Chapter 2

Industrial Vision and Development Strategy

2. Industrial Vision and Development Strategy

2.1 Industrial Vision and Development Strategy for Myanmar

2.1.1 Industrial Vision

We will describe an industrial vision of Myanmar for 2020 based on an analysis of factor conditions, current industrial structure, policy factors, and external economies that will be discussed in section 2.1.2. Since, we think, Myanmar's industrial vision for 2020 will depend significantly on policy and external factors, we will consider three scenarios with differing assumptions about these factors.

Scenarios for Myanmar's Industrial Development

We offer the following three scenarios, which involve differences in the timing of the change in policy framework and of the lifting of economic sanctions.

Scenario 1 assumes:

Policy reform for a market economy and outward-looking policies are adopted shortly

Economic sanctions are lifted within three years

Scenario 2 assumes:

Policy reform for a market economy and outward-looking policies accelerates

Economic sanctions are lifted in 5 to 10 years

Scenario 3 assumes:

Current policy framework continues

Economic sanctions remain in place

Under Scenario 1, Myanmar will gain early and full access to markets in advanced countries and will enjoy a significant inflow of FDI and ODA from advanced countries. Industrial development will accelerate and Myanmar will come within close range of closing the gap with the average ASEAN countries - Thailand, the Philippines and Indonesia.

Under Scenario 2, catching up with the ASEAN average will be delayed. Since Myanmar will not enjoy the benefit of economic integration with advanced countries and external economic integration will be limited to neighboring countries, industrial development will be delayed substantially. The gap in industrial development with the average ASEAN countries will have not shrunk noticeably by 2020.

Scenario 3 would continue the vicious cycle of Myanmar's industrial development, as we explain later, and would result in prolonged stagnancy and possibly an economic crisis. Myanmar has the option to avoid this scenario and therefore we will not pursue it.

Scenarios 1 and 2 are each likely. While the specific industrial vision for 2020, or the achievable goals, will vary significantly under each scenario, the direction of the industrial development strategies will be similar for both scenarios. We will deal with Scenario 1 as the main scenario and complement it by touching on the distinct aspects of the vision and development strategy for Scenario 2.

Industrial Vision

Based on the assumptions of Scenario 1, we offer an industrial vision of Myanmar for the year 2020, as summarized below.

Figure 2-1: Industrial Vision for Myanmar 2020 (Scenario 1)

Emerging as a Newly Industrialized Economy

- Myanmar will have mostly caught up with the ASEAN3—Thailand, the Philippines, and Indonesia—in terms of per capita income as a result of significant industrialization
  - Industry/GDP: over 35% (currently about 10%)
  - Per capita GDP: US$1,500～2,000 (currently US$200～400)
- Myanmar will have high export dependency with diversified manufactured products and markets
  - Manufactured exports/total exports: over 60%
  - Export/GDP: over 40%
- Myanmar will have developed a diversified industrial structure
  - Export industries with international competitiveness
  - Efficient domestically oriented industries
- Myanmar will have developed high levels of competitive advantage as an industrial location
  - Human resources, infrastructure, industrial clusters, and capital resources all near the levels of NIEs
- Myanmar will have preserved the environment and its social integration

Source: JICA Study Team

Under Scenario 2 with delayed lifting of economic sanctions and prompt policy reforms, industrial development will accelerate moderately and it will pick up even more after the sanctions are lifted, but Myanmar's level of industrial development in 2020 will remain below the current average level of the ASEAN-3. The main difference from Scenario 1 is caused by the lack of economic integration with advanced countries and dependence on economic integration with neighboring countries.

2.1.2 Elements for Creating an Industrial Vision

In developing an industrial vision and development strategy, we took into account four categories of factors: social and economic goals, the condition of factors of production, policy factors and developments in the external environment. We describe each category as follows:

Social and Economic Goals

We assume that Myanmar's social and economic goals are: an increase in income and reduction in poverty based on sustained economic growth, the modernization of the economy and society, and economic development with the maintenance of racial harmony.

Condition of Production Factors

The condition of the factors of production, such as human and knowledge resources, natural, agricultural, and tourism resources, economic geography, infrastructure, and capital resources determines Myanmar's potential for industrial development. These factors form the basis of a nation's comparative advantages and their condition tends to be stratified. As the economy develops and as policy efforts are put into them the condition of these factors improves from a lower level to a higher level. The comparative advantages of developing economies generally lie in lower-level production factors such as unskilled labor and natural and agricultural resources. As the economy advances to higher stages of development, its comparative advantages shift to higher levels of production factors such as skilled and knowledge workers, infrastructure, and capital resources.

Myanmar is well endowed with natural and agricultural resources and an advantageous economic geography, which are factors that are relatively independent of development stage. On the other hand, the condition of such factors as human resources, infrastructure, and capital resources is at the lower level of competitive advantage, reflecting Myanmar's less advanced stage of economic development. Thus, the Myanmar industry is currently based on production factors with lower levels of competitive advantage such as unskilled workers and natural and agricultural resources. A short-term agenda item for development should be how to complement these domestic factors with the knowledge and capital resources of foreign economies by mobilizing FDI. A long-term item should be how to raise the level of Myanmar's competitive advantage in those production factors.

Each category of production factors in Myanmar will be examined as follows.

Human and knowledge resources

Myanmar's population was 48.1 million in 1999. Growing at the rate of 1.8 percent per annum it is expected to reach about 70 million in 2020. This is comparable to the population of many large advanced economies and assures ample labor supply for the industrial sector and for development of the agriculture sector as well as a considerably large domestic market as the economy grows. While the literacy rate and primary education enrollment rate in Myanmar are comparable to those in neighboring economies that have achieved higher levels of industrial development, wages are lower. Myanmar's labor resources are currently cost competitive and should be able to support the development of labor-intensive industries.

But Myanmar is not as heavily populated as neighboring economies such as China, Indonesia, the Philippines and Thailand, and it has less surplus labor in the agricultural sector. This suggests that scope for development of labor-intensive industries is more limited and therefore Myanmar should follow a development pattern more oriented toward agriculture. The limited surplus of labor in the rural areas reflects low agricultural productivity. If agricultural productivity improves in the long term through increased use of machinery, considerable labor supply from the rural areas to the industrial sector can be expected.

On the other hand, Myanmar currently has only a limited supply of skilled and knowledge workers and their quality needs improvement. The scarcity of skilled and knowledge workers will constrain not only the development of domestic industries but also transfer of management and technology by foreign enterprises in Myanmar. It will also constrain FDI in the high-tech sector.

Major factors that impede the development of human resources in Myanmar are a lack of vision for the future and a shortage of investment in education through fiscal spending. Another important factor is the limited access to economic and industrial information. In particular, the low level of trade and FDI under the inward-looking economic policy has limited access to foreign knowledge and constrained the improvement of human and knowledge resources.

Natural, agriculture, fishery and forestry, and tourism resources

Reflecting its land/population ratio as well as climatic conditions, Myanmar is well endowed with natural, agriculture, fishery and forestry resources, and it also has significant tourism resources. This implies that Myanmar has greater opportunity than neighboring states to utilize such resources for industrial development. Particularly, as it will take years for Myanmar to attain higher levels of comparative advantage such as well-developed human and knowledge resources, infrastructure, and industrial clusters, the development of resource-based industries will be strategically important in the short- and medium-term.

However, resource industries, which should be the basis for resource-intensive industries, have not developed sufficiently and they generally have low productivity. Especially, to prepare the way for developing mining resource industries, we propose that the country will invite experts from Japan to produce a detailed geological profile of Myanmar by transferring high-level technologies. There is potential for the development of agriculture-based industries using Myanmar's abundant agricultural resources. However, in order to realize this potential, the various existing regulations on land use and sown acreage should be removed to give free reign to the creativity of cultivators, and rural electrification should be pushed forward. In addition to these requirements, a major improvement in agriculture productivity through radical commercialization of the agriculture sector will be necessary.

Industrial infrastructure

Myanmar's industrial infrastructure is extremely underdeveloped, with its per capita infrastructure facilities about one twentieth of the average for Asian countries on a per capita basis. While physical infrastructure related to tourism, such as airports and hotels, is relatively ample, infrastructure more directly related to industrial activity, such as electric power, industrial estates, roads, railroads and ports, is lacking and this constrains industrial development. Myanmar cannot compete with other Asian countries in such areas as the stable supply of electricity, the quality of industrial estates, and the cost of international telecommunications.

In particular, Myanmar has an extreme shortage of electricity because of the underdevelopment of power generation infrastructure. The shortage is especially hard on private enterprises, which have less access than SOEs to the public supply of electricity and have to resort to expensive in-house generators. One reason for the shortage of electricity is the secular decline since the middle of the 1990s in the onshore production of natural gas, while the capacity of natural gas based gas turbine and combined cycle power generation accounts for almost 60% of the total capacity of Myanmar's power generation.

Myanmar has a fair number of industrial estates—18 industrial zones were developed under the direction of Myanmar Industrial Development Committee (MIDC)—but their quality needs to be improved. The transportation system also leaves much to be desired. Many roads are not paved. The underdeveloped transportation system has caused difficulties in exporting products from the interior and in cultivating domestic markets. Myanmar is not taking full advantage of its strategic geographic location that it neighbors India, China and Thailand. This is because

Myanmar's borders to the West, North and East are mountainous and prolonged civil wars have made it difficult to develop transportation networks.

The effect of the economic sanctions on the flow of ODA to Myanmar limited the financial resources to support infrastructure development. This means that a major agenda item for developing infrastructure in Myanmar is effective utilization of private sector finance while an increase in ODA will be particularly beneficial. Currently, the legal system for private sector finance such as BOT and BOO is not well developed. Two more fundamental factors that contributed to Myanmar's lack of physical infrastructure are the price controls, which keep electricity charges below market prices, and the weak fiscal balance.

Capital resources

Myanmar's capital resources are limited because per capita income is low and the domestic financial sector is underdeveloped. This has particularly handicapped private enterprises. In addition, the flow of foreign capital, which should complement domestic capital resources, is limited because the economic sanctions limited the inflow of FDI and ODA. As long as the sanctions continue as a constraint, an agenda item for industrial development in Myanmar is how to utilize overseas workers and FDI as sources of capital. Since the existence of multiple exchange rates and foreign trade and foreign exchange controls are causing flight of domestic capital to other countries, it is essential to unify exchange rates to the market rate and ease regulations on foreign trade, etc.

Economic geography

Four features of the economic geography of Myanmar are noteworthy. First, long borders with China to the north, Thailand and Laos to the east, and India and Bangladesh to the west give Myanmar some characteristics of an inland economy. This implies that economic integration with these economies through such mechanisms as border trade is important. However, as the border areas are mountainous, Myanmar needs substantial investment in transportation infrastructure to take full advantage of this strategic location. Second, at the same time, the Bay of Bengal and Andaman Sea to the south give Myanmar the character of a maritime economy. Currently, the Yangon area is the main beneficiary of this geographic character. Third, development of inland shipping infrastructure on the Ayerwaddy River, which runs from north to south through the middle of the country, will integrate the maritime and inland economies. Such development will offer the western part of China access to the ocean, for instance. Fourth, ethnic minorities, which have strong desire for autonomy, live mainly in border areas and pose a challenge for integrating Myanmar's economy.

These characteristics of economic geography present Myanmar with the opportunities and challenges for regional economic integration with ASEAN countries, regional economic integration beyond ASEAN with such economies such as China and India, and integration between Myanmar's maritime and interior economies including areas populated by ethnic minorities through the development of inland transportation infrastructure.

Existing industrial structure

Myanmar's current industrial structure is characterized by (a) a much lower level of industrial development than in other Asian countries, (b) insufficient spatial concentration of industries, (c) weak functioning of the market economy mechanism with the dominant position of SOEs and price and other controls, and (d) a relative lack of international economic integration with low dependence on trade and inward FDI.

At only around 10% of GNP, the industrial sector's share in Myanmar is well below that in neighboring Thailand (40%), Malaysia (48%), or Indonesia (43%). Not only is the level of industrialization low in Myanmar, but also industry is concentrated in only a few sectors, with food processing accounting for 82.1% of manufacturing production in 1997. The food processing industry mainly consists of small-scale firms with limited added value. The low level of industrialization is partly due to the small size of the domestic market, which has limited the development of import substitution industries. However, as we explain later, we think it has more to do with policy factors such as the lack of market- and outward-orientation, which resulted in the low utilization of FDI.

Manufacturing industries are located primarily in the Yangon and Mandalay regions, but there is a wide distribution of industries throughout the country, reflecting the policy to distribute industries under the socialist regime. As a result, Myanmar is not fully enjoying the effect of industrial clusters. This pattern limits the benefits from agglomeration economies and is explained by the facts that underdeveloped transportation infrastructure keeps domestic markets segmented and the location of SOEs is not based on economic reasoning. This implies that future industrial concentration will take place mainly in the Yangon and Mandalay areas, particularly the former because of its access to ocean traffic if economic logic is allowed to function.

Another characteristic of Myanmar's industrial structure is the extent of state involvement in industrial activity through the operation of SOEs and exercise of regulatory authority. As a result, the private sector is underdeveloped. According to the experience of other transition economies such as China, planned economies are not as efficient as market economies. State owned enterprises are not as efficient as private enterprises because they lack budgetary discipline and good governance. Thus, the high degree of state influence on industrial activities and the dominance of SOEs in Myanmar must have constrained industrial development.

Furthermore, Myanmar's industry is not sufficiently integrated with external economies in comparison with the industries of neighboring countries. In 2000 Myanmar's exports totaled only

US$1.3 billion according to official statistics, compared to Vietnam's US$14.3 billion and Thailand's USS68.9 billion. While CMP exports of garments have increased in recent years, Myanmar's exports are small. The reason is because exports are mostly limited to agriculture and forestry and fishery products and manufacturing exports are small unlike in neighboring countries.

The major reason for Myanmar's low level of manufactured exports is the small inflow of FDI. Inward FDI has been substantially below the amounts attracted by neighboring countries. Although inward FDI had sharply increased after the promulgation of the Foreign Capital Law of 1988, it decreased as a result of the imposition of economic sanctions and the occurrence of the Asian Financial Crisis of 1997-1998. The accumulated FDI from 1989 to 2000 was only US$ 7.1.

The small inflow of FDI, which has established export industries in other Asian economies, is the major reason for Myanmar's low level of exports. Moreover, the limited integration of external economies has undermined Myanmar's industrialization by constraining the access of its enterprises to international best practices. Furthermore, the slow development of Myanmar's export industries due to the lack of FDI has resulted in a balance of payments problem. The lack of FDI in labor-intensive industries has limited employment opportunities. CMP exports, which are similar to FDIs in the sense the industries rely on foreign firms' capabilities in marketing and technology, are said to have generated employment for 150,000 people in Myanmar.

The major factor in Myanmar's lack of international integration has been its inward-looking economic policies as well as the economic sanctions. The latter have limited the access of Myanmar's industries to the markets of advanced countries and to FDI from large firms in advanced countries. As a result, about 50% of Myanmar's total inward FDI comes from close-by ASEAN economies.

