they are announced. For example, the import ban on

[10] On the growth and decline of the garment industry in Myanmar, see Moe Kyaw [2001] and Kudo [2005b].

such things as instant noodles and snacks that was announced in 1998 is still theoretically effective today. Nevertheless, it is possible to buy these "banned" imported items at any supermarket in Yangon, Mandalay or other local cities. In Myanmar, there is usually a big gap between the announcement of rules and regulations and their actual implementation. Moreover, quantitative controls are often preferred to tariffs and other rule-based policy measures as a means for curbing imports. Import licenses (I/Ls) have become a major instrument of trade control and are used arbitrarily. Careful observation is therefore necessary to identify the real effects of trade-related policies on trading activities in Myanmar.

2. Regionalization of Trade

2.1. Enhanced Trade Relations with Neighbors

Since its inception in 1988, the open-door policy has drastically changed the geographical pattern of Myanmar's trade. Myanmar has strengthened its trade relations with neighboring countries, in particular China and Thailand. During the socialist period, advanced countries such as Japan and West Germany constituted Myanmar's major trading partners, mainly because of the trading activities related to the receipt of official development assistance from these countries. In response to the birth of the military government in 1988, however, western donors terminated their provision of ODA. Some western countries even went so far as to impose economic sanctions on the military government. A hostile international economic and commercial environment encouraged Myanmar to develop trading activities with its neighbors.

In any case, it is perhaps natural that given the distances involved, Myanmar should trade with its immediate neighbors rather than with far-off western countries. Myanmar shares long borders with five neighboring countries, namely China (a border of 1357 miles), Thailand (1314 miles), India (857 miles), Bangladesh (152 miles) and Laos (128 miles). Myanmar is located close to East Asia (China), Southeast Asia (ASEAN) and South Asia (India and Bangladesh). Among these various countries and regions, there are differences in natural resource endowments and in industrial development stages. It is clear that various economic and industrial complementarities have contributed to the development of trade throughout the East, Southeast and South Asian regions.

For their part, neighboring countries also welcomed the emergence of an open-door policy in Myanmar toward the end of the 1980s. Just before the end of the Cold War, China departed from its traditional dual-track diplomacy that endorsed party-to-party relations between the China Communist Party (CCP) and the Burma Communist Party

(BCP), in addition to state-to-state relations. The CCP's covert and overt support of the BCP, which resorted to armed struggle against the Myanmar government just after independence, had long hindered the development of official relations between the two countries.[11] Thailand also stopped its policy of letting ethnic armed groups, notably the Karen National Army (KNA), alongside the border to serve as a buffer area between the two countries. Following these events, Myanmar gave up its strictly non-aligned neutralism and joined in regional cooperation schemes such as the Greater Mekong Sub-region Economic Cooperation (GMS-EC) in 1992, the Association of Southeast Asian Nations (ASEAN) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) in 1997 and the Ayeyawady, Chao Phraya, Mekong Economic Cooperation Strategy (ACMECS) in 2003.

These developments have contributed to a continuation of the regionalization of trade. The trade share of the four neighboring countries of China, Thailand, India and Bangladesh occupied 56.5 % of Myanmar's exports and 52.7% of its imports in 2003, compared with only 20.4% and 2.7% respectively in 1985 (Table 1). Within this group, China and Thailand are particularly important.

2.2. China[12]

Ever since 1988, when the Myanmar-China border trade, hitherto an activity deemed illegal, was legitimized and formalized, China has enjoyed an important position in Myanmar's external trade and has constantly occupied a high ranking among Myanmar's trading partners. Figure 3 shows trends in the trade between Myanmar and China based on two data sources, UN Comtrade and China Customs. The Figure clearly shows the unbalanced performance of Myanmar's trade with China. While Myanmar's exports to China increased by only 1.3 times for the period between 1988 and 2003, imports from China expanded by 7.1 times during the same period, resulting in 2003 in a huge trade deficit of US $797.7 million, some 4.4 times larger than Myanmar's total trade deficit in the same year.

Myanmar's exports to China are mostly composed of timber, a commodity that contributed nearly 70% of exports to Chine by value between 2000 and 2003. Timber is exported mostly in the form of unprocessed logs or roughly squared ones whose preparation requires little human and technical input. Such a high dependency on timber has kept Myanmar's exports to China somewhat stagnant, since exports of this

[11] See Lintner [1990] [1994] and [1998] for the historical development of Myanmar-China relations with special reference to their part-to-party relations.
[12] This section draws mainly from Kudo [2006].

commodity are constrained by the availability of the natural resource in question. Timber extraction and its export in the form of logs seems to have a weak impact on broad-based economic and industrial development, no doubt because exports of this kind fail to bring about an improved utilization of existing factors of production, and have very little impact so far as expanded factor endowments and linkage effects are concerned.

By contrast, imports from China underwent rapid growth on two occasions: one in the first half of the 1990s and the other at the beginning of the twenty-first century. It follows that Myanmar has become more and more dependent on imports from China. The share of Chinese goods in Myanmar's total imports rose from about one-fifth in the latter half of the 1990s to about one-third in 2003.

The first phase of rapid growth of Chinese imports into Myanmar was caused by the unleashing of pent-up demand among the Myanmar population after the introduction of the open-door policy in 1988. China provided the main supply sources, and Chinese products poured into the emerging consumer goods markets in Myanmar. Just after the opening up of border trade with China, Chinese textiles, mostly yarn and fabrics, flooded the Myanmar markets. Textiles occupied nearly 40% of total Chinese imports for the period between 1988 and 1991. Subsequently, tobacco increased its share to 14% for the period between 1992 and 1995.

Myanmar's imports from China showed a second phase of rapid growth at the beginning of the twenty-first century. Imports grew at an average annual rate of 22.7% between 2000 and 2003. Textiles, road vehicles, power generators, electrical machinery and apparatus, and general industrial machinery increased their share of Myanmar's total imports from China. Such an increase may well reflect the huge inflow of Chinese economic cooperation and the provision of commercial loans from China during the period in question. Chinese economic cooperation expanded toward the end of the 1990s, when successive economic and technical cooperation programs were initiated between the two countries.[13] Most of these programs have been tied, whether legally or *de facto*, to Chinese companies, state-owned ones in particular, and have consequently led to an increase in imports from China.