In order to offset its lack of trade and other exchanges with advanced economies, Myanmar has promoted cross-border trade with neighboring countries such as China, Thailand, and India. Cross-border trade now accounts for about one-third of total trade. China accounts for 60-70% of border trade exports and 80-90% of border trade imports. Moreover, it is said that there is considerable smuggling across the border. As a result, there is a dual structure of trade, consisting of ordinary foreign trade with relatively high non-tariff barriers and border trade with relatively low barriers. Inflows of cheap imports through border trade, in which barriers are relatively low, and the low effective tariff rates (resulting from customs evaluation using a foreign exchange rate which is much lower than the market rate) are inhibiting the development of import substitution industries by domestic entrepreneurs. Cross-border trade increased rapidly after its formalization in 1988 until about 1994, but it has stopped growing since then. The slowdown seems to be due to Myanmar's lack of export capacity and the deterioration of its balance of payments situation, which has forced the government to tighten import controls.

2.1.3 External Environment and Policy Factors Constrain Myanmar's Industrialization

A vicious cycle created by developments in the external environment, i.e., economic sanctions, and domestic policy factors cause Myanmar's industrialization to stagnate.

Developments in the External Environment

General economic conditions, both within Myanmar and in the world at large, comprise the external environment for Myanmar's industry. We discuss how the macroeconomy and the international environment will affect Myanmar's industrialization.

Macro-economic conditions

The macro-economic conditions that loom largest for Myanmar are the foreign exchange and budgetary constraints. Black market exchange rates have been declining for many years as a result of balance of payment problems. In the second half of 2002, black market exchange rates fell below 1,000 kyats/US$, widening the gap with the official exchange rate of around 6 kyats/US$. The share of government revenues in GDP has been declining secularly and reached the present low level and SOEs have become a budgetary burden. The direct financing burden imposed by SOEs on the budget, which can be regarded as the cost of not privatizing them, has been estimated for 1997/98 at 40 billion kyats constituting some 60 percent of the budgetary deficit. Because of the budget and foreign exchange constraints, the government has not spent adequately on building infrastructure and it has adopted ad hoc policies to limit the import of industrial supplies, both of which had adverse effects on industrial development. This situation suggests that Myanmar's development strategy will have to focus on saving and generating foreign exchange, the reform and privatization of SOEs, and infrastructure development financed by the private and foreign sectors.

International environment

The international environment is changing. First, there are both global and regional trends toward economic liberalization. There is a worldwide trend toward liberalization in trade and investment. Since it is commonly recognized around the world that liberalization has rendered many economic benefits to advanced as well as developing economies, there is a wide support for liberalization. Global liberalization has been emanating from the WTO system under the leadership of the United States. Currently, Myanmar is not benefiting from globalization sufficiently because of the economic sanctions imposed by the United States and European countries. The sanctions have obstructed Myanmar's integration with the global economy. New investments in Myanmar, particularly of large firms, from advanced economies have stagnated and the access of Myanmar products to the markets of advanced economies is restricted. In addition, there is an accelerating trend toward regional economic integration, both among ASEAN members through AFTA and between ASEAN and China through an agreement to create a FTA in ten years from 2002. Japan and the United States have also intensified their efforts to establish FTAs with ASEAN and countries in the area.

A second change in the international environment is the emergence of China as a major regional economic power as a result of its rapid economic growth. The entry of China to the WTO at the end of 2001 will increase its position further by increasing imports to China and improving the efficiency of Chinese industry. A third change is the worldwide technological innovation in such areas as IT, biotechnology, and nano-technology. In particular, the IT revolution facilitates the development of international production networks and leads economies, especially more advance ones including NIEs in Asia, to become more knowledge-based.

Each of these trends in the international environment will affect the conditions for Myanamr's industrial development. First, global and regional economic integration will lower import barriers and facilitate the development of an international division of labor which will increase the pressure in ASEAN economies including Myanmar to base their domestic industrial structures more on comparative advantage. This will threaten the viability of import substitution industries, which have been protected by high import barriers. Since SOEs in the industrial sector in Myanmar are mainly in import substitution industries, their consolidation will become a major agenda item in the long run. The impact of trade liberalization resulting from AFTA on Myanmar will be limited, because, at present, AFTA is not so rigorously binding, and because even if tariff rates of Myanmar fall in accordance with the AFTA schedule, the country is protected by non-tariff barriers, such as the import permit system, and because the effective tariff rates are extremely low even at present, as described above. Moreover, since Myanmar's trade partners are scheduled to reduce their import tariffs earlier than Myanmar, exporters in Myanmar will benefit from increasing access to other member countries. Promotion of Myanmar's exports to ASEAN members will be an agenda item. In the long run, Myanmar will feel the impact of AFTA heavily, once it has substantially reduced its NTBs.

Second, globalization and progress of information technology are supporting the formation of extensive international production networks with multinational corporations playing the connecting role. The ASEAN region is a substantial part of such networks, particularly ones involving IT products. Within the ASEAN region, sub-regional production networks are also developing linking lower income economies such as Indonesia and Vietnam with more advanced economics such as Singapore, Malaysia, and Thailand through investments and subcontracting in labor-intensive industries. Some mature industries in the more developed parts of ASEAN such as Singapore and Malaysia are eying investments in less-developed parts of ASEAN such as Myanmar. These developments offer a low-income economy such as Myanmar the opportunity to link with international production networks by inviting investment and subcontracting, particularly from neighboring economies, in labor-intensive industries. They also indicate the necessity for an economy like Myanmar to prepare to upgrade these industries in the long run.

Third, the rapid growth of the Chinese economy and trade liberalization, which will accelerate with China's accession to the WTO, present Myanmar with the opportunity to increase exports of industrial and especially agricultural products to China. There is concern that Myanmar will not be able to cash in on this chance, however, because its industrial and agricultural sectors lack international competitiveness. Moreover, as the already rapidly growing Chinese industries become more efficient, they will put increasing competitive pressure on industries in ASEAN countries including Myanmar. The development of regional market through AFTA will also create important economic opportunities form member ASEAN countries including Myanmar as they re-orient their development more toward internal markets. In addition, the formation of an ASEAN and China FTA will enhance involvement of Myanmar and other ASEAN countries in production networks with China and it will facilitate their cultivation of markets in China.

Fourth, the timing of the lifting of the economic sanctions will affect the way Myanmar benefits from economic integration. If the sanctions are lifted soon, Myanmar will benefit from greater access to markets in advanced countries and greater inflows of FDI and ODA funds from advanced countries as well as from closer integration with the economies in the Asia region. However, if the sanctions are kept in place longer into the future, economic integration for Myanmar will be confined mostly to the region and its benefits will be much smaller in the absence of the links with advanced countries.

Fifth, with the IT revolution, a latecomer such as Myanmar has the opportunity to leapfrog more advanced economies by quickly adapting to the new technology and inviting FDI in IT equipment manufacturing or by developing its own software industry. At the same time, Myanmar faces a risk of isolation from international production networks or international knowledge flows if it does not promptly develop a telecommunications system and IT workers.

Policy Factors

The aspects of Myanmar's domestic policy environment that will affect industrialization are the progress in correcting the weak market economy system, the inward looking economic policies, and the lack of transparency and consistency and government efficiency.

Weakness in market economy structure

State intervention in industrial activities with such measures as price controls, export and import controls, and the SOE system has constrained the market mechanism as well as the development of private enterprises, which should be the bases for industrial activity. Myanmar is considerably behind China and other countries in SOE reform, such as the privatization of SOEs and the adoption of a self-financing system and equitization as preparatory steps toward privatization.

SOEs retain a large share because they benefit from preferential treatment under Myanmar's policy framework. For example, SOEs can import with the official rate of about 6 kyats per U.S. dollar and they have priority access to electricity available at heavily subsidized prices and raw materials such as sugar canes and cotton. The lack of a level playing field has undermined the development of private firms. Under such a system of protecting SOEs, inter-firm competition has been limited. The lack of competition impeded industrial development. Moreover, since Myanmar's SOEs are mostly in import-substitution industries, the general preferential treatment of SOEs amplified the bias toward imports.

Moreover, reforms of SOEs have not progressed much. In 1989 the new government changed the policy. Since then SOEs have not been allowed to retain profits but must contribute 100% of profits to the Union Consolidation Fund. This requirement reduced the incentive for better management of SOEs by reducing management autonomy. This is a marked difference from China where managers of state enterprises have been given greater autonomy with such mechanisms as the contract management system. The fact that the majority of top management of Myanmar's SOEs are former members of the military, who do not necessarily have business training, also affects the quality of management. Although state owned enterprises in China and Vietnam share the problem of bureaucratic appointment of management, they do not suffer the appointment of military personnel to the same extent.

Privatization is thought to be a means to solve these problems, but Myanmar has not progressed very far in this area. Although a Privatization Commission was established in January 1995 to coordinate the privatization process, no significant development has taken place so far. While the share of SOEs has declined a little and the share of private enterprises has increased to some extent, the gain of the private sector has been mostly at the expense of cooperatives. On one hand there is a call for privatization but at the same time, SOEs are allowed to build new factories.

Inward-looking Economic Policies

Myanmar's trade and FDI policies are inward-looking. Myanmar has not implemented the aggressive policies to liberalize trade and invite FDI as most other ASEAN countries did quite successfully. This policy framework has deprived industry in Myanmar of the externality benefits of links with foreign economies through the expansion of exports.

Moreover, some policies actually stimulate imports and suppress exports. The system allowing to trade by SOEs at artificially strong exchange rates including the official rate of about 6 kyats per dollar gives them incentive to import and discourages them from exporting, although imports are limited by extensive quantity controls. Moreover, the system of three exchange rates, 100, 150 and 250 kyats per US dollar, used to assess import duties encourages imports by significantly reducing duty in real terms. Also, domestic energy prices, such as rates on electricity and diesel fuel that are controlled far below international levels result in greater consumption of energy than under international prices and increase imports of energy products.

At the same time, the government implemented extensive measures to control imports, such as import licenses and foreign exchange quotas, to alleviate the balance of payment problems. These import control policies contradict the other policies that stimulate imports, and the direct controls have undermined the mechanism of the market economy.

Also, there are policies that tend to inhibit exports, First, there are taxes on revenues equivalent to 10% of export sales (an 8% commercial tax and a 2% income tax, both to be paid in U.S. dollars). Not only do these charges impose a financial cost, but also the time and workload required to assess them jeopardizes export delivery. This system could be a serious obstacle to the development of electronic parts industry, for example, which targets to export to assembly plants in neighboring ASEAN countries such as Singapore, Malaysia, and Thailand. Second, government-instituted impediments exist at each node in the trade chain, such as overseas marketing, negotiations of trade conditions, contract processes, export procedures, customs clearance, and shipping and payment processes. Third, state monopoly on the exports of rice, teak wood, petroleum products, natural gas, pearls, gems and other mineral products works against taking advantage of the dynamism of the private sector. As such, it not only constrains exports but also impedes the development of the processing industries using these products. Myanmar's less-than-aggressive efforts to attract FDI have prevented it from building export industries as neighboring countries did. Economic sanctions have certainly had an effect, but the lack of transparency and consistency in FDI-related policies and the lack of aggressive government efforts to attract FDI seem to be the main reasons for the low level of FDI.

While Myanmar put more effort in inviting FDI since the enactment of the Foreign Capital Law in 1988, the posture has turned less active recently. Myanmar is not as positive toward FDI as Malaysia and China, for example. The legal and regulatory systems are inconsistent and opaque and administrative procedures concerning FDI are cumbersome and time-consuming. Moreover, various regulations emanating from the shortage of foreign exchange such as regulations on overseas remittances, import controls on various capital and production goods, and regulations on foreign currency funding, have restricted the freedom of business operations and worsened the investment environment. So have the underdeveloped infrastructure in electric power and the low quality of industrial estates

The notion of self-reliance seems to have influenced government policy to be inward-looking. While self-reliance is a plausible goal, the current policy framework is not the way to achieve it. Rather than autarky what is important is increasing autonomy while benefiting from a large volume of trade and investment. In other words, the objective target should be to ensure that a large number of decisions about industrial activities should be made in Myanmar rather than abroad. Expanding and deepening industrial clusters and domestic innovation systems are the ways to achieve this.

Lack of Transparency and Inconsistency in Government Policies

International and domestic investors generally perceive the lack of transparency and consistency in government policies as one of the most serious obstacles to investing in Myanmar. Myanmar has not firmly established economic policies of a market economy and an outward perspective, which are widely adopted in most Asian countries. Ad hoc policies adopted by the government in response to the shortage of foreign exchange have created the perception among domestic and foreign firms that Myanmar's policies lack transparency and consistency. Laws and regulations have not been sufficiently developed and they are not available in written documents for the private and foreign business communities.

Governments play a major role in improving the conditions of an economy's production factors such as human and knowledge resources, capital resources, and infrastructure in order to upgrade its competitive advantages. The Myanmar government has not been sufficiently involved in this role, perhaps because the notion of international competition in government efficiency is not generally recognized under the inward-looking policy framework.

Need for a Shift from a Vicious Cycle to a Virtuous Cycle

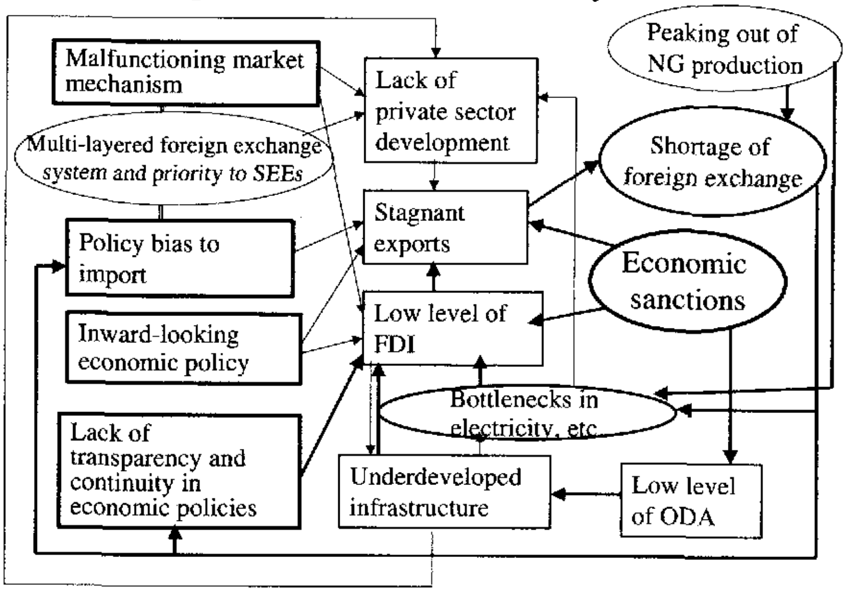
The confluence of factors mentioned in the description of the current industrial structure and these additional policy factors in Myanmar constitutes a vicious cycle that constrains Myanmar's industrial development. It is necessary to generate a virtuous cycle by learning from the experience of Asian countries.

Vicious Cycle Continues

The vicious cycle was created by four major policy choices of the government—suppression of the market mechanism, bias to imports, inward looking economic policy, and low emphasis on policy transparency and consistency—as indicated in Figure 2-2. The multi-layered exchange rate system and policy preference toward SOEs, in particular, suppressed the market mechanism and had an import bias. In combination, these factors resulted in weak export performance and excessive import of inputs such as parts, raw materials, and machinery in the import-substitution sector with a lack of FDI, and an underdeveloped private sector. These developments, in turn, created serious foreign exchange and budgetary constraints for Myanmar. And measures adopted in reaction to these constraints, such as price controls and restrictions on energy and raw materials imports, have created a shortage of necessary inputs, even for foreign-currency generating export industries, and discouraged foreign investment. This has weakened export performance even further. Thus, a vicious cycle has formed.