Trade between Myanmar and China is heavily dependent on day-to-day cross-border transactions. According to the district-specific China Customs statistics, border trade

[13] See Table 6 (Bilateral Agreements between Myanmar and China since 1996) in Kudo [2006:23-24].

represents the lion's share of China's trade with Myanmar.[14] In 2005, border trade accounted for 58% of China's exports to Myanmar and 82% of its imports from Myanmar (Table 2). Moreover, in FY 2003, Yunnan Province's share of Myanmar's total border trade was 73%, whereas that of Thailand was 14% (Mya Than [2005:39]). Border trade is important for both Myanmar and Yunnan Province.

The main route for border trade on Myanmar territory is the 460-kilometer-long road connecting Muse on the Chinese border, opposite Ruili in Yunnan Province, and Mandalay, the second largest town in central Myanmar. This road formed part of the old "Burma Road" that opened in 1936 to supply the Kuomintang (KMT) in Chongqing. The road was paved and expanded for truck transportation in 1998 on a BOT basis by Asia World Company, one of Myanmar's biggest private business conglomerates, headed by the son of Lo Hsing-han, a former drug lord. Before the completion of the new road, it took two days, and during the rainy season sometimes even a week, to travel from Mandalay to Muse. Now it takes only twelve to sixteen hours by car.

Border trade between the two countries has been legitimized, regularized and institutionalized since the adoption of the open-door policy by Myanmar's present government. The first border trade agreement was signed in August 1988 by Myanmar Export and Import Services (MEIS) and Yunnan Machinery Import Export Corporation and allowed bank transactions between the Myanmar Foreign Trade Bank and the Kunming Branch of China Bank. MEIS established border trade offices in Lashio, Muse, Kyukok, Nantkam and Koonlon. According to the Ministry of Commerce (notification No.7/91), an allegedly new border trade system has been administered by MEIS since October 1991. The Myanmar and Chinese governments signed a further border trade agreement in August 1994. Under this agreement, a Border Trade Office was established in Muse in August 1995 and "one-stop services" were introduced on a trial basis. In August 1996, the office was transformed and upgraded into the fully-fledged Border Trade Department of the Ministry of Commerce. In January 1998, the Muse (105 mile) Office was expanded and started to function as a "one-stop services" border gate.

Both regularization and institutionalization of cross-border transactions and road infrastructure development contributed to boosting border trade between the two

[14] In this paper, we regard the commodities that are cleared and recorded at the Kunming Customs as "border trade". Since Yunnan Province is a land-locked province, commodities exported to or imported from Myanmar through Kunming, capital of the province, are most likely transported by land through border gates such as Muse, Lwejel and Laiza.

countries at the beginning of the twenty-first century. The Myanmar government also promoted all border trade not only with China but also with Thailand, India and Bangladesh to compensate for economic sanctions imposed by the West, and trade across the border with China became significantly successful, so much so that cross-border trade with China has become a main artery of Myanmar's economy.

2.3. Thailand

Thailand also occupies an important position in Myanmar's external trade. In 2003, Thailand accounted for 33.0% of Myanmar's total exports and ranked as the single most important destination for exports from Myanmar. On the other hand, Thailand supplied 16.1% of Myanmar's total imports in the same year and ranked second as a source of Myanmar's imports. As was pointed out in the previous section, natural gas exports by way of a pipeline greatly augmented Myanmar's exports to Thailand in the early twenty-first century (see Figure 4). The gas exports to Thailand increased from US $ 114.2 million in 2000 to 1497.4 million in 2005, and accounted for more than 80% of Myanmar's exports to Thailand in 2005.

The Petroleum Authority of Thailand (PTT), the sole purchaser of Myanmar gas at present, has agreed to increase its imports from the Yadana offshore gas field from 525m cu ft per day to 565m cu ft per day, effective from September 2006. High oil prices also caused an increase in Myanmar's gas exports to Thailand to US$ 1871.2 million in the first 11 months of 2006, an increase of 39 % from the same period in the previous year. The new large offshore gas fields, known as blocks A1 and A3, are expected to go into production by around 2009 and 2010, ensuring that Myanmar's gas output and exports continue to rise over the medium term (EIU [2006:29-30]). Myanmar's external sector has become increasingly dependent on gas exports and the revenues from those exports.

By contrast, Myanmar's exports to Thailand other than natural gas did not keep pace with its imports from Thailand. Exports of other primary commodities such as wood, copper and fish and prawns have stagnated. Contrary to this trend, between 2002 and 2005, imports from Thailand increased from US $315.1 million to US $696.7 million. Imported goods from Thailand consist mainly of petroleum, plastic resin, food and beverages, electrical machinery, general machinery, and fertilizer. Myanmar exports its natural resources, and imports a range of necessary goods including consumer goods, intermediate materials, capital goods and so on. Such a trade pattern implies that Myanmar has yet to be integrated into the production and distribution networks that have developed in East and Southeast Asia, a region that includes Thailand. As has been the case with China, trade with Thailand seems to have contributed little to the Myanmar's broad-based economic development.

3. Foreign Direct Investment

3.1. The Introduction of Foreign Capital

Soon after it seized power in September 1988, the military government changed its policy on foreign investment by enacting the Foreign Investment Law (FIL) in November 1988. This law, which permitted 100% ownership by foreign companies, was a considerable novelty for Myanmar. In December 1988, the Foreign Investments Commission (FIC), an administrative body for accepting FDI similar to the Board of Investment (BOI) of Thailand was established, with the Minister for Planning and Finance as its chairman. In April 1992, further organizational reinforcement was achieved and as a result, two vice premiers assumed the offices of chairman and vice-chairman respectively, while the Minister for Planning and Finance took the position of Secretary-General. Moreover, fourteen ministers became members of the commission.

In April 1994, SLORC adopted the Myanmar Citizens Investment Law (MCIL) and then established the Myanmar Investment Commission (MIC) to take over the role of the FIC in supervising domestic investment issues in line with the MCIL. MIC's main function is to vet proposed investment plans by examining their financial soundness, their economic and financial validity, and their technical aptitude. Under further organizational changes that were introduced in 2000 the number of committee members was reduced to four and the Minister for Science and Technology was appointed chairman of the committee. It is thought that real authority in this field has mostly shifted to the Trade Policy Council (TPC), leaving MIC to function merely as a committee for the examination of documents submitted in the first stage of investment proposals.[15]

Myanmar's foreign investment policy is a key component in the restructuring of the whole economy as well as an important element of development policy, and incorporates three main pillars, namely the adoption of a market-oriented system for resource allocation, the encouragement of private investment and the promotion of an entrepreneurial spirit while opening the economy for foreign trade and investment. In this way, encouragement of foreign investment can be seen as a development strategy

[15] As mentioned in the previous section, the TPC was established in July 1997. However, it apparently has exercised a *de facto* authority regarding foreign investment in Myanmar since around 2000.

with private initiatives, and one that is dependent on foreign capital. The basic aims underlying the introduction of foreign capital are export promotion, the development of natural resources which requires a large sum of investment capital, introduction of various types of high technology, the promotion of capital-intensive industries, the expansion of job opportunities, the saving of energy consumption and regional development. Of these aims, it is the introduction of foreign capital that is our main concern, but among the objectives of the policy the most important is probably that of export promotion. As has already been noted, the main exports of present-day Myanmar are primary commodities such as agricultural, timber, marine and mining products including natural gas. Because full-scale exploitation has not yet been achieved, the export volume of these products is currently small except for natural gas.

One of the sectors in which there are high expectations of foreign capital investment is the development of natural resources, a field that requires large amounts of investment. As for natural gas, promising gas fields such as Yadana and Yetagon have been found, and these have made a substantial contribution to export growth. Commercially valuable mines and oil fields have not yet been discovered.

While Myanmar urgently needs to diversify and increase its output of primary products for export, another important issue is the promotion of labor-intensive industries capable of producing goods for the export market. In the light of the experience of Malaysia and Thailand, an export shift from primary products to labor intensive ones, and the promotion of manufacturing industry will be vital prerequisites for the economic development of Myanmar. Manufacturing labor-intensive products suits the resource endowment of Myanmar, and in this regard, the garment industry seems to be a promising sector. As was discussed, however, this industry was severely damaged by the imposition of economic sanctions by the United States in 2003.

3.2. Trends, Source Countries and Receiving Sectors

(1) Trends

As Table 3 shows, the average amount of investment on an approved basis before the Asian Economic Crisis was approximately one billion US dollars with considerable fluctuations from year to year. In 1996 in particular, investment jumped to US $ 2.8 billion. However, investment fell sharply between 1998 and 2004 as a result of the economic turmoil caused by the Asian financial crisis and by the Myanmar government's strengthening of controls on foreign capital.[16] In 2005, the situation

[16] It is noteworthy, however, that the inflow of capital does not decrease significantly in

improved following the approval of a big hydroelectric project to be developed by Thai companies along the Salween River. This boosted the amount of cumulative investment as of March 2006 to US $ 13.8 billion.

(2) Source Countries

In terms of the amount of investment by the countries shown in Table 4[17], the leading investor is Singapore, followed by the UK, Thailand, Malaysia, and the United States. Each of the leading three countries is responsible for investment of over one billion US dollars and the combined amount of investment of the three leading countries accounts for nearly half of the total amount of foreign investment in Myanmar. Western countries such as the United Kingdom, the United States, France, and the Netherlands are among the top ten investors, the others being mainly Asian countries. While these Western countries have criticized the Myanmar government because of its delay in introducing democracy and its abuses of human rights, the amount of foreign investment from them has been larger than investment from Japan. The main Asian sources of investment are the Southeast Asian countries that are located close to Myanmar, including Singapore, Thailand, Malaysia, and Indonesia. These countries were severely affected by the Asian Financial Crisis, which caused them to drastically reduce their foreign investment, a trend that had a negative impact on Myanmar. In Table 4, Japan, Korea and Hong Kong figure among the Asian sources of foreign investment in Myanmar but the amount of investment from each of these countries is relatively small , ranging from 100 to 200 million US dollars.

In terms of the number of companies, Singapore leads with 70 companies. Next to it, Thailand is also a country which invests actively in Myanmar. The investment of Singapore is concentrated in hotel construction and tourism, as well as in real estate and so on, and accounts for about 70% of the whole. Some Singaporean investment has also gone into light industries, logistics, the wholesale trade, education, ports and industrial estates. Thailand has invested mainly in light industries (rice milling, jewelry, food, timber processing, and the processing of agricultural products), hotels and tourism, fisheries, and mining. A striking feature of the overall pattern is that as regards new investments, American and European countries have refrained from investing because of their imposition of economic sanctions, while the ASEAN nations, willing to engage constructively with Myanmar, have increased the level of their investments. Another

the money flow table.

[17] The figures of Table 4, 5 and 6 are as of March 2002.

notable development is that foreign investment in Myanmar decreased sharply because of the serious dislocation by the Asian Financial Crisis of 1997.

(3) Receiving Sectors

As regards investment by sector, oil and gas, manufacturing, hotels and tourism, real estate, and construction are the top five categories (Table 5). Since oil had been produced for many years in Myanmar, it was thought following independence that promising oil fields might exist. Exploration for new oil fields began in 1971, and a large gas field was found in the Gulf of Moattama in 1982. The Ministry of Energy, which was founded in April 1985, invited foreign oil companies to carry out oil and gas exploration in 1989. Suffering as it did from a shortage of foreign currency, the military government had high expectations for the future development of oil and natural gas. The amount of about US $2.36 billion was invested for this sector. This amount, invested by a total of 52 companies, accounts for 30% or more of total investment. The gas field of Yadana has been jointly explored by Total of France, Unocal of the US, PTTEPI of Thailand and MOGE (Myanmar Oil and Gas Enterprise) of Myanmar, while the Yetagon field has been opened up by PPML (Premier Petroleum Myanmar Ltd.), Peptronas Calgary, PTTEPI, Nippon Oil, and MOGE. The amount of capital required for the development of energy and mineral resources is so large that the involvement of foreign capital has probably been inevitable.

Next to oil and gas, some US $1590.9 million (149 cases) has been invested in manufacturing. Under the Foreign Investment Law, the minimum amount of capital investment permissible in the case of manufacturing is US $500,000 and in fact most manufacturing ventures set up by foreign investors have been started with comparatively small amounts of capital. Garments have been Myanmar's leading export since 2000, and this perhaps suggests that the promotion of labor-intensive export-oriented industries should be given a high priority in the economic development of Myanmar. The reason why the ASEAN countries could sustain high economic growth over a long period was a successful transition from primary products as main exports to exports of manufactured goods. In Myanmar, foreign capital could play an important role in just such a transition. Myanmar is still basically an agricultural country producing a substantial quantity of farm-based and forestry-based products. Industries relating to the processing of these products, as well as hotel development and tourism, real estate and construction are all promising fields for future investment.