The economic sanctions have worsened this vicious cycle by limiting access to overseas markets and the inflow of FDI and ODA. The lack of ODA has constrained the development of physical infrastructure, which has contributed to the shortage of electricity and the lack of industrial estates. The peaking out of natural gas production aggravated the shortage of electricity.

Figure 2-2 Framework of a Vicious Cycle



Source: JICA Study Team

Outward Looking Development Model in East Asia

In contrast to Myanmar, East Asian economies industrialized rapidly by shifting from import substitution policies to outward-looking policies over the postwar years. Most other East Asian economies adopted import-substitution strategies in the early postwar years, often allocating a major role to state-owned enterprises. Those strategies failed as the protection of domestic markets resulted in industrial inefficiency and as the increase in intermediate products without a comparable increase in exports resulted in worsening balance of payments. One by one, East Asian economies shifted to export-oriented strategies with a much-reduced role of state-owned enterprises and this shift helped them escape from the vicious cycle in which they had been trapped.

"Export orientation" was the only viable option for two of the four Asian "tigers", Hong Kong and Singapore, which are both city-states. Korea and Taiwan, on the other hand, could have prolonged import substitution but chose to adopt "export orientation" very early in the 1960s. The policy shift succeeded in starting a virtuous cycle of export expansion that generated foreign currency with which to import modern machinery and high-quality intermediate products, further increasing their export competitiveness. Export growth was centered on manufactured goods.

In the case of the ASEAN countries, import substitution policies continued longer with negative results. Thailand and Malaysia started to adopt export-oriented policies in the 1970s and Indonesia and the Philippines shifted to outward looking policies with export-orientation in the 1980s. Export-promotion policy in the ASEAN countries was combined with a policy of attracting FDI, unlike in Taiwan and Korea, which mainly relied on domestic enterprises. The different approaches seem to be based on differences in the level of development of domestic enterprises and the international environment in which the FDI of multinational enterprises has intensified in recent years. ASEAN countries have also succeeded in escaping from a vicious cycle and generating a virtuous cycle.

Need to Generate a Virtuous Cycle in Myanmar

The existence of a vicious cycle of industrial stagnancy in Myanmar and the experience of a successful shift from a vicious to a virtuous cycle in other Asian countries with a change in the policy framework suggest that Myanmar will need a development policy similar to other Asian countries' for generating a virtuous cycle.

In fact, Myanmar started a development policy in such a direction in 1988 by liberalizing FDI and lifting some restrictions on private enterprises. These reform measures had some positive results. Labor-intensive exports on the CMP formula increased rapidly since around 1995. The liberalization measures had a greater impact on the import side than the export side, however, and the balance of payments deteriorated sharply. This was because such liberalization was implemented in the environment of the still weak export capacity of Myanmar's industries and the policy framework that was oriented to import-substitution. The peaking out of onshore oil and natural gas production was also a factor in the deterioration of the external balance because it raised Myanmar's dependence on imported energy. The economic sanctions deprived Myanmar of much of the demand as well as investment from advanced economies.

The reform initiative stalled around 1997 when the government revived inward looking polices in response to the deterioration of balance of payments. The vicious cycle continues to hold now. Thus, a new policy framework is needed to break this vicious cycle by deepening the reforms undertaken since 1988.

2.1.4 Industrial Development Strategy

We will discuss an industrial development strategy to fill the gap between Myanmar's current industrial structure, which was analyzed in 2.1.2, and the industrial vision for 2020, which was presented in 2.1.1. In this process, we take notice of the need to turn a vicious cycle to a virtuous cycle, as explained in 2.1.3. We believe that Myanmar's industrial development strategy should have three dimensions: major thrusts, a changed role of government, and sequencing of policy initiatives. We view the industrial development strategy in three phases: a short-term strategy (from 2003 to 2005), a medium-term strategy (from 2006 to 2010), and a long-term strategy (from 2011 to 2020).

Major Thrusts

The industrial development strategy for Myanmar has four major thrusts.

First, establish a market economy-based industrial system with the private sector leading industrial development.

Second, adopt an outward-looking policy framework that promotes exports and FDI with an initial focus on regional markets.

Third, diversify the industrial base with an emphasis on industries with comparative advantage and supporting industries.

And fourth, strengthen Myanmar's competitive advantage as an industrial location through human resource development, infrastructure development, and legal and institutional development.

Enhanced accumulation of industrial clusters will be particularly important for the latter two thrusts, namely industrial diversification and strengthening Myanmar's competitive advantage as an industrial location.

Building a market economy structure led by the private Sector

The marketization of the industrial system is the utmost priority for the industrialization of Myanmar. Direct government involvement in industrial activities such as price controls, import and export controls, and the SOE system should be minimized. Abolition of the multiple exchange rate system is crucial to give proper signals to market participants and to reduce the distortions in resource allocation. The playing field between private firms and SOEs should be leveled. Future industrial development in Myanmar should be led by the private sector.

Privatization, a stated policy of the government, is highly necessary not only to make enterprises more efficient but also to lighten the budget burden. Commercialization, or increased autonomy and budgetary discipline, of SOEs should be carried out as an intermediate step toward privatization.

While privatization should be undertaken as a long-term project, reform of SOEs should be started immediately to improve the efficiency of management and lighten the fiscal burden. Reduction or termination of market protection and fiscal subsidies together with managerial autonomy is necessary. In order to shift the source of SOEs' financing from protected markets and fiscal subsidies to the financial system, a healthy and efficient banking system and capital markets need to be created.

We think it advisable to start with fast privatization of small-scale SOEs. While privatization of large and medium-scale SOEs involves difficult issues such as relationships with line ministries and unemployment, privatization of small SOEs poses fewer problems. China and Vietnam have undertaken the rapid privatization of small-scale SOEs. Myanmar should draw on the experience of those countries in planning the privatization of small-scale SOEs.

In the case of large and medium SOEs which present more complex problems, Myanmar should proceed cautiously in their privatization while firmly establishing and pursuing the long-term goal of privatization and proceeding with their reform. As long as the playing field between SOEs and private enterprises is not level large-scale investments by SOEs should be minimized. Since privatization tends to generate unemployment, to compensate for the loss of employment in the SOE sector Myanmar should accelerate the inward flow of FDI and the promotion of private enterprises that offer substantial employment possibilities.

The government ministries and agencies, such as the Ministries of Industry, the Ministry of Commerce and the Ministry of National Planning and Economic Development, are left with the legacies of the socialist period under which the economy was led by SOEs. The Ministries of Industry No. 1 and No. 2, in particular, are engaged primarily in the control and supervision of the SOEs under their umbrellas and have not yet conceived policies for the development of the nation's industries as a whole, which include private enterprises, in the right direction. A fundamental reform of the administrative organizations is necessary to make them suitable for the running of a market economy.

Outward-looking Policy

As explained before, an outward looking economic policy is essential to the shift from a vicious cycle to a virtuous cycle. An outward looking policy should include export promotion, FDI promotion, and integration with global and regional economies. International economic integration has both merits and demerits. The merits include expanded market access, development of industrial capacity through the inflow of FDI, and access to international best practices. The demerits include the increased exposure to disruptive swings in foreign product and financial markets and the cost of industrial restructuring. Since the merits significantly outweigh the demerits and the economic cost of prolonging it is extremely large, Myanmar should implement international integration by controlling its risk.

In order to balance the current import bias and to dissolve the current foreign exchange shortage, Myanmar will need to take a strongly export-oriented policy in the short- to medium-term. It must systematically work to eliminate the impediments to exports and actively promote exports.

It must coordinate policies to increase exports with policies to attract FDI, since the latter will be the key to expanding exports.

Given the current condition of Myanmar's production factors, with comparative advantages in unskilled workers and natural, agricultural, and forestry and fishery resources and a lack of knowledge and capital resources and infrastructure, it will be crucial to attract FDI in industries with comparative advantages for the development of export industries. In order to attract FDI, Myanmar must first realize that the competition for foreign investment is severe and move decidedly to liberalize and promote FDI.

Since export industries formed by foreign as well as domestic enterprises will center on labor-intensive industries, their employment generation effects will be substantial. For example, the export-oriented SEZs (special economic zones) that we propose below are expected to generate employment for about 500,000 workers by 2005, for one million workers by 2010, and for three million workers by 2020. Export and FDI promotion policies should mitigate the unemployment problems generated by the reform and privatization of SOEs.

Myanmar should take up the following strategies to promote exports. First, it should rectify the import bias and dissolve impediments to export. To do this it is necessary to abolish import controls in principle; to liberalize trades of most items to the private sector; to abolish export duties; and to remove the foreign currency limits on the importation of raw materials and parts and machinery intended for export production. The exchange rates applied to assess import tariffs should be adjusted gradually to market rates. The additional tariff revenues from this adjustment would help offset the government revenues lost by abolishing export duties. The multi-tiered exchange rate system should be adjusted to reduce the bias toward imports over exports. Second, an export promotion commission should be established with members from both the government and private sectors to devise and implement emergency export promotion measures.

FDI promotion policies should be as follows. First, the government should clearly state that Myanmar welcomes FDI and should clarify that FDI in the export sector has priority in the short- to medium-term. Second, in the short- to medium-term, when it would be difficult to develop adequate infrastructure and provide a desirable legal and institutional environment throughout the country, government must create SEZs by concentrating development of physical, legal, and institutional infrastructure in certain geographic areas. Finally, the government should reorganize the existing FDI promotion organizations and establish a one-stop service function.

How Myanmar should balance its efforts for global and regional economic integration will depend on whether Scenario 1 or Scenario 2, which were established in 2.1.1 is applicable. If Scenario 1 comes to pass, Myanmar can expect a significant inflow of FDI from both large and small- and medium-sized enterprises based in advanced countries in addition to enterprises in ASEAN and China. However, in Scenario 2, the inflow of FDI from large firms in advanced countries would be much restricted. In this case, in light of the strong trend toward regional integration and the difficulties of attracting FDI from advanced economies, Myanmar might focus on economic integration with its neighbors such as the ASEAN countries and China even though the benefit will be substantially less.

Diversify and upgrade the industrial structure

Myanmar needs to support the diversification and upgrading of its industrial structure.

To resolve the severe shortage of foreign exchange, Myanmar should place a high priority in the short to medium-term on developing export industries that are labor- and resource-intensive. Such labor-intensive industries include garments, footwear, and electronics assembly. Agriculture-, fishery-, and forestry-based industries may develop into a distinctive part of Myanmar's industrial structure. Resource-based industries can be processors, such as food processing and wood crafting, or input producers, such as the agricultural machinery and fertilizer industries. Before Myanmar can specialize in agriculture-based industrialization, it must substantially improve the efficiency of the primary agricultural sector itself so that it is capable of supplying quality raw materials abundantly and steadily. Tourism also falls in the category of labor- and resource-intensive strategic industries. Finally, there is a strong necessity to develop the crude oil and natural gas industries in order to improve the supply of electricity.

These industries need to be developed primarily by inviting FDI, at least in the short to medium term, while the private sector should complement this investment. Many of these industries need to be firmly based in the production networks that are developing in ASEAN. In this respect, the electronics industry is strategically important.

While Myanmar's industrial development strategy needs to emphasize export industries in the short- to medium-term, in the medium- to long-term the strategy should seek a balance between export-oriented industries and domestic market-oriented industries. After all, it is best for industry in Myanmar to acquire marketing and product development capability in domestic markets through close interactions with customers. Eventually demand from domestic-market oriented activity will be able to support local construction-related industries such as cement, steel mills, glass, chemical fertilizer, and agricultural machinery and these industries can develop around a core of domestic enterprises. In the short- to medium-term, when FDI should be directed mostly towards export-oriented industries to alleviate the shortage of foreign exchange, domestic market-oriented industries should be comprised mainly of private domestic enterprises, but in the longer term FDI should be invited to this sector as well.

Because Myanmar should strive to upgrade its industrial structure in the long run, the labor- and resource-intensive industries it focuses on in the initial phase should be ones that can be upgraded with additional knowledge and capital inputs at a later stage of development. The electronics industry is strategically important in this respect, too.

Building and enhancing competitive advantages as an industrial base

While Myanmar should have a development strategy for utilizing its current competitive advantage, which lies in its unskilled workers, and natural and agricultural, forestry and fishery resources, it needs to upgrade its competitive advantages to ensure sustainable industrial development. As far as upgrading the condition of production factors, the important tasks are expanding the pool of knowledge workers through human resource development, developing infrastructure, and developing the financial system.

With regard to the development of human and knowledge resources, it is essential to increase opportunities to access economic and industrial knowledge. To do this requires, among other things, absorbing foreign knowledge by attracting FDI, increasing opportunities for overseas travel, making foreign books more available at libraries, and spreading access to the Internet. In addition, it is necessary to improve education and training in management and technology and this should be done partly with foreign assistance.

Myanmar needs to take two approaches toward infrastructure development. One is a short-term strategy to remove the bottlenecks that are generating the vicious cycle. The other is a long-term strategy to close the gap with other Asian countries.

First, in the short term, the top priorities should be the construction of high-quality industrial estates for export processing in SEZs and the construction of electric power generation facilities dedicated to the industrial estates. Such a concentrated, emergency infrastructure development program is necessary to carry out the industrial development strategy because it will take years to improve the infrastructure nation-wide. We think it is feasible to locate several SEZs with export processing zones in Yangon, where access to ports is good and labor is abundant. These zones should be targeted at labor-intensive industries such as garments, footwear, and electronics parts. Efforts should be put into developing transportation access to these zones. Also there should be an immediate effort to resolve the electricity shortage in the private sector. Second, industrial estates for SMEs should be developed gradually to promote the private sector.

Third, the following principles should be applied to the financing of infrastructure projects. Price controls on electricity should be phased out to increase the financial incentive for investment in the sector. In addition, private financing should be emphasized because it will be difficult to depend heavily on ODA even if economic sanctions are lifted and because Myanmar's budgetary resources are extremely limited. And finally, it is advisable to prepare priorities for infrastructure development before the economic sanctions are lifted.

Fourth, a competitive mechanism should be introduced to the infrastructure sector through such measures as SOE reform and facilitating the entry of private firms. Currently, SOEs seem to monopolize the infrastructure area and they are inefficient because of the absence of competition.

Fifth, in the long run, regional cooperation projects should be developed utilizing ODA funds. Myanmar should try to benefit from its strategic location at the center of the high-growth Asian economics.

Development of industrial clusters

Development of the strategic industries mentioned above should be designed to eventually form industrial clusters, or geographic concentrations of related and supporting industries and supporting institutions. An industry is more competitive when it is in close proximity to other related industries and institutions, because the competitiveness of a particular industry is determined by the interaction with other industries and institutions. Successful industries are usually interlinked in a vertical relationship (buyers and supplies) or a horizontal relationship (common customers, technologies, market channels, etc.) (Michael E. Porter (1990), *The Competitive Advantage of Nations*). Industrial clusters develop essentially naturally, but government can nevertheless play an active role by facilitating interactions among constituents. For example, it can support the development of universities and public research institutions to complement technology transfer, it can develop industrial estate, electricity, transport, and communication infrastructure in the area, it can reduce regulatory impediments to interactions, and it can invite FDI to fill in missing links in the clusters. To this end, it is desirable to give policy support for the development of broadly defined supporting industries, including logistics.

Changed Role of Government

The role of government in industrial development is to influence and improve such factors for industrial competitiveness as demand conditions, the condition of production factors, industrial accumulation, and the competitive condition of firms. The efficiency of government has also become crucial to a country's industrial competitiveness as global competition has intensified. To implement our industrial development strategy of market orientation the Myanmar government needs to avoid direct intervention and instead use indirect policy measures and generate market competition. To engender competition government must implement privatization and develop a legal infrastructure such as competition laws. Above all, it needs to have a capacity to plan and implement a well-coordinated comprehensive industrial development strategy. It needs to make a fundamental shift in policy framework away from the traditional framework of the planned economy.

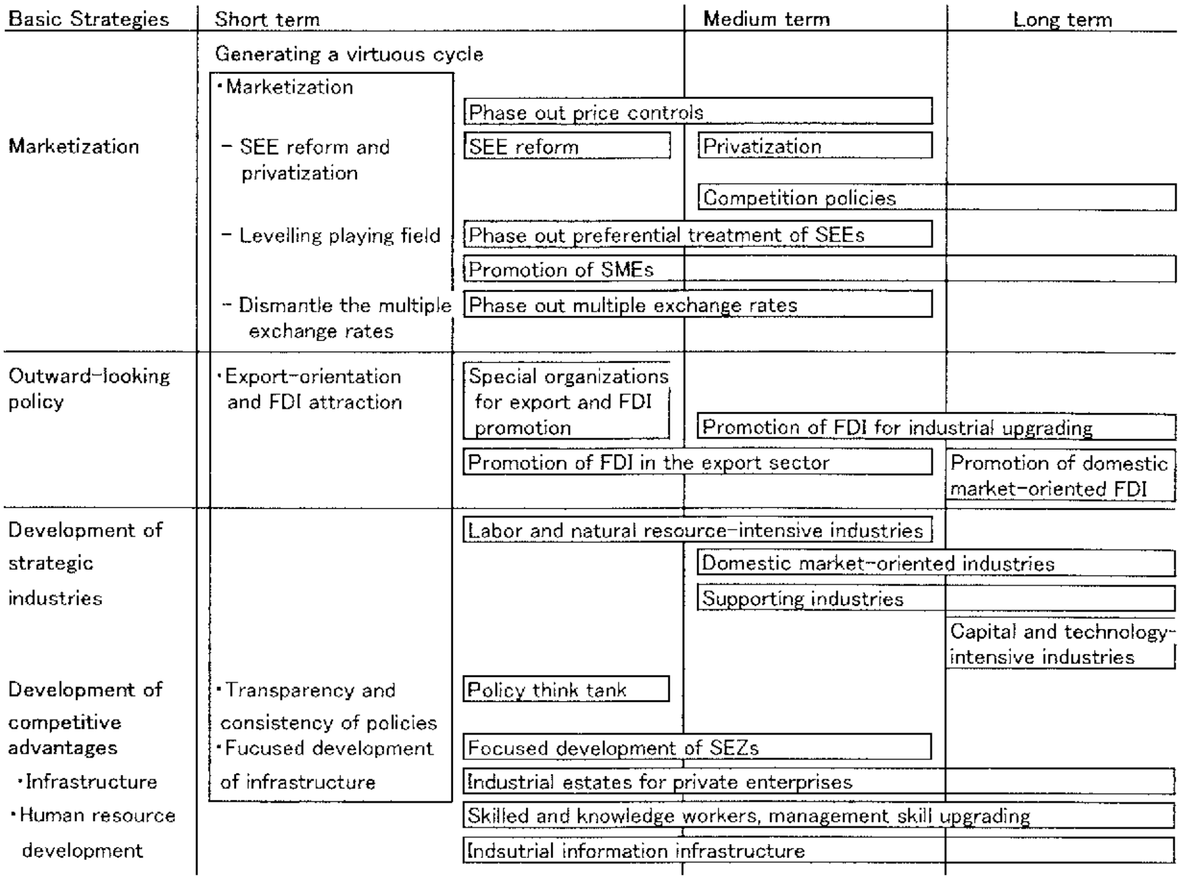
Myanmar might find it useful to establish a policy think tank to support such a wholesale transformation of the policy framework. In order to implement the industrial development strategy by encompassing diverse ministries, such a think tank should directly report to the top of government and be independent from any particular ministries. Moreover, Myanmar may seek foreign assistance to establish such a think tank, while it retains responsibility for managing the institution. Government bureaucrats need to be trained to fit the new policy framework, and foreign assistance could possibly be used for this as well.

Sequential Application of Industrial Development Strategies

The industrial development strategy must be implemented in sequence to maximize the desirable effects as well as minimize the associated costs and also to respond to varying fiscal and balance of payment constraints. While Myanmar needs to change from the existing system with a high degree of government intervention in industrial activity to a market economy system, rapidly dismantling the present system may lead to such disruptions as unemployment, reduced government revenues, and inflation. In this regard, the reform and privatization of SOEs should be preceded by measures to attract FDI and promote private enterprises, particularly through FDI, in order to generate employment and foreign currency to offset the cost of SOE reform. On the other hand, prolongation of the status quo will worsen the vicious cycle.

We divide the period up to 2020 into three phases: the short term (2003-2005), the medium-term (2006-2010) and the long-term (2011-2020). The conceptual framework for the implementation of the industrial development strategy in each phase is illustrated in Figure 2-3.

Figure 2-3 Phased Development Strategy



Source: JICA Study Team

Short-term (2003-2005): Initiating a Virtuous Cycle

The major purpose of the short-term development strategy should be to reverse the current vicious cycle. We believe this could be done with a twofold strategy of first eliminating the bottlenecks in the supply of electricity and parts and components and then announcing and implementing a package of policy measures for marketization, outward-orientation, and the transparency and continuity of industry-related policies. A few SEZs should be established to embody the two elements.

In order to stimulate both foreign and domestic investment in Myanmar, it is necessary to announce and commit to a dramatic policy change. In light of the strong need for export-oriented FDI and a focused approach, the top priority is to establish SEZs in the Yangon area. As explained, it takes time to improve legal and institutional systems as well as physical infrastructure nationwide, but a focused improvement in SEZs can be accomplished quickly. Private financing should be effective for constructing electricity plants to supply power to the SEZs. Exports from FDI invested in the SEZs should generate foreign currency to reduce the shortage of foreign exchange, which has been a focus of the vicious cycle. Moreover, new jobs in labor-intensive export industries located in the SEZs will help to offset the unemployment that will accompany reform and privatization of the SOEs. To advance marketization, price controls and the multi-layered exchange rates need to be phased out gradually. SOE reform should be implemented before full-scale privatization. A comprehensive privatization program should be prepared during this period.

Medium-term (2006-2010) Preparing for Industrial Diversification and Upgrading

We expect that export-oriented development will gradually be established and foreign exchange constraints will be steadily eroded while employment through FDI and some development of private enterprises will substantially increase. With this added maneuvering room, the next crucial step is to consolidate the market economy system by proceeding with privatization. The government should also implement measures to enhance industrial diversification and upgrading by encouraging domestic market-oriented industries and supporting industries.

Long-term (2011-2022) Implementing Industrial Diversification and Upgrading

By the time this period starts, the market economy infrastructure should be mostly established. Competition policy may be put on the agenda in order to maintain competition among domestic and foreign private firms. Moreover, as foreign exchange constraints should have dissipated, FDI should also be promoted in import substitution industries for the purpose of diversifying the industrial structure. There should be more emphasis on industrial upgrading through human resource development and technology transfer and development.

2.2 Development Strategy for Strategic Industries for Myanmar based on the Nation's Comparative Advantages

2.2.1 Selection of Strategic Industries and Industrial Development Scenarios (Examples)

In drafting a vision for industry and a strategy for industrial development focused on the manufacturing sector, Myanmar must directly address the questions of which industries it should foster as strategic industries for the future and which industries have the greatest potential for expansion and development. An analysis of the current status of individual industries (except for the garment and footwear industries) and the issue of industry growth strategies do not, however, fall within the scope of this study project; small-scale master plans have been written separately for the first two industries. The relatively small weight of the manufacturing sector within the country's overall industrial structure and the inadequate awareness among policy development and industrial circles of the importance of analyzing data on individual industries and drafting strategies on that basis have resulted in a severe shortage of information on conditions in individual industries.

While it is assumed that the government does have access to a certain amount of data and reference materials via SOEs, industry associations, and its own independent studies, the vast majority of these data/materials are shared only among an extremely small number of executives and this project was unable to obtain access to these. Intermediate- to long-term plans for major industries spanning the next twenty years or more have also been drafted by or for the government, but these were also not available to this project.

Basic information on conditions and trends in individual industries was thus not obtainable but, using information and materials acquired through interviews conducted with private sector companies, we conducted an analysis of several strategic industries from the perspective of current conditions and development conditions/opportunities for the future are able to conduct. The shortage of basic information on specific industries within the manufacturing sector made it difficult to rationally determine which industries to select as strategic industries but, judging that the fundamental approach to industry selection described below was important, we chose a number of representative industrial sectors in accordance with this fundamental approach and examined strategic measures for their development.

Given the extremely great need to work out a short- to intermediate-term export-oriented policy to break out of the vicious cycle generated by a shortage of foreign currency, priority is likely to be given to expectations of fostering or developing export industries and industries having a great potential for obtaining foreign currency. Even more preferable would be export industries established in those areas in which Myanmar has a comparative advantage. The progressing liberalization of industry in Myanmar through the AFTA within ASEAN and the FTA agreement between China and ASEAN will also no doubt prompt an industrial reorganization in the country that favors industries with comparative advantage. Consequently, as one criterion in selecting industries, top priority from the standpoint of the manufacturing sector should be given to

* 1 "labor-intensive and resource-intensive" industries in which Myanmar enjoys a comparative advantage.

These labor-intensive industries include the electronic component assembly industry as well as the garment and footwear industries, while resource-intensive industries comprise mineral resource industries such as natural gas, copper, and gemstone processing, as well as agricultural, forestry, and fisheries-related industries such as marine products processing and woodworking. Food processing might also have future potential as an industry with comparative advantage, though exports are difficult at present given the level of management know-how. While not part of the manufacturing sector, the tourism industry built on tourism resources is also very important.

On the one hand, agriculture accounts for a high proportion of Myanmar's GDP, and the country could potentially enjoy a high comparative advantage in this agriculture. The development of the agricultural sector itself will depend on a radical improvement in productivity, however, and it is difficult to determine its future potential in light of present circumstances; nevertheless, the development potential of "agro-based industries" (manufacturing sector) is perhaps another important topic for examination. In selecting industries from this standpoint, priority should be given to

* 2 "agro-based industries," seen by the government, too, as the core of industrial development
from the perspective of enhancing the manufacturing sector and enabling these industries to pursue export business.

There is an extremely great need in the short to intermediate term to utilize the technology, sales, and management capabilities of foreign companies in promoting these export industries grounded on comparative advantage. Consequently,

* 3 the possibility of utilizing foreign companies
will likely become another important criterion in selecting strategic industries.

The electronics, garment, footwear, natural gas, copper, gemstone processing, marine products processing, woodworking, food processing, and tourism industries are all industries that could very likely utilize foreign capital. In making use of such foreign capital, these industries will need to join in the trend towards industrial reorganization taking place within ASEAN and participate in international production networks. In the international production networks within ASEAN, there is a tendency for labor-intensive industries to relocate from higher-income countries such as Singapore, Malaysia, and Thailand to lower-income countries. This can be seen, for example, in the electronic components industry. Myanmar should actively try to attract companies from the electronic component assembly industry and should promote participation in international production networks.

Progress in attracting FDI and training personnel will lead to the development of skill-intensive industries as the core of Myanmar's future manufacturing industry, which in turn will open up the possibility of moving ahead to technology-intensive industries such as the machinery, electronic component processing, and electronics and electrical industries. In other words, strategic industries should be selected with the aim of

* 4 increasing the sophistication of industry over the intermediate to long term.

While the likelihood for this in the short term is low in such industries as garment and footwear, the electronic industry and others could achieve greater sophistication from a technological perspective, and industries such as the machinery industry that could become more advanced through the formation of industrial clusters are of great strategic value. The plastics industry is important from the perspective of supporting a broad range of other industries, and the software industry from the perspective of forming new industries.

In the intermediate to long term the development of industries oriented toward meeting domestic demand will likely also become an important issue. Many industries could be expected to develop from the perspective of

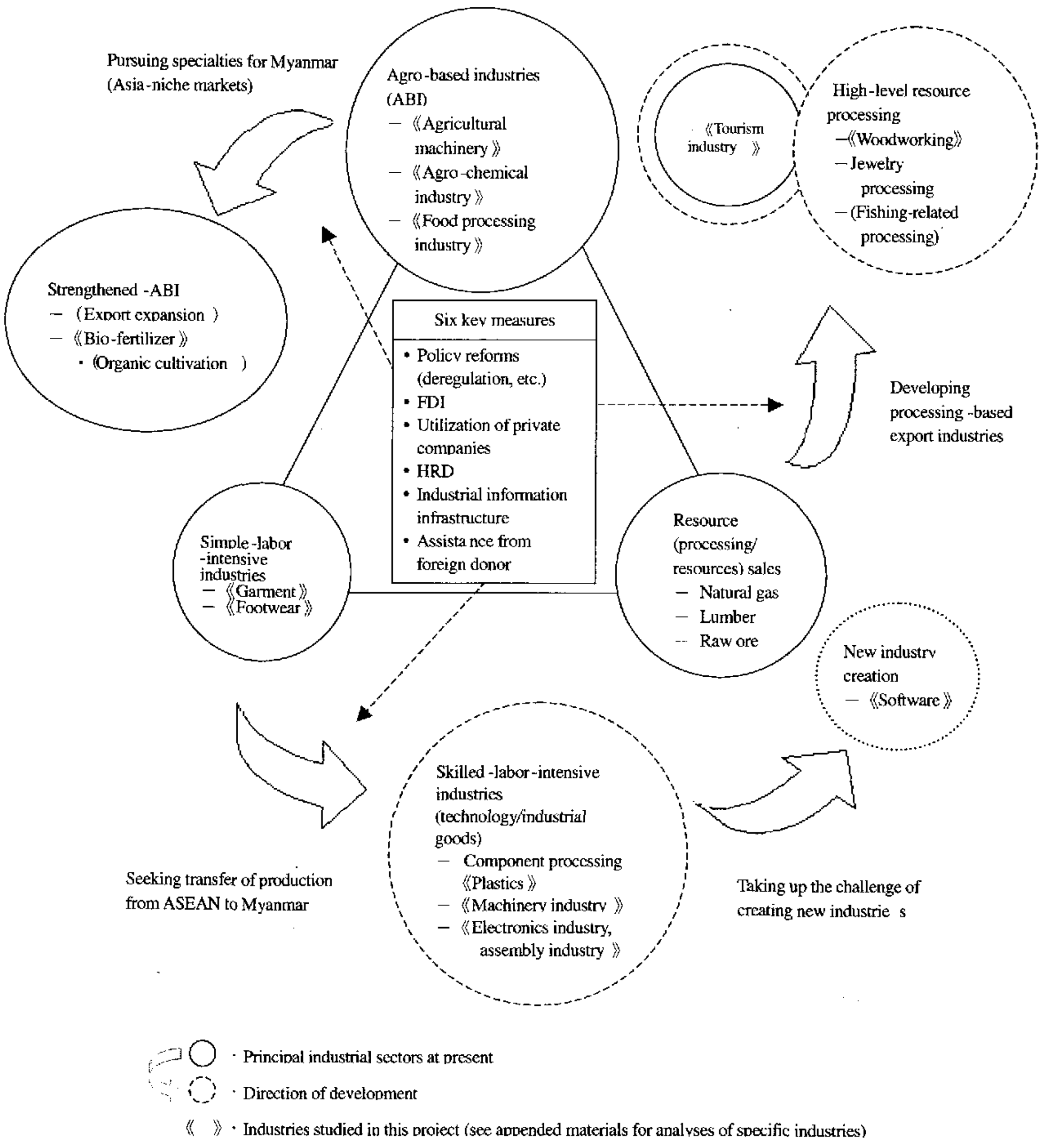
* 5 improving the people's livelihood and building social infrastructure for Myanmar in future.