The present military government decided to promote the tourist industry and hotel development soon after it came to power. Roads in Yangon city were considerably improved and many cities were cleaned up so as to give a good impression to foreign visitors. Moreover, modern multi-floor hotels were constructed one after another, and the number of hotel rooms increased rapidly. The Foreign Exchange Certificate (FEC) system was introduced in 1993 partly with the purpose of avoiding the inconvenience to foreign tourists of exchanging their dollars at the official rate. Moreover, with the aim of attracting tourists from abroad, 1996 was designated as "Visit Myanmar Year Despite these initiatives, the annual average number of tourists has stayed at the level of about 300,000 since the latter half of the 1990s The number of the tourists in the tourism that was officially admitted accounts for about 30-40% of the entire number of tourists. In expectation of a growing demand from foreign business visitors, office accommodation for rent as well as condominiums for leasing mainly to foreigners have been constructed in the city of Yangon in recent years.

3.3. Types of Foreign Business Enterprise Investing in Myanmar

As of 31 March 2002, the total of foreign enterprises investing in Myanmar, based on the Foreign Investment Law, was 362 (Table 6). The numbers of enterprises in the form of sole proprietorships, joint ventures and production sharing ventures were 154, 138 and 70 respectively. The reason why so many of the enterprises are wholly foreign-owned is probably related to the problem of exchanging the dollar into Kyats at the official rate, which is extremely disadvantageous to foreign investors. The majority of cases that involve foreign companies exploring for natural resources such as oil, gas and minerals take a form of production sharing. Most of the Myanmar partners of foreign capital ventures are state economic enterprises (76 examples), followed by 36 examples involving private companies and 19 joint ventures with Myanmar Economic Holdings Ltd. (MEHL). The Ministries that are in charge of state economic enterprises relating to manufacturing and processing are the Ministry of Industry-1 and the Ministry of Industry-2. There are currently 10 joint ventures under the Ministry of Industry-1, which invested nearly Kyat 700 million including US $14.62 million as a foreign portion. There are five joint ventures under the Ministry of Industry-2. They are as follows:

Myanmar Fritz Werner Company Limited
Myanmar Daewoo Company Limited
Myanmar Suzuki Company Limited
Myanmar Ekarat Transformer Company Limited
Myanmar Matsushita Company Limited

The fact that among the Myanmar partners of foreign companies there are almost twice as many state enterprises as there are private companies may perhaps indicate a major characteristic of the Myanmar economy. The fact is that for foreign investors seeking Myanmar partners, it is more advantageous to work with state economic enterprises rather than with private companies. As a striking example, MEHCL is an institution established by incumbent and retired military officers and is frequently chosen as a tie-up partner, probably because as an influential state enterprise, it receives considerably more preferential treatment than private companies.

Concluding Remarks

This chapter has traced the external economic relationships of Myanmar and the policy changes associated with them, from the early 1990s to the mid 2000s. While the trade volume both in terms of exports and imports substantially increased after the open-door policy was implemented, its share of GDP remained very low throughout the period. As for the structure of exports, although some cash crops increased significantly in relative importance as export commodities, the expansion of manufactured exports was limited. On the other hand, imports rapidly increased thanks mainly to the rising need for consumer, intermediate and capital goods, and this rise in imports caused a serious trade deficit by the mid-1990s. The government dealt with this new development by imposing strict import controls in the late 1990s.

The circumstances of the export sector nevertheless underwent a dramatic improvement. The garment industries developed rapidly and by the late 1990s and early 2000s, garments had become Myanmar's main export item. Natural gas exploitation and rising gas exports followed after 2002. The current account returned to positive and the necessity for import restrictions became weaker. Myanmar's trade partners also changed. China emerged as the largest trade partner both in exports and imports, mainly through a flourishing cross-border trade. The economic relationship with China is deepening in many sectors, including manufacturing. Thailand also emerged as a major trading partner. This latter development was primarily the result of natural gas exports to Thailand, and also reflected an increase in imports of various necessary goods including petroleum.

Foreign direct investment underwent several changes after the early 1990s. Soon after the open-door policy was adopted, foreign capital rapidly flowed into Myanmar. The major investors came from Western countries such as Britain and the United States, and from Asian neighbors including Singapore. The foreign capital entering Myanmar was directed mainly to domestic sectors such as hotel construction and tourism, and energy development. While the inflow certainly declined during and after the Asian

Financial Crisis, official statistics are unclear as to whether the decrease was drastic or slight.

Overall, Myanmar's external economic relationships deepened substantially during the period in question. The contribution of trade to GDP, however, remains very low according to the official statistics, and so far, at any rate, we cannot say that Myanmar's economic structure has changed into one that is deeply linked to external trade. The contribution of exports to growth has been intermittent whether through the garment industry or through natural gas development. Likewise, foreign direct investment has mostly contributed to the growth of the domestic and energy sectors rather than to export-oriented manufacturing.

In terms of both trade and foreign investment, Myanmar's external sector seems to go and back and forth between the open market and the controlled economy but has not yet shown signs of fulfilling its potential contribution to economic growth.

APPENDIX: COMMENTS ON THE MYANMAR TRADE STATISTICS

In the preparation of this paper we have used three different sources of trade data: (1) the United Nations Commodity Trade Statistics (UN Comtrade), (2) customs statistics of twenty-six countries and (3) Myanmar government statistics. The characteristics of the three data sets are as follows.

(1) Statistics Canada has constructed the World Trade Database based on the UN Comtrade, and the database retrieval services have been used for this paper. At the time of writing this paper, the data were available for the period between 1985 and 2003.

(2) Twenty-six countries are selected as Myanmar's major trading partners based on the UN Comtrade data. The twenty-six countries include China, EU (15 member states), Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Singapore, Thailand and the United States. In addition to these, Canada is included on the export side and Australia on the import side. The twenty-six countries accounted for 95 % of total exports and 99 % of total imports of Myanmar for the period between 1985 and 2003 according to the UN Comtrade data. The World Trade Atlas (hereafter WTA) database retrieval services are used to determine the twenty-six countries' trade volume with Myanmar. WTA is based on the customs data of each country. At the time of writing, the data were available for the period between 1999 and 2005.