Another important criterion for selecting industries is ensuring a balance vis-à-vis the development of export-oriented industries in the short to intermediate term in order to achieve a more stable industrial structure. Development should also be pursued in basic industries such as food processing to meet domestic demand and cement to support domestic construction. Local private companies should perhaps play the key roles in these industries. Even in those industries in which there is little choice for the time being but to allow state-owned enterprises (SOEs) to continue playing the dominant role, policy management should be conducted with a view to transferring this role to private companies over the intermediate to long term.

The example industries covered in this study have been selected in accordance with the ideas described above. In making specific selections, priority is given to "industries in which private companies are the key players or in which they could grow into key players in future." For instance, there are some industries such as the urea fertilizer industry, an agro-based industry, with a fixed segregation of niches between SOEs and the private sector—100% of production is in fact carried out by SOEs (with this SOE production also sold by SOEs) with private sector imports accounting for 90% of sales to meet domestic demand—offering little possibility that the private sector would be able to participate in production, but at the same time there are also industries such as the plastics industry driven by the private sector (though raw material imports are 100% under government regulation) in which SOEs produce products inferior in quality competitiveness to private companies and essentially sell a portion of these products as recycling material to the private sector (the portion thus sold can be considered a social loss). A variety of formats are apparent in different industries.

Prepared with a particular focus on industries from the perspective of industry selection discussed thus far, the diagram below depicts the directions of industry development in Myanmar.

Figure 2-4 Directions of Industry Development in Myanmar



Source: JICA Study Team

The diagram offers an overview by industry group of the directions of Myanmar's industrial development. Broadly dividing industries into three groups—agro-based industries, which are the principal constituent of GDP, the garment and footwear industries, whose competitiveness derives from cheap labor cost and the simple-labor-intensive nature of the work, and resource industries, whereby the country's plentiful natural resources are mainly exploited for domestic use and export—the diagram shows what direction of development would be desirable for each industry group and whether it can be reasonably expected to achieve this development.

Separate materials (5-10 pages for each industry) have been compiled for the industries shown in double brackets in the diagram—agro-chemical, agricultural machinery, bio-fertilizer, food processing, garment, footwear, plastics, machinery, electronic components and assembly, fishing related industry, tourism industry, etc.—providing an overview of the industry and describing the problems faced at present and the conditions/opportunities for development. As was mentioned earlier, a detailed analysis of the garment and footwear industries and policy proposals for industry development have been provided in a separate chapter. Here we shall restrict our discussion to several other industries are highlighted.

The food processing industry is a key industry holding the largest single share of Myanmar's manufacturing output. Estimates put the number of food processing companies between 20,000 to 30,000 (depending on the statistical data used), and their production accounts for around 75% of the total for the manufacturing sector. A considerable portion of this production involves the primary processing of materials: rice polishing, oil refining, flour milling, sugar processing, etc. Facility-intensive products such as liquors and other spirits, beer, soft drinks, and instant noodles are mostly supplied by medium- and large-sized companies such as joint ventures between SOEs and private companies, while bread, ham, sausage, dairy products, and similar foodstuffs are supplied mainly by small companies. Many food processing industries do not have export competitiveness. Though a limited range of goods such as polished rice and frozen shrimp are exported, the majority of goods are produced for the domestic market. The Ministry of Industry 1 operates 19 state-owned factories, while the Ministry of Commerce, the Ministry of Agriculture and Irrigation, and the Ministry of Livestock and Fisheries have their own state-owned enterprises dealing respectively in processed rice goods, sugar, and processed marine products. With the exception of liquors and other spirits, beer, and juice—which mostly fall under the jurisdiction of the Ministry of Industry 1—many areas of food processing are open to the private sector. FDI companies have been directing their capital to other ASEAN countries, particularly into businesses run by overseas Chinese in Thailand, Malaysia, and Singapore, to establish soft drink operations aimed at domestic markets and to begin processing frozen shrimp and other marine products and canning/bottling agricultural produce for export. FDI companies from Thailand and elsewhere looking to expand their export business have set up operations in Myanmar to gain access to its food materials and cheap labor force, but many of these companies have run into problems such as the difficulty of procuring a stable supply of food materials, the instability of local electric power supply, the need to rely on imports for bottling/canning and packaging materials, and mismatches in terms of business management with their SOE partners in joint ventures.

Food processing in Myanmar has tended thus far to be very much an import substitute industry but, from the perspective of using the country's agricultural and marine product resources, it does have the potential to become an export industry. When one considers that the full-scale promotion of exports will require grasping consumer needs in overseas markets, introducing processing know-how and facilities equipped with the latest technology, and acquiring users and sales channels, though, greater dependence on foreign capital appears inevitable. Most of the needed technology, funding, and sales channels will become possible by attracting foreign companies. Myanmar should pursue a policy of actively inviting foreign companies to the country and establishing an attractive domestic business environment in terms of both "hardware" and "software."

The main agro-based industries other than food processing are the fertilizer, agricultural chemicals, agricultural machinery, and farm implement industries. The production of urea fertilizer is limited by the supply of natural gas and plant procurement (investment), and agricultural chemicals require foreign investment and technology procurement through FDI. Agricultural machinery is today a core industry within the machinery sector and one in which China is actively involved, most visibly by supplying engines. Rebuilding and expanding the agricultural machinery business is essential for improving agricultural productivity in Myanmar and promoting the machinery sector.

Fishing-related industries in Myanmar today include the shipbuilding, fishing net, shrimp and other seafood farming, ice-making machine, and freezer warehouse industries. The amount of fish caught is limited by the number of 100-ton offshore vessels (now approximately 2000), and acquiring and expanding ship construction capability is key to the industry's development; in addition, increasing the number of vessels will be the initial barrier faced in expanding exports. Some ice-making machines are produced domestically, but freezer warehouses and many other industrial goods must be imported, and there is considerable demand among fisheries-related companies for greater domestic production. There have also been loud calls for improvements in the ship repair industry.

Myanmar's machinery industry, including electrical and electronic machinery, accounts for no more than about 1% of total industrial production. Imports of finished products are restricted by tariffs and import licenses, and major components must be imported; SOEs and other companies assemble these components into products for the domestic market. In the electrical/electronic sector, the state-owned Myanmar Heavy Industry (MHI) Enterprise predecessor of MTEI (Myanma Machine Tool and Electrical Industries) produces heavy electrical machinery and electrical appliances, but none of its products are internationally competitive. Several Japanese and South

Korean companies have set up assembly export operations in Myanmar for electronic components (e.g., coils and transistors). A South Korean company (Daewoo Electronics) engaged in assembling VCR heads continues to operate with a staff of several hundred, but two Japanese companies have been compelled to close up their local operations before achieving their initial objectives because of the disincentive policies of the Myanmar government (problems with procuring imported parts/materials and difficulties in receiving authorization to change to a new area of assembly parts) and restructuring problems at the Japanese head office. Although not a foreign company, Earth Industry has been the focus of much attention as a local company engaged in the assembly export of electronic components. This company is a locally funded CMP company provided with assembly technology and supplied with parts/materials by a Japanese component company having an assembly site in Malaysia; all of the assembled components are exported. Though locally funded, the company has succeeded in the export business. This suggests that electronic components assembly operations will pay off for foreign companies even in Myanmar if a suitable investment environment can be established. Japanese companies would be the FDI target companies for electronic component assembly. Component companies that expanded into Malaysia and other ASEAN countries are now moving more aggressively into China, while the investment environment in Malaysia, the ASEAN country with the greatest concentration of electronics-related companies, has worsened as a result of inadequate labor resources and rising costs. These companies are beginning to examine measures to strengthen their competitiveness by redesigning the production system to create a more effective division of labor throughout the ASEAN region. With the conclusion of AFTA, this improved division of labor in the ASEAN region as a whole, including Myanmar with its great potential, is expected to be pursued in earnest.

The plastics industry, a supporting industry for a broad range of other industries that also supplies a variety of daily necessaries to the general public, features the participation of both state-owned and private companies. Problems with electric power supply have encouraged not a few private companies to move their operations to military-managed sites, and location conditions have created an obviously unequal competitive footing between SOEs and private companies and among private companies themselves. With private companies playing an expanded role in improving product quality, obstacles to resin imports (foreign currency procurement, etc.), should be eliminated and production transferred from SOEs to the private sector.

The software industry is one industry in which rapid expansion is possible. Investment efficiency is good as the principal investment required is personnel training, and it is very probable that the industry can be developed into an export-oriented one. In addition to personnel training, the start of sales development efforts to secure production orders from overseas and the modernization of computer/communications facilities through ODA and other foreign government support will be key triggers for industry development. Other triggers for the development of the software industry include free Internet access, greater use of broadband access, and expanded mobile communications, necessitating a variety of reforms in government regulations.

Although it is not part of the manufacturing sector, the tourism industry was also analyzed as described in the appended material. There are now a maximum of 10,000 seats available per week (200,000 per year at present) on airlines flying into Myanmar, but using Vietnam's target of 1 million tourists in the first half of the 1990s as an intermediate-term objective, Myanmar could potentially secure US$4-5 million in foreign currency revenues. This is a considerable opportunity to acquire foreign currency in light of the present scale of the country's exports. A series of measures should be urgently implemented in this regard, such as improving the issue of visas, increasing government efforts to promote tourism, supporting the development of package tours by private companies, and implementing tax reforms to help tourist companies strengthen their competitiveness.

2.2.2 Measures for the Development of Strategic Industries

The following table gives a general picture of the degree of the comparative advantage enjoyed by these strategic industries, the scale of the domestic market and the potential for acquiring foreign currency (through exports), the need for FDI in industry expansion, the burden of capital restrictions on industry growth, the technological level currently attained by Myanmar, and the possibility of the industries evolving over the long term (10-20 years).

Table 2-1 General Picture by Strategic Industries in Myanmar

Industry		Comparative advantage	Scale of domestic market	Potential for acquiring foreign currency	Need for FDI in industry expansion	Burden of capital restrictions on growth	Technological level attained	Potential for long-term evolution
Agro-based industries	Fertilizer (production)	○~△	○	×	○	Great	○	△
	Bio-fertilizers	○	○	×	○	Slight	△	○
	Insecticides	×	○	×	○	Slight	×	○
	Food processing	○	○	○	○	Moderate	△	○
Simple-labor-intensive industries	Garment	○	△	○	○ (CMP)	Slight	○	×
	Footwear	○	△	○	○ (CMP)	Slight	○	△
	Electronic component assembly	○	△	○	○	Slight	○	○
Skilled-labor-intensive industries	Plastics	○~×	○	×	○	Great	△	△
	Machinery	△	○	○~△	○	Great	×	○
	Electronic/electric	△	○	○~△	○	Great	×	○
Resource utilization industries	Natural gas	○	○	○	○	Great	○	△
	Lumber	○	○	○	○	Moderate	△	○
	Gemstones	○~△	○	○	○	Slight	△	○
	Tourism	○	○	○	○	Moderate	△	○
Other	Software	△	○	○	○	Slight	△	○
	Construction	—	○	×	○	Slight	△	○
	Shipbuilding	×	○	○	○	○	×	○
	Freezer warehouses	×	○	△	○	○	×	○

○: High/large △: Moderate ×: Low/small

Source: JICA Study Team

Overall, the following can be said with regard to the division of roles and level of competition between SOEs and private companies in the industries examined in this study.

- In the conditions of competition between SOEs and private companies, there are inequalities in a broad range of areas such as electric power costs and raw material procurement (one or two specific examples will be discussed later for reference).
- There are no clear-cut government guidelines on determining the respective roles to be

played by SOEs and private companies.

- The government regulations and pressure imposed on private companies in no way seem designed to promote private companies as leading economic entities that act in accordance with economic rationality (in plant investment, development of sales networks, etc.), and in a number of cases the development of companies and industries is actually being hindered.

Research on designing strategies for the future development of individual industries should be conducted as soon as possible; this will entail clarifying the status of industry organizations in each industry, accurately ascertaining the level of cooperation and competition between SOEs and private companies, conducting a detailed analysis of domestic markets, and analyzing trends in overseas markets and foreign companies (e.g., the possibility of FDI investment). Once strategies for individual industries have been drafted, it will be necessary to design an in-depth industry development strategy from a more macroeconomic perspective for the country as a whole. There is good reason to doubt the feasibility of the long-term industry development plan being implemented by the government based on reports from SOEs (on scheduled production volumes).

The following table provides more specific information on major strategic industries, indicating whether production is carried out principally by SOEs or private companies and what measures will be key to development of the industry in future. Considering generally the measures deemed necessary, we can make the following proposals.

(1) The division of roles between SOEs and private companies and the cooperation/competition between the two should be set out clearly. Although it is demarcated the type of industries to be carried out in the State Economic Enterprise Law (1989). Afterwards, the areas in which private companies can participate should be expanded in order to use the vigor and economic rationality of private companies to drive economic development.

(2) Even in those industries in which SOEs are already the principal driving force—agricultural machinery, fertilizer, and natural gas, for example—production of components should be ordered to private companies and facility maintenance should be outsourced more often to them, equipment/software/engineering should be procured from private companies, and the closed production systems within SOEs should be opened to the private sector.

(3) Industry development priorities should be immediately considered and set to foster rapidly and in order of importance those industries having the highest likelihood of substantial growth with relatively small investments, especially export industries—for example, the software industry and a tourism industry several times its current size (in terms of the number of tourists).

Table 2-2 Key Measures to Industrial Development of Strategic Industries in Myanmar

Production: SOEs/private sector			Measures key to industrial development
Agro-Based Industry	Fertilizer (urea)	Production monopolized by SOEs	• Expansion of natural gas supply (government distribution) • New plant construction (planning underway) • Support of expanded private sector exports (foreign currency)
	Bio-fertilizers	SOEs and private companies operate in parallel	• Promotion of expanded private sector participation • Government promotion of organic agriculture
	Insecticides	100% dependence on imports	• Introduction of FDI/technology
	Food processing	SOEs/private companies operate in parallel (overwhelmingly larger number of private companies)	• Introduction of FDI, improved technology for exports • Fostering of private companies • Strengthening of food processing administrative functions • Construction of logistics systems and related infrastructure
Simple-labor-intensive industries	Electronic component assembly	SOEs, locally-funded PMIs, some foreign companies	• Transfer of production from ASEAN, FDI introduction
Skilled-labor-intensive industries	Plastics industry (processing)	SOEs: 25-30%, private companies: 70-75%	• Transfer of SOE facilities to the private sector • Liberalization of resin imports • Liberalization of secondhand machinery imports • Stable supply of electric power to industrial complexes
	Machinery industry	• SOE-dominated industries (agricultural machinery, machine tools, other tools, engineering) • Small- and medium-sized metals processing companies (repair, etc.)	• Development of linkage between SOEs and private companies (order placement/receipt relationship and technology transfer to private companies) • Reform of agricultural machinery business into a core industry • Production for orders from ASEAN, solicitation of FDI (Reference: some private companies currently produce plastics machinery and copies of low-end machines)
	Electronic/ electric industry	• SOEs and some foreign companies (small-scale industry at present)	• Introduction of FDI • Receipt of orders for products and components as well as transfer of production from ASEAN
Resource sales	Fisheries Natural gas Lumber Gemstones	Consists mainly of 30 major private companies (offshore)	• Acquisition of offshore fishing vessel construction capability • Improvements in price controls and other government regulations
	Tourism industry	State-owned and private sector; private sector plays the principal role	• Policy improvements (visaless entry, arrival visas) • Investment in PR (especially assistance for the private sector through government investment) • Doubling of airlines flying into Myanmar • Intermediate- to long-term Infrastructure investment
New industry creation	Software	Main role played by approximately 1000 engineers in the private sector (there are also several hundred software engineers in the government, though not for business purposes)	• Creation of domestic markets through infrastructure investment and computerization of government organs (software order placement) via support from overseas • Expansion of industries receiving subcontract work from leading overseas software companies • Training of engineers (quantitative expansion, qualitative improvements)

Source: JICA Study Team

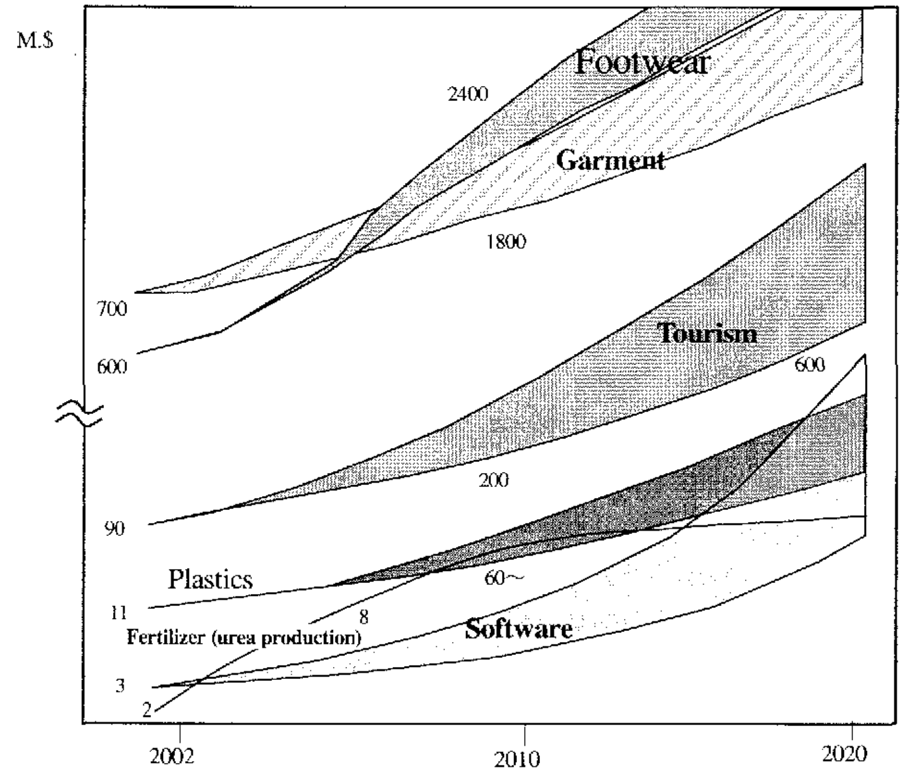
(4) Regulations that have hindered the expansion of private company activities—the ban on imports of secondhand machinery, the issue of tourist visas—should be reformed (by, for example, permitting visaless tourism by Japanese tourists).

(5) Attracting FDI plays an important role in many industries in the industrial sector. FDI is absolutely essential in strengthening the competitiveness of domestic industries (technical/management capabilities), training industry personnel, creating new industries, and dramatically expanding the acquisition of foreign currency in order to establish a next-generation industrial base for Myanmar. Naturally the ways in which foreign currency will be attracted will differ by industry, but a specialist office that cuts across the boundaries between ministries and agencies should be established and given comprehensive FDI strategy functions as well as responsibility for setting industry-specific solicitation priorities and implementing measures to attract FDI. One urgent measure that should be taken is the creation of a ministerial post with responsibility for FDI strategy and without SOEs (plants) to oversee.

(6) In order to not only enhance competitiveness and expand the major industries at present but also to foster future strategic industries, attract FDI from the neighboring Asian countries, analyze the possibility of expanding exports to Asia and the Western countries and design a strategy for doing so, collect information from various industries, provide it to a broad range of interested parties and promote its use, an "Industrial Research Center" (tentative name; see the chapter on HRD in this report) with research functions regarding individual industries must be established for the purpose of providing industry information.

Taking several of the aforementioned manufacturing industries as examples, the following diagram illustrates the scale of each industry from an intermediate- to long-term perspective.

Figure 2-5 Long Term Perspective (Scale of Industries for Industries in Myanmar



Source: JICA Study Team

For reference purposes, it is to discuss the disparity in competition conditions (the level of the playing field) for SOEs and private companies in plastics factories and legume sorting plants.

Assuming the market selling price for plastic to be 400 kyats/lb, the cost of the raw materials accounts for 85% of the total cost and electric power 12%. Resin costs SOEs 6 kyats/$, while private companies must procure it at market rates (essentially an 8%+ increase in the import price because of dollar-denominated purchases from export companies), producing an overwhelming disparity in product pricing in the market. Because of their low quality, however, most SOE products are in fact only sold in mostly government markets. A considerable portion of these products becomes recycling raw material for private companies. In other words, SOE products are priced so cheaply that they can hold up to competition from private companies even as recycling material.

There is an extreme disparity of 1:50 in electric power costs between SOEs and private companies operating in industrial complexes. Many private companies have set up their production bases on military-owned sites, however, so the electric power consumption of individual companies cannot be determined; even including miscellaneous costs, however, these companies incur only 20-25% of the costs that companies in industrial complexes do. Private plastics companies in industrial complexes are not so much in competition with SOEs as they are with private companies who, through special routes, are allowed to operate on military-owned sites. Electric power consumption on military-owned sites has recently become subject to restrictions, though, and private companies are being directed to relocate.

The legume sorting plants of state-owned enterprises (both SOEs and private companies can freely export their products) presently enjoy several advantages due to government policies and systems. The disparity in electric power costs is similar to that above. A 10% export tax is applied to private companies, but there is no major disparity in wage levels between the two. SOEs are able to obtain the latest market information in weekly bulletins from the Department of Agricultural Planning. The biggest difference is the facilities they possess; SOEs have introduced more up-to-date facilities, paid for out of the national treasury, with which they are able to achieve higher quality than private companies.

Table 2-3 Comparison of Competition Conditions between SOEs and Small- to Medium-sized Private Companies in Plastic Bag Production (Private Company A Operating in an Industrial Complex)

Major areas of divergence	SOE	Private company A
Raw material procurement		
(resin import)	Foreign currency allotted by government at 6Kyat/$(making possible a low selling price for products)Import price unknown Licensing easy	Foreign currency purchased at market rate + alpha (products sold in general competition) CIF $550/ton Three months from payment to import (interest rate 15-16%) Risk of confiscation of raw materials by government (Note 1)
Electric power and other costs		
(Electric power rates)	0.5 Kyat/kwh	25 Kyat/kwh (non-private electric power generation) (Note 2: plants on military-owned sites separate)
(Land)	Almost entirely free	8-9 million Kyat/acre in an industrial complex Plants dispersed for production because of unstable electric power supply, a factor in higher costs
(Machinery import)	Costs unclear (ban on import of secondhand machinery)	Possible to obtain more cheaply than SOEs (Case of Company D starting business with imported secondhand machinery)
Worker wages	- 3,000-10,000Kyat/month - Paid in rice or other goods - Purchase of SOE products at discount price	8000-15,000 Kyats/month or meal expenses and housing
Plant operation	24 hours (3 shifts)	24 hours (2 shifts)

(Non-PP woven bags)

Note 1: The risk arising when one of several foreign currency sales customer companies (company C, which desires imports) of export company B (company A purchases the foreign currency) commits an illegal act and the government prosecutes company B.

Note 2: Unstable electric power supply has driven many plastics companies to set up operations on military-owned sites. The electric power rates are extremely vague (joint use throughout the military facilities and no individual meters).

Source: JICA Study Team

Chapter 3

Master Plan for the Promotion of Foreign Direct Investment

3. Master Plan For the Promotion of Foreign Direct Investment

3.1 Current FDI in Myanmar

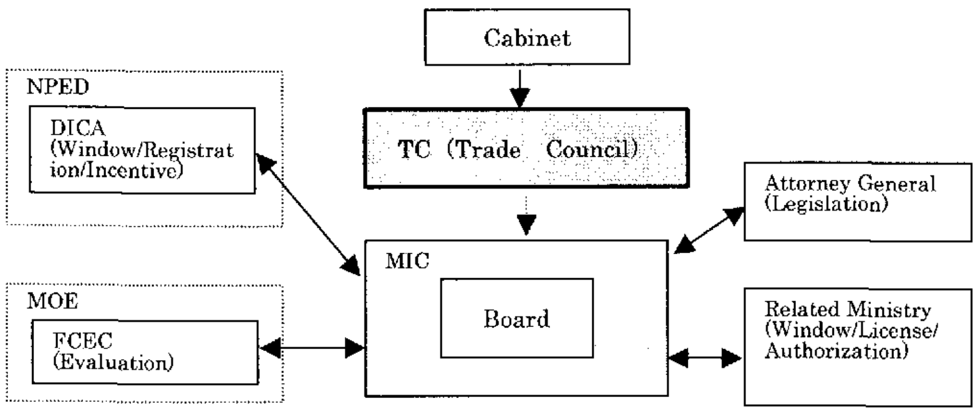
(1) Oganization for FDI policy

In 1998, the Myanmar government promulgated the Foreign Investment Law (FIL), opened the door to siting by foreign firms, and began to take active measures to attract foreign direct investment (FDI). The FIL is thought to have been prepared upon research of precedents in older members of ASEAN with adjustments for circumstances distinctive to Myanmar. It incorporated establishment of an organizational setup and authority for FDI policy (e.g., a commission and a board), the determination of industrial fields with prospects for attraction of FDI, and provision of incentives such as corporation tax exemptions and deductions for a certain period.

The MIC (Myanmar Investment Commission) was given its current name in 1993, when it was given the authority to handle domestic investment as well. In addition to two personnel on the level of deputy prime minister, its board originally consisted of the heads of 12 ministries. More specifically, it has been chaired by the Minister of Science & Technology, and had a membership of the four ministers of Electric Power, Commerce, Energy, and Finance & Revenue, for a total of five since 1998. Its powers in FDI policy deployment are said to have been weakened in the process.

The MIC is a commission composed of the board and the secretariat supporting the board. As a result, it depends on the Directorate of Investment & Administration (DICA) under the National Planning and Economic Development (NPED) and the Attorney General for the provision of window, registration, and other services; on the Foreign Capital Evaluation Committee (FCEC) under Minister of Energy (MOE) and certain other ministries for examination of proposals and deliberation on issuance of export-import licenses; and on the Trade Council (TC), which is superior to it, for approval of investment projects and decisions on major items of FDI policy.

Figure 3-1 Administrative Organization Related to FDI Policy in Myanmar (MIC)



Source: JICA Study Team.

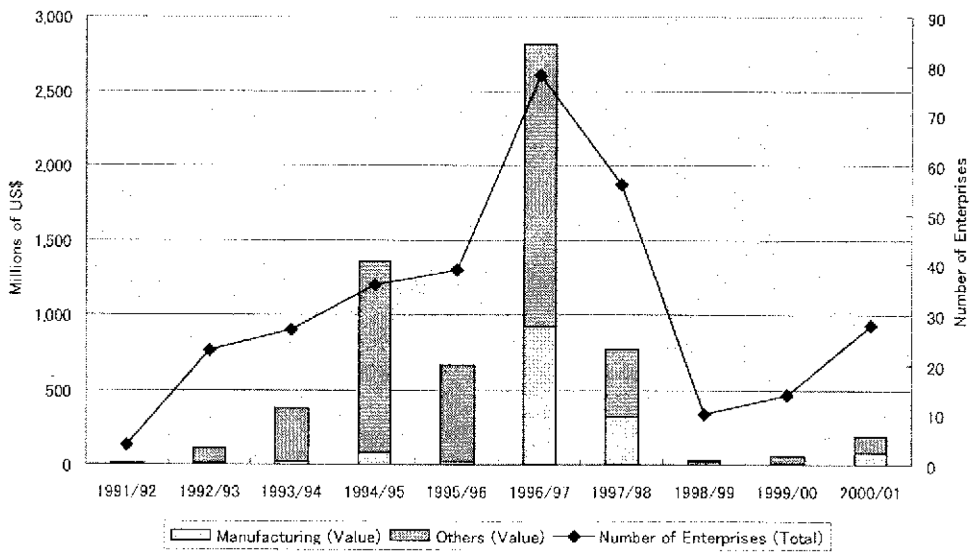
(2) Actual trend of FDI

The enactment of the FIL in 1988 was followed by an upsurge of expectations for democratic reforms into the mid 1990s. In this atmosphere, FDI rapidly increased and reached more than 2.8 billion dollars (on the approval basis) in 1996. However, the subsequent setback of the movement for democracy combined with the influence of the Asian currency crisis to hold FDI to a low level beginning in 1997. Up to and including fiscal 2000, approved FDI came to a cumulative 355 projects and 7.1 billion dollars. The latter figure represents 1.5 percent of the corresponding cumulative amount (of about 470 billion dollars) for combined FDI in ASEAN countries over the years 1988 - 2000. Coupled with the recent recovery of FDI in other ASEAN countries, this situation shows how seriously the continued Western economic sanctions are impeding the FDI inflow into Myanmar.

The breakdown of the cumulative FDI on the approval basis by country of origin reveals that UK firms and Singaporean firms have the largest shares at about 20 percent each, followed by firms from Thailand at 17 percent and those from Malaysia at 9 percent. The share occupied by other ASEAN countries has risen in relative terms and now accounts for about 50 percent of the total.

In terms of type of industry, the oil and gas sector accounts for the lion's share of the cumulative FDI at 33 percent, followed by manufacturing sector at 22 percent. In terms of the number of projects, however, the manufacturing sector has the leading share at about 40 percent. Manufacturing sector FDI is concentrated in the two years of 1996 and 1997.