(3) For Myanmar government statistics, the Statistical Yearbook (hereafter SY) and Selected Monthly Economic Indicators (hereafter SMEI) have been used. The trade figures contained in these publications are denominated in Kyats, Myanmar's domestic currency. Official exchange rates have been used for conversion. It should be noted that there are big differences between the official exchange rates and the parallel market rates. At the time of writing, the data were available for the period between FY 1985 and FY 2005.

The figures derived from the three data sources are shown in the following table. There are considerable differences between the UN Comtrade / twenty-six countries' data on the one hand and the Myanmar government statistics on the other, while the UN Comtrade and the data for twenty-six countries are almost consistent. There are many factors responsible for the discrepancies including whether FOB and CIF trade terms have been used, differences in recording locations for exports and imports, differences in recording periods (whether calendar years or fiscal years), and methods of rectifying errors and omissions. Among these problems, the most important difficulty is probably the differences in the recording locations that have been used, that is, whether trade transactions have been collected at ports or border posts in Myanmar or at locations in the territories of Myanmar's trading partners. The UN Comtrade and the twenty-six countries' customs data are recorded on the territories of the trading partners, while the Myanmar government statistics are of course recorded in Myanmar.

The trade volumes of both exports and imports recorded in Myanmar government statistics are usually lower than those in the other two data series. One reason often given for this is that local traders attempt to evade taxes, either the export tax or import duties, by under-invoicing and under-reporting. However, strangely enough, the gaps in exports among them diminished from around 1997 and 1998, even though the introduction of an export tax of 10% in January 1999 must have meant that traders were more strongly motivated to resort to under-reporting than before. By contrast, the gaps in imports widened from 2003 onwards. It is difficult to find a single explanation of the gaps. The problem may have deep roots in the way the statistics are collected and in the different reporting systems employed by Myanmar and its trading partners.

Comparison of Trade Statistics for Myanmar (US $ Million)

	UN Comtrade		Data from 26 Countries		Myanmar Government		Differences	
	Export (A)	Import (B)	Export (C)	Import (D)	Export (E)	Import (F)	Export: (A)or(C)/(E)	Import: (B)or(D)/(F)
1985	399.1	523.7			316.4	572.5	1.3	0.9
1986	352.1	523.6			333.3	542.5	1.1	1.0
1987	316.8	454.3			251.5	617.7	1.3	0.7
1988	417.8	583.2			342.5	543.7	1.2	1.1
1989	399.1	574.9			426.9	511.3	0.9	1.1
1990	497.5	913.2			472.0	880.1	1.1	1.0
1991	467.4	871.6			470.3	857.8	1.0	1.0
1992	805.0	997.0			594.1	887.9	1.4	1.1
1993	932.8	1355.3			693.8	1300.2	1.3	1.0
1994	977.5	1623.0			909.3	1401.7	1.1	1.2
1995	1320.7	2483.9			899.0	1836.1	1.5	1.4
1996	1239.9	2775.3			936.3	2009.7	1.3	1.4
1997	1131.1	3010.6			1042.5	2323.2	1.1	1.3
1998	1116.3	2469.9			1076.8	2689.2	1.0	0.9
1999	1406.3	2285.9	1214.1	2139.5	1437.7	2613.5	1.0	0.9
2000	1959.1	2677.1	1829.9	2479.0	1982.0	2345.7	1.0	1.1
2001	2827.3	2410.3	2635.1	2179.8	2562.9	2749.5	1.1	0.9
2002	2659.2	2242.0	2617.7	2352.9	3035.7	2268.2	0.9	1.0
2003	2724.3	2904.3	2569.8	2684.4	2323.6	2204.8	1.2	1.3
2004			2951.6	2954.1	2905.9	1973.3	1.0	1.5
2005			3489.9	3054.1	3583.9	1998.6	1.0	1.5

(Note) Figures from Myanmar Government Statistics are fiscal-year-based.
(Source) UN Comtrade; Customs Data of 26 Countries; CSO, *SY* and *SMEI*.

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Tables and Figures

Table 1 Myanmar's Trade with Neighboring Countries: Exports and Imports 1985-2003

Export

	1985	1990	1995	2000	2003
China	0.0%	20.9%	11.3%	6.4%	6.2%
Thailand	9.5%	26.5%	16.9%	13.3%	33.0%
India	7.9%	0.0%	12.3%	9.4%	14.9%
Bangladesh	3.0%	0.3%	2.0%	0.0%	2.4%
Four Neighbors	20.4%	47.7%	42.5%	29.1%	56.5%
USA	3.6%	4.8%	6.6%	25.9%	10.9%
Japan	8.8%	8.3%	7.1%	6.1%	5.1%
Germany	2.8%	2.1%	2.0%	4.4%	3.8%
Total (US $ Million)	399	498	1,319	1,958	2,721

Import

	1985	1990	1995	2000	2003
China	0.0%	20.8%	25.0%	19.5%	33.3%
Thailand	2.2%	4.7%	14.2%	19.8%	16.1%
India	0.1%	0.0%	1.2%	2.1%	3.2%
Bangladesh	0.3%	0.1%	0.2%	0.0%	0.1%
Four Neighbors	2.7%	25.6%	40.6%	41.3%	52.7%
Singapore	11.5%	25.0%	25.8%	17.1%	23.8%
Korea	3.1%	4.3%	3.5%	11.4%	6.7%
Malaysia	2.5%	5.8%	9.3%	9.1%	5.1%
Total (US $ Million)	524	913	2484	2677	2904

(Source) UN Comtrade.

Table 2: China's Border Trade with Myanmar, 1999-2005 (US $ Million)

	1999	2000	2001	2002	2003	2004	2005
China's Export via Border	263.3	293.5	261.2	358.3	446.3	500.6	540.6
(Share of Border Trade)	64.8%	59.1%	52.5%	49.4%	49.1%	53.3%	57.8%
China's Import via Border	55.1	66.9	93.7	105.4	134.5	164.5	223.5
(Share of Border Trade)	54.3%	53.6%	69.8%	77.0%	79.3%	79.5%	81.5%

(Note) Border Trade is defined as goods that are cleared and recorded at the Kunming Customs.

(Source) China Customs.