Figure 3-2 Trend of FDI in Myanmar (Approval Basis)



Source: Directorate of Investment and Company Administration, Directorate of Hotels and Tourism, Directorate of Trade

(3) Factors impeding FDI

1) External factors

The economic blockade imposed by Western governments is not only discouraging siting and import by Western firms; it is also behind the stagnation of siting by firms from Japan and other Asian countries, cessation of official development assistance (ODA), and suspension of financing from the World Bank and IMF.

In response to the Asian currency crisis, the IT boom, and subsequent IT bust, Japanese and other foreign firms with extensive investments in the ASEAN region were pressed to reconstruct their existing production locations, expand their capacities, and then contract them beginning in the late 1990s.

As evidenced by its establishment of special economic zones, China is deploying aggressive policy for attraction of FDI, which is drawn by its abundance of low-cost labor and the vast potential of its domestic market. In their FDI, many developed-country firms have consequently accorded more priority to China than to ASEAN countries.

2) Domestic factor

The aforementioned law for promotion of FDI was prepared with consideration of precedents in neighboring countries that are members of ASEAN, but the legal and institutional setup could not be regarded as vigorously promoting and encouraging investment from other countries. Similarly, many specialized defects of various kinds remain in areas such as labor laws and regulations, resolution of disputes, the tariff system, and intellectual property rights.

Figure 3-3 Internal Factors Impeding FDI

■ FDI-related legislation	- Positioning of FDI and FDI policy in the context of overall economic policy - Stance of FDI attraction in the FIL(Foreign Investment Law)
■ FDI-related organization	- Weakening of the MIC's authority in FDI policy - Dispersion of the organization for FDI-related work in the MIC
■ FDI policy operation	- Concentrating of authority related to FDI policy in the TC - Complex procedures and frequent policy changes - Restrictions on corporate establishment (minimum capital, limits on interest in JVs, etc.) - Restrictions on business activities (export-import license, export tax, overseas remittance, etc.) - Restrictions on CMP firms (export-import license, frequent business reports, exchange rate, etc.)
■ Industrial infrastructure	- Underdeveloped status of the socioeconomic infrastructure of power, communications, transportation networks, etc. - Lack of EPZs with basic infrastructures of power, etc., and one-stop service capabilities
■ Economic policy	- Multi-tiered exchange rate system - Dual price system - Vested interests of state enterprises and other public-sector entities (export-import license, etc.)

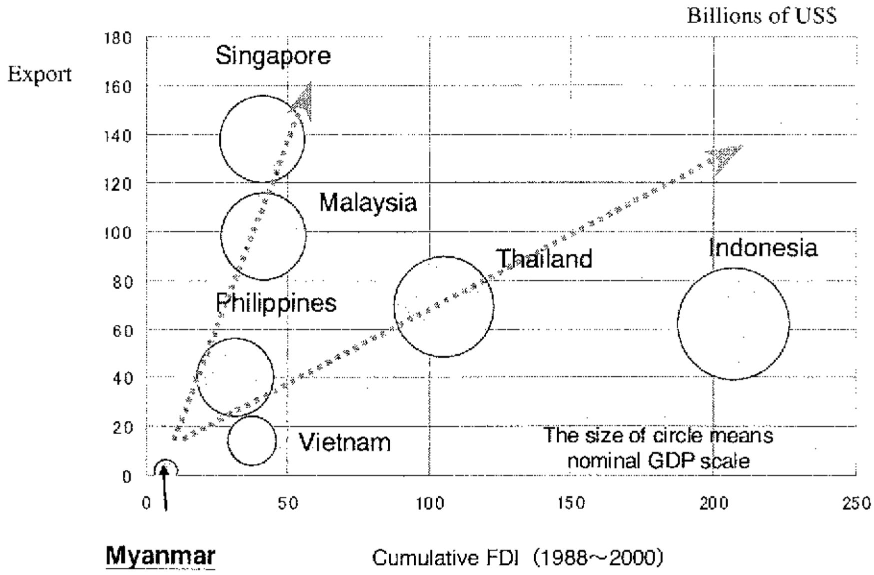
Source: The JICA Study Team.

In addition to the Western economic sanctions, shortage of foreign exchange, the tiered exchange rate system, and other negative factors in the politicoeconomic landscape, Myanmar is saddled with an underdeveloped infrastructure of power supply and industrial estates, a decline in the level of FDI administrative competence in MIC owing to the consolidation of such authority in the Trade Council (TC), and inconsistency in operation of policy (which acts as a disincentive). All of these are major factors are inhibiting the inflow of FDI.

3.2 Extended Effects of FDI in Major ASEAN Countries

As shown in the figure below, other ASEAN countries achieved high rates of economic growth beginning in the 1980s thanks to the FDI-driven contribution to export (for earnings of foreign exchange), creation of employment, and technology transfer. FDI is also helping them to acquire potential for further advancement in the future.

Figure 3-4 Correlation between Cumulative FDI, Export and GDP in ASEAN Countries

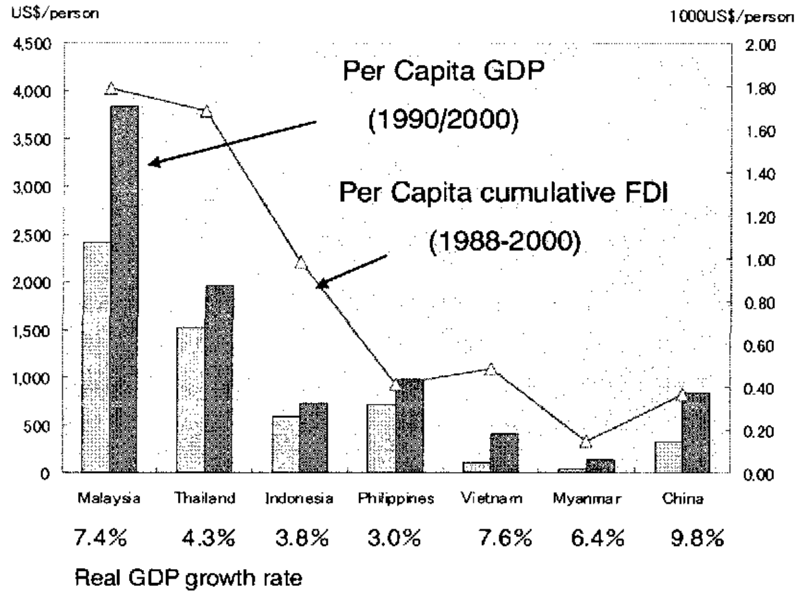


Source: Statistical data related to export and FDI in each country

As compared to these other ASEAN countries, the Philippines and Vietnam are less developed, have population sizes closer to that of Myanmar, and instated substantial policy for attraction of FDI at about the same time in the latter half of the 1980s. Like Myanmar, they are regarded as containing considerable "country risk" in the eyes of foreign investors. Nevertheless, they have thus far attracted much more FDI than Myanmar.

In other words, this record indicates that, over a period of slightly over ten years, the Philippines and Vietnam made significant improvements in their FDI policy and organization for attraction, and also in investment circumstances for foreign companies. Therefore, study of the cases of the Philippines and Vietnam may be expected to yield precious pointers for work aimed at preparing an FDI Masterplan in Myanmar.

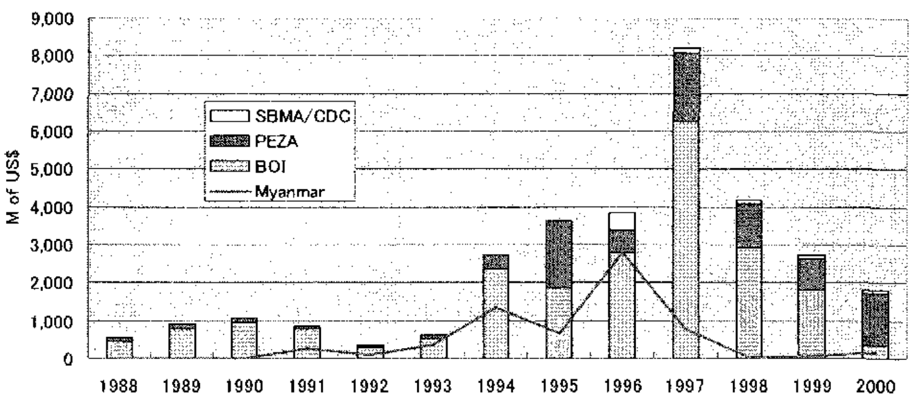
Figure 3-5 Correlation between Per Capita Cumulative FDI and Per Capita GDP(2000)



Source: Macroeconomic statistical data for each country

A case study in neighboring countries such as the Philippines and Vietnam indicates that FDI can have enormous extended economic effects for creation of employment, expansion of export, and technology transfer. The following items have been identified as prerequisites for FDI attraction: (1) conditioning of the infrastructure of electrical power, etc.; (2) establishment of special economic zones and/or export processing zones; (3) strengthening of the capabilities of the FDI administrative agencies; (4) diversification of entities involved in FDI attraction (delegation of authority and EPZ management); and (5) reinforcement of promotional efforts.

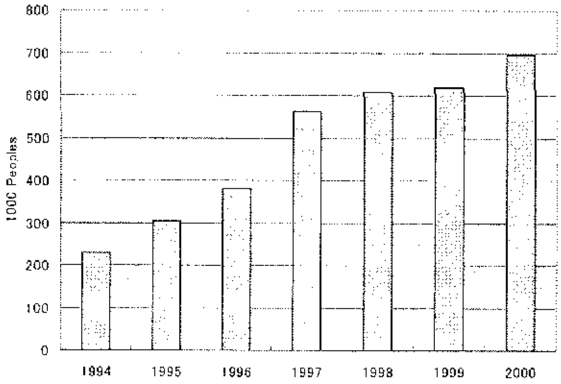
Figure 3-6 Actual Trend of FDI in the Philippines (Approval Basis)



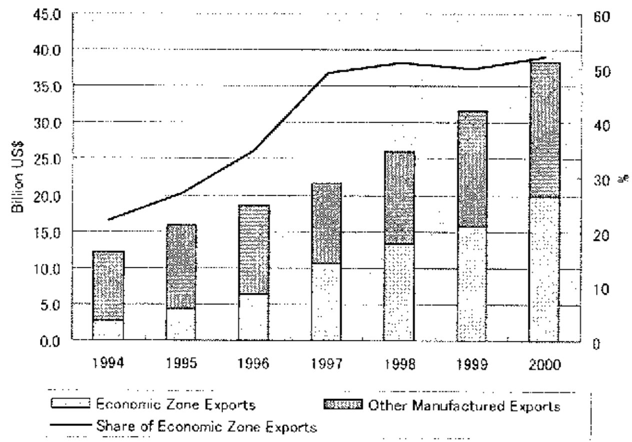
Source) BOI Material、PEZA Material

Figure 3-7 Effects of FDI Attraction in the Philippines (Employment/Export)

Economic Zone Employment

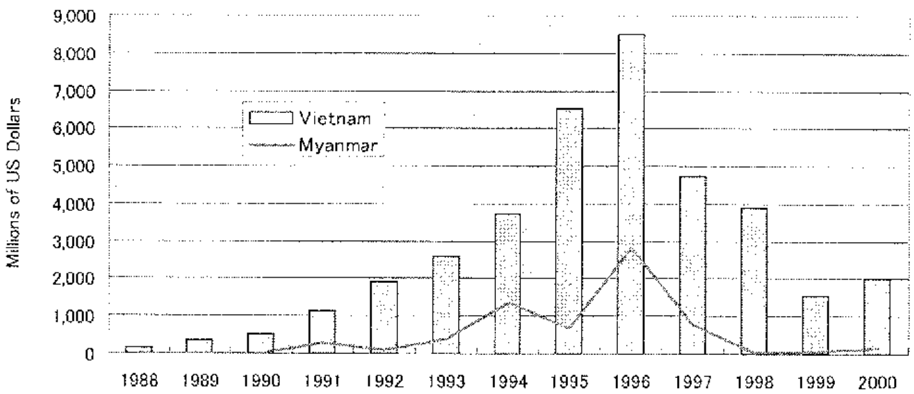


Economic Zone Exports



Source: PEZA Material

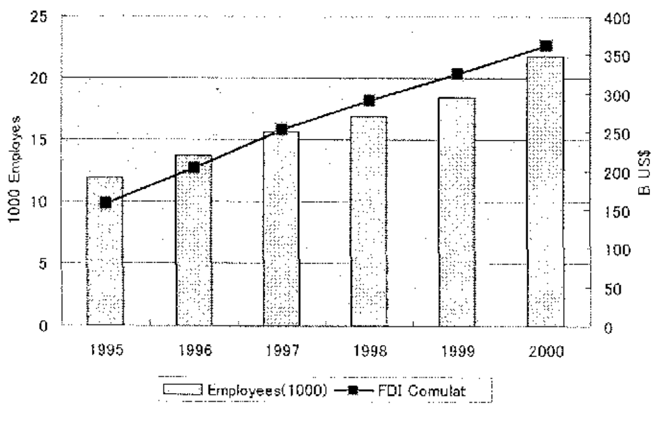
Figure 3-8 FDI Attraction in Vietnam (Approval Basis)



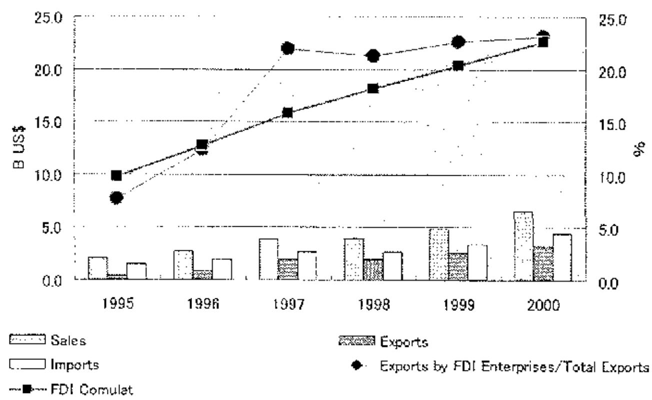
Source: MPI data

Figure 3-9 Extended Affects of FDI (Employment/Export)

Cumulative investment and number of people employed at FDI firms



Cumulative investment and trend of sales, export, and import by FDI firms



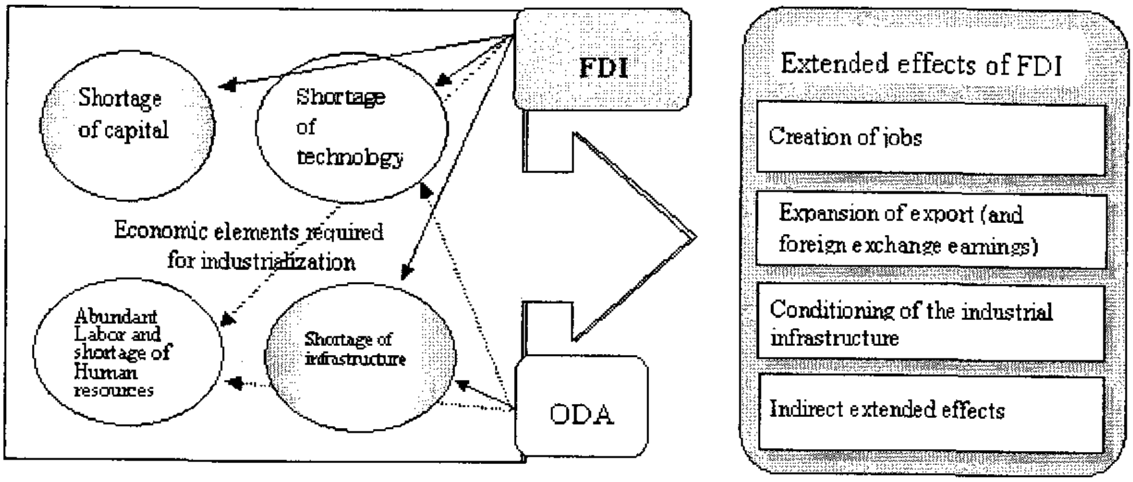
Source: MPI Material in Vietnam

3.3 FDI Need and Promising FDI Sectors in Myanmar

(1) Need for FDI in Myanmar

The major economic elements needed for promotion of the strategy for industrialization to achieve the industrial vision are infrastructure (electrical power, telecommunications, transport/physical distribution, industrial estates, etc.), capital (facility investment and operating funds), technology (manufacturing, product, and management/administration technology), and labor (workers, engineers, middle managers, and executives).