Table 3 Approved FDI Inflows into Myanmar

As of March 31,2006

Fiscal Year (April-March)	Enterprises/ Projects	Yearly Amount (US$ Million)	Cumulative Amount (US$ Million)
1989	18	449.5	449.5
1990	22	280.6	730.1
1991	4	5.9	736.0
1992	23	103.8	839.7
1993	27	377.2	1216.9
1994	36	1352.3	2569.2
1995	39	668.2	3237.4
1996	78	2814.3	6051.6
1997	56	1012.9	7064.6
1998	10	54.4	7119.0
1999	14	58.2	7177.1
2000	28	217.7	7394.8
2001	7	19.0	7413.8
2002	9	87.0	7500.8
2003	8	91.2	7591.9
2004	15	158.3	7750.2
2005	5	6065.7	13815.9
TOTAL	399	13815.9	

(Note) The figures include agreements already terminated.

(Source) Myanmar Investment Commission. Some figures from Myanmar journals and newspapers are also cited.

Table 4 Approved FDI to Myanmar by Country (as of March 2002)

(US$ Million)

	Amount (US$ Million)	Share (%)	No. of Enterprises
Singapore	15.7	20.1	71
UK	14.0	18.9	37
Thailand	12.9	17.5	49
Malaysia	6.0	8.1	28
USA	5.8	7.8	16
France	4.7	6.3	3
Indonesia	2.4	3.2	12
The Netherlands	2.4	3.2	5
Japan	2.1	3.1	23
Korea	1.6	2.0	32

(Source) CSO, *Statistical Yearbook 2002*. p.252.

Table 5 Approved FDI to Myanmar by Sector (As of March 2002)

Sector	Total Investment	Local	Foreign		No. of Enterprise
			Kyat Million	US$ Million	
Agriculture	2.3	0.3	2.1	34.4	4
Fishery	21.7	3.9	17.8	283.4	20
Mining	34.3	1.9	32.3	523.4	51
Oil and Gas	144.2	–	144.2	2359.2	52
Manufactureing	111.3	15.3	96.0	1590.9	149
Transport	16.4	–	16.4	283.3	14
Hotel & Tourism	73.0	8.3	64.6	1059.7	43
Real Estate Development	61.8	0.4	61.4	1025.1	18
Industrial Estate	19.3	7.7	11.6	193.1	3
Construction	36.6	34.3	2.3	37.8	2
Others	1.8	0.4	1.4	23.7	6
Total	522.7	72.5	450.0	7413.8	362

(Source) CSO, *Statistical Yearbook 2002*. p.249.

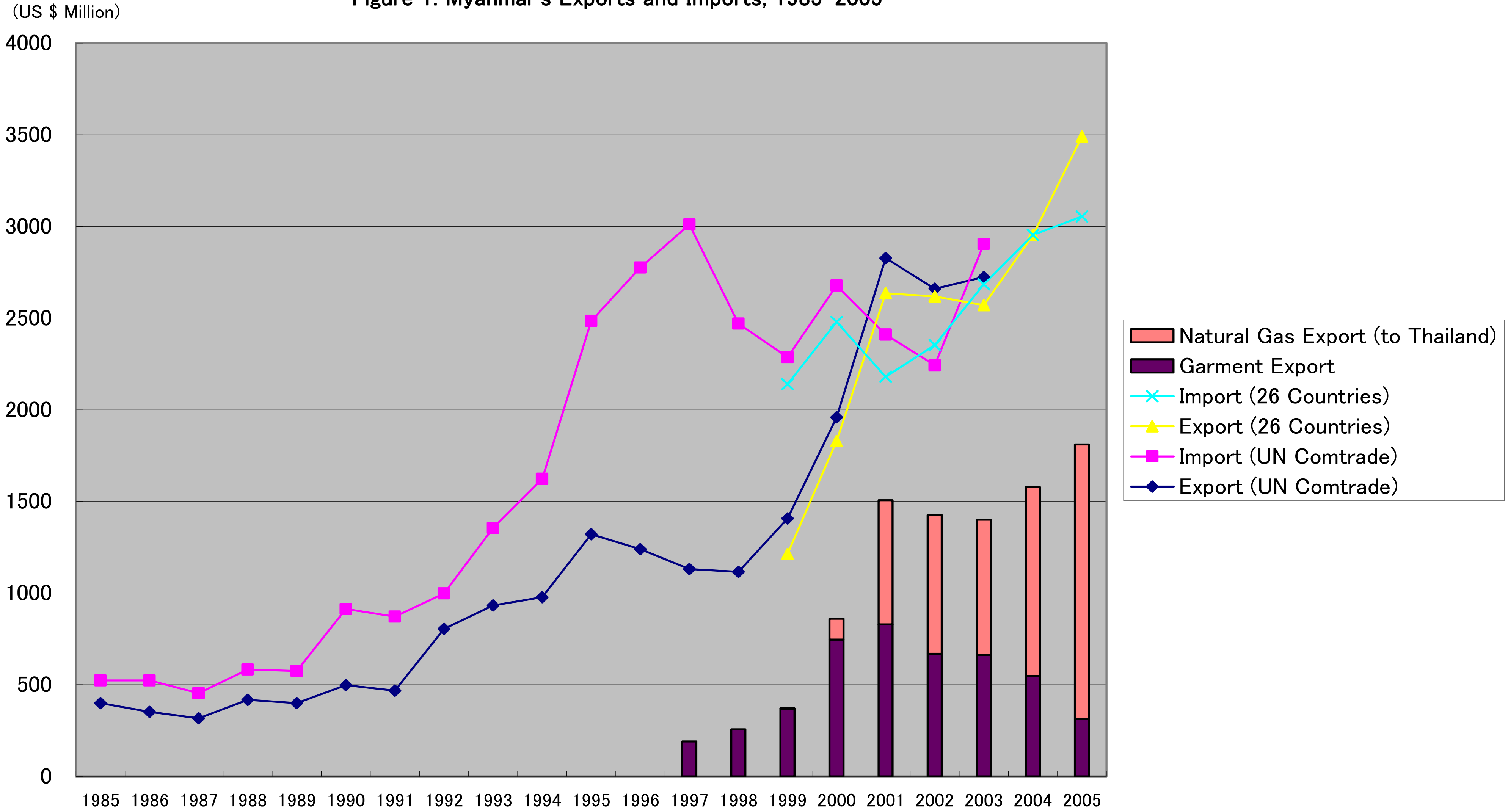
Table 6 Form of Organization of FDI
(as of March, 2002)

(Kyat in Million)

	No. of Enterorises	Investment	
		Local	Foreign
1 Wholly Foreign-owned	154.0		157.4
2 Joint Venture	138.0	72.5	169.8
(a) State Economic Enterprises	76.0	30.9	120.3
(b) Myanmar Economic Holdings Ltd.	19.0	3.4	20.6
(c) YCDD	1.0	0.1	0.1
(d) Private Enterprises	36.0	37.1	27.5
(e) Co-operatives	4.0	0.4	0.4
(f) JV Corporation	1.0	0.0	0.0
(g) Myanmar Economic Corporation	1.0	0.6	0.9
3 Production Sharing	70.0	0.0	122.9
Total	362.0	72.5	450.0

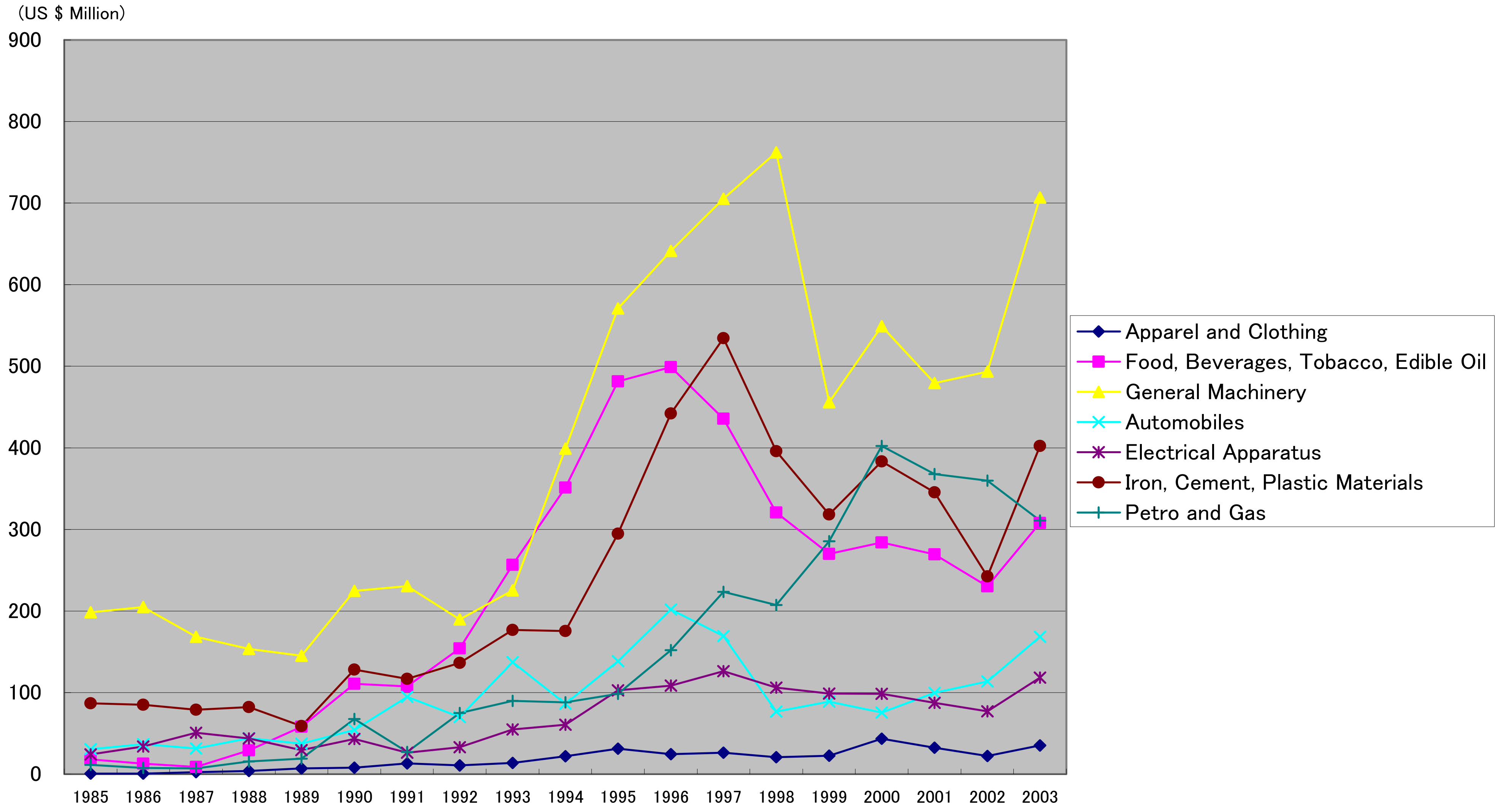
(Note) YCDC stands for Yangon City Development Committee.
(Source) CSO, *Statistical Yearbook 2002*. p.257.

Figure 1: Myanmar's Exports and Imports, 1985-2005



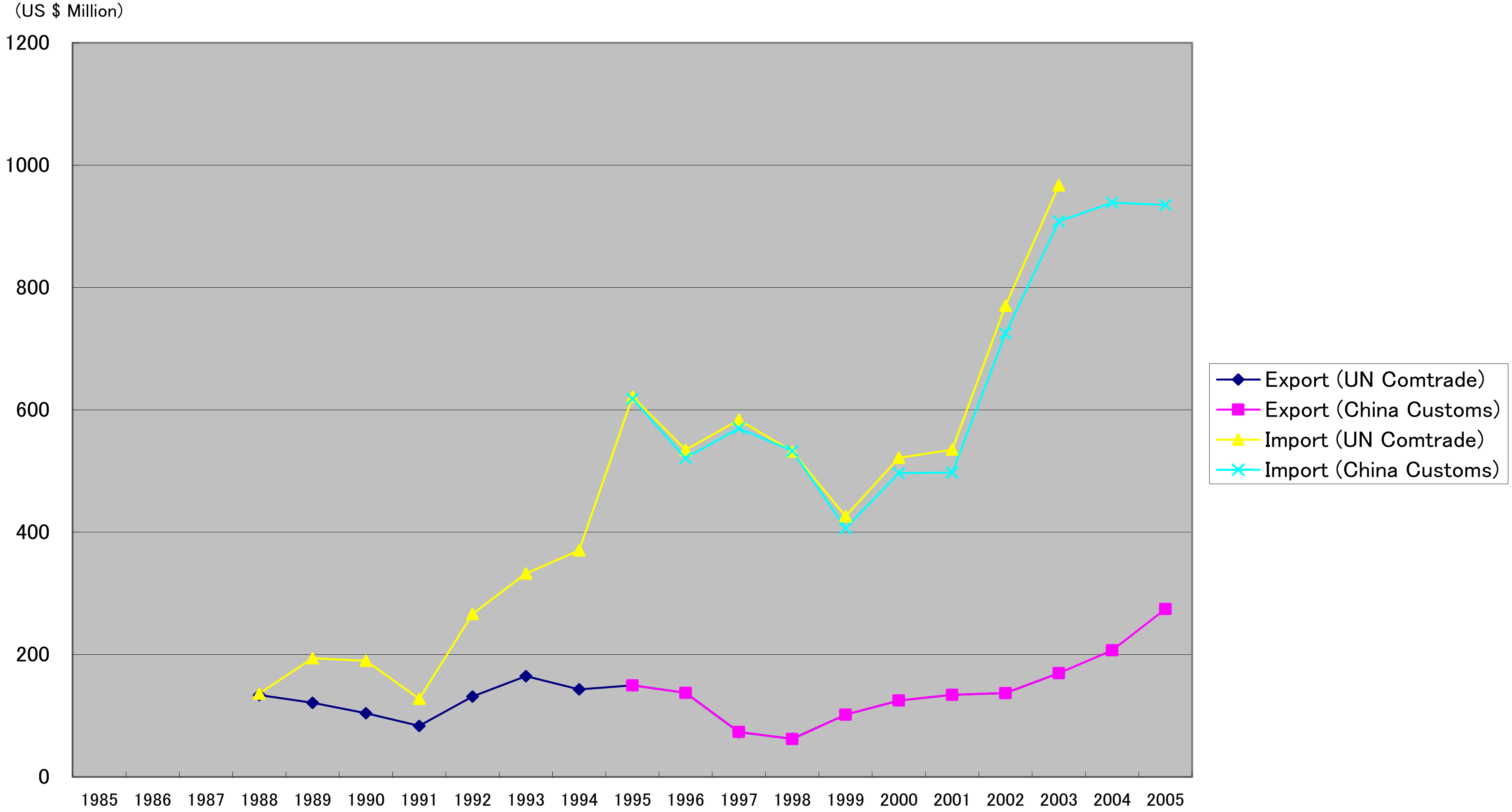
(Source) UN Comtrade; Customs Data of 26 Countries.

Figure 2: Imports of Major Commodities, 1985-2003



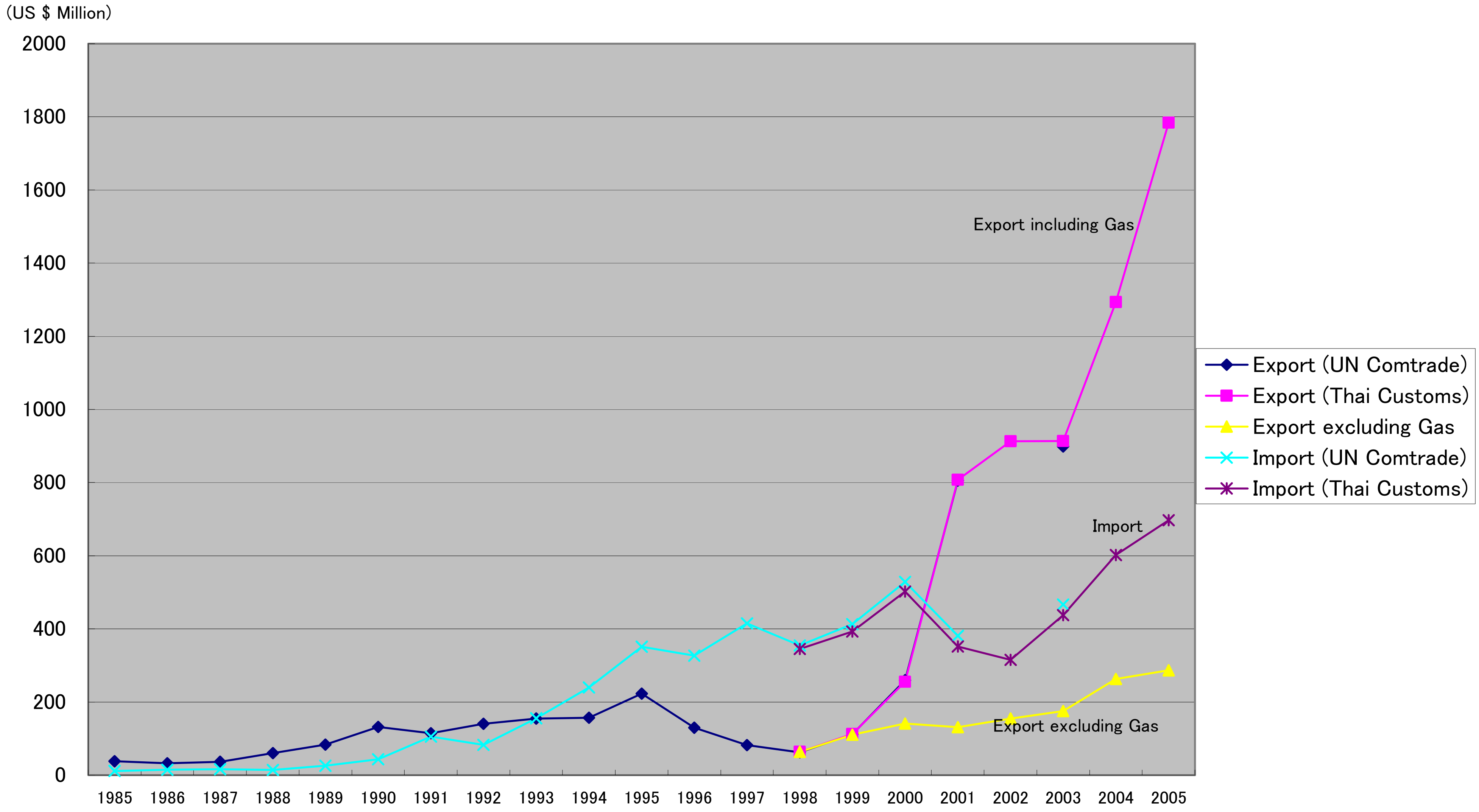
(Source) UN Comtrade.

Figure 3: Myanmar's Trade with China, 1985-2005



(Source) UN Comtrade; China Customs.

Figure 4: Myanmar's Trade with Thailand, 1985-2005



(Source) UN Comtrade; Thai Customs.