Figure 3-10 FDI Need and Extended Effects



Source: JICA Study Team

Myanmar has a shortage of all of these elements except labor. Aggressive promotion of FDI for prompt resolution of these shortages is a matter of top priority. The creation of employment opportunities through FDI could also be expected to expand export (and earnings of foreign currency) and improve the industrial infrastructure. It should be noted that conditioning of the socioeconomic infrastructure is also indispensable for FDI, and efforts ought to be made for the resumption of ODA in parallel with or advance of FDI.

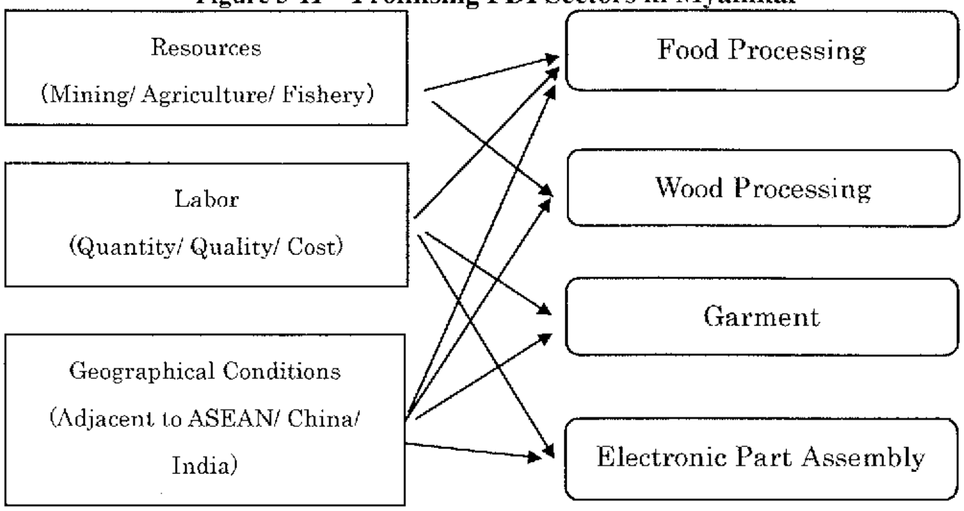
(2) Promising FDI Sectors

In some manufacturing sectors, Myanmar should positively attract foreign capitals with priority for the time being to promote her exportation and secure employment opportunities. These sectors may well be considered as two: one is the nation's leading agricultural/marine resource-utilizing type industry and the other the labor-incentive industry, with her environments of competition against peripheral countries and her division-of-labor structure taken into consideration in addition to her reserved resources, existing industry footing and potential manpower (ample low-cost labor).

The two industrial sectors referred to above may well be considered as the industries where Myanmar has comparative advantages over neighboring countries. A foreign capital also shows a strong tendency to seek a highly profitable business with investments limited to an envisaged size. Those lines of business, which may well be considered to have higher priority in attracting foreign capitals, are the following four industrial sectors, (1) Garment, (2) Wood Processing, (3) Food Processing and (4) Electronic Part Assembly.

Out of the four industrial sectors, the former three or (1) Garment, (2) Wood Processing and (3) Food Processing have already had a certain level of resource/industrial footing while domestic capitals are showing a field-proven result of exportation. These three industrial sectors should be considered to have higher priority in attracting foreign capitals. For domestic resource- based sectors, such as wood processing and food processing, however, their business deployment has a limitation in significantly expanding their exportation.

Figure 3-11 Promising FDI Sectors in Myanmar



Source: JICA Study Team

The garment sector, on the other hand, does not allow for an optimistic view of exportation since a quota system has been established and there are some import controls in Europe and America. Besides, there is a very severe competition against China and Vietnam. Myanmar, however, is potential enough to compete against China and Vietnam in terms of labor forces and labor cost. In addition, she has been enjoying an application of exceptionally privileged tariffs on exportation to Japan.

The electronic part assembly sector will be almost entirely dependent upon the foreign capitals of Japanese origin. Every ASEAN member country and China has positively attracted electronics-related enterprises, including parts vendors, and has been promoting the employment, export expansion and technology transfer. And this attitude of attaching importance to investments in the field from now on has remained unchanged and it is anticipated that the countries involved will compete more and more vigorously around FDI. To attract FDI enterprises in the field, therefore, it is necessary to boldly build up the investment environments in domestic infrastructure.

3.4 Medium/Long-term FDI Targets for Myanmar

Studies were made of the trends of FDI in neighboring countries such as the Philippines and Vietnam, and the changes in the investment climate surrounding the industries of relative advantage. Based on the findings of these studies and the actual trend of FDI in Myanmar so far, the values shown below were chosen as the medium-to-long-term targets for FDI (i.e., for cumulative FDI to 2020, number of siting firms and FDI-created jobs, and amount of FDI-generated export). Two sets of targets were established for cumulative FDI and other items: higher and lower. The higher targets are premised on the lifting of Western economic sanctions within a few years (two or three) and swift improvement of the investment climate, and the lower targets, on the lifting of sanctions later (in four or five years) and more gradual improvement of the investment climate.

Table 3-1 Long-term Targets for FDI Attraction in the Myanmar Manufacturing Sector

		2000	2005	2010	2015	2020
Cumulative FDI (billions of US$)	Lower target	7	12	20	32	40
	Higher target	7	15	30	45	60
Number of siting firms (Number of firms)	Lower target	400	700	1,200	2,000	2,700
	Higher target	400	900	1,900	3,000	4,000
Number of employees (thausans of persons)	Lower target	150	250	400	600	700
	Higher target	150	300	550	800	1,000
Amount of export (billions of US$)	Lower target	2	3	23	40	50
	Higher target	2	4	38	60	80

Source: JICA Study Team

In each case, the targets appear extremely high as compared to the current status in Myanmar. However, they are by no means unattainable, considering the latent development potential, prospects for resolution of the factors impeding FDI, and the cases of success in neighboring countries. While achievement of the targets will be heavily influenced by external factors (such as the investment climate and the disposition of FDI firms), it is vital for Myanmar to prepare circumstances that are conducive to economic activities by and hold benefits for FDI firms, i.e., that make it possible to set up a "win-win" relationship between the country and these firms. Although the task of improvement will not be an easy one, Myanmar should immediately set about the measures described in the succeeding section for reform of FDI policy while also taking the steps needed for lifting of the sanctions.

3.5 Strategy of FDI Attraction in Myanmar

(1) Measures for improvement of FDI policy

The following items are indispensable for FDI attraction in Myanmar: A. preparation of a long-term national plan for industrial advancement, B. rationalization of financial policy (in respect of exchange and foreign currency), C. conditioning of the industrial infrastructure, and D. emergence from the circumstance of economic sanctions. On the assumption that these preconditions will all be met simultaneously, in order to attract an extensive inflow of FDI, the Myanmar government must provide for the forceful promotion of the measures noted below for improvement of FDI policy, while gaining the cooperation of other countries.

Figure 3-12 Measures for Improvement of FDI Policy

Far-reaching revision of FDI laws, regulations, and policy →	- Clear division of FDI roles (stronger promotion/encouragement in the context of law for promotion of foreign investment) ■ Enactment of law for economic zones (Special Economic Zone Act) - Flexible operation of measures acting as incentives ■ Early elimination of measures acting as disincentives
Reconstruction of the FDI policymaking organization →	■ Organization of an authority for special economic zones (tentatively termed the "Myanmar Economic Zone Authority" or MEZA in the report) - Review/reinforcement of MIC capabilities - Delegation of authority for FDI policy - Strengthening of capabilities for inter-agency coordination
Preparation of bonded/export processing zones (EPZs) →	- Preparation of bonded processing zones ■ Development of EPZs in accordance with the Special Economic Zone Act ■ Full assortment of one-stop services - Administration and management of EPZs (self-funding) by MEZA
Improvement of capabilities for FDI promotion →	■ Membership in the Japan ASEAN Center - Organizational setup for promotion directed to other countries (including after-siting/follow-up services) - Strengthening of capabilities for analysis of industry in each sector
FDI-related human resource development →	- Development of human resources for FDI policymaking - Development of human resources for EPZ management and operation - Development of executives, middle managers, and engineers

Source: JICA Study Team
Note : ■ The policy Issue to be handled immediately

(2) Far-reaching revision of FDI laws, regulations, and policy

Myanmar must undertake a thorough revision of FDI legislation and policy including clear definition of roles (for stronger promotion and encouragement in the context of the FIL), enactment of the Special Economic Zone Act, flexible operation of incentive measures, and early elimination of disincentives. It also must swiftly develop EPZs to provide estates where FDI firms can site with confidence.

1) Clear division of FDI roles

In Vietnam and other neighboring countries, law for promotion of foreign investment is amended and revised in correspondence with the internal and external climate for investment. In Myanmar, the FIL is strongly colored by a selectivity regarding types of industry to be attracted, and its provisions for attraction are restrained. It should be revised for a more positive tone as regards FDI positioning and privileges, so that it actively induces FDI contributing to achievement of the industrial vision.

2) Enactment of law for economic zones (Special Economic Zone Act)

Fully provisioned EPZs are essential for FDI attraction. The experience of Korea, other ASEAN countries, and China shows that extensive siting by FDI firms comes only when EPZs are readied. In developing EPZs, Myanmar must specify the areas and enact ad-hoc law stipulating relaxation of domestic regulations and taxes for firms siting in them.

Generally, EPZs offer a blanket relaxation of related domestic regulations and tax conditions for siting firms (both domestic and foreign) in various fields, such as agro-industry, other industry, commerce/trading, tourism, investment, and financing. If domestic circumstances make it impossible to revise legislation in the whole spectrum of fields, Myanmar should at least make priority studies of and enact the Special Act, which would be aimed exclusively at attraction of FDI by export-oriented manufacturers engaged in processing and assembly.

Together with the Special Act, Myanmar must enact legislation for privatization of the power sector through BOT schemes, for example, in order to encourage conditioning of the EPZ infrastructure. At present, the Ministry of Electric Power is continuing with its systematic efforts for resolution of power shortages amid the lack of financial resources, and is negative about the option of privatization. In other countries, however, it is normal practice to permit the participation of private-sector capital through BOT and other schemes in order to build up the power supply as needed to attract FDI linked to industrial advancement. Myanmar, too, should move quickly to enact legislation that will lead to an adequate supply of power for EPZs through measures that are holistic and based on economic rationality.

3) Early elimination of measures acting as disincentives

Among the factors impeding FDI in Myanmar is a certain disincentive in the aspect of policy operation. Although this derives partly from Myanmar's political and economic attitude as exemplified by its stance on FDI, much of it springs from the neglect to give a clear positioning to FDI in the context of industrialization plans, and a definite priority to FDI policy in that of economic policy, against the backdrop of the economic sanctions and shortage of foreign currency. Myanmar must recognize the critical importance of FDI for adjusting the industrial structure and achieving economic growth, accord it a higher degree of policy priority, and do its utmost to eliminate measures acting as disincentives, as described below.

◆Complex procedures and frequent policy changes
◆Regulations related to establishment of enterprises
◆Regulations impeding business activities
◆CMP regulations

(3) Reconstruction of the FDI policy organization

1) Diversification of entities executing FDI policy (establishment of MEZA)

The MIC must accord equal treatment for the investment projects of domestic and foreign firms, and could not offer incentives favoring the latter, even in the operation aspect. In addition, the entity promoting FDI must be endowed with the capabilities for involvement in the development and operation of industrial estates (EPZs) as FDI sites. This is behind the proposal of establishment of the Myanmar Economic Zone Authority (MEZA) in connection with the enactment of the Special Economic Zone Act.

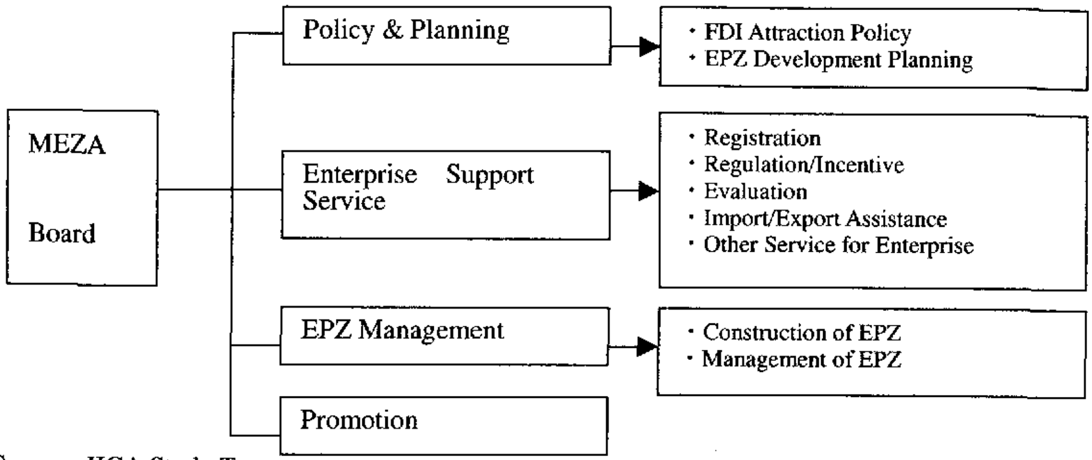
Whereas the MIC would have to offer the same incentives for both domestic and foreign investment, MEZA could devote itself exclusively to attracting the latter. To this end, its organization should include separate departments for revising related legislation and drafting policy; accepting applications, registering firms, and performing other office work; promoting investment; and operating and managing newly developed EPZs.

Figure 3-13 Function of MEZA and MIC

MEZA (tentative name)	· Concentration of FDI attraction (provision of incentives favoring FDI in the operational aspect) · Institution of a board with a high status · Capabilities for revision of FDI-related legislation and proposal of policy · Capabilities for performance of work such as acceptance of applications, examination of projects, and registration · Capabilities for provision of one-stop services · Capabilities for investment promotion · Capabilities for operation and management of newly developed EPZs · Funding with income from EPZ operation and management
MIC	· Equal treatment of foreign and domestic investment projects, as to date · Institution of a board with a high status · Capabilities for revision of FDI-related legislation and proposal of policy related to investment (domestic and foreign) · Capabilities for performance of work such as acceptance of applications, examination of projects, and registration · Capabilities for provision of one-stop services · Capabilities for investment promotion · Funding from the national treasury

Source: JICA Study Team

Figure 3-14 MEZA Organization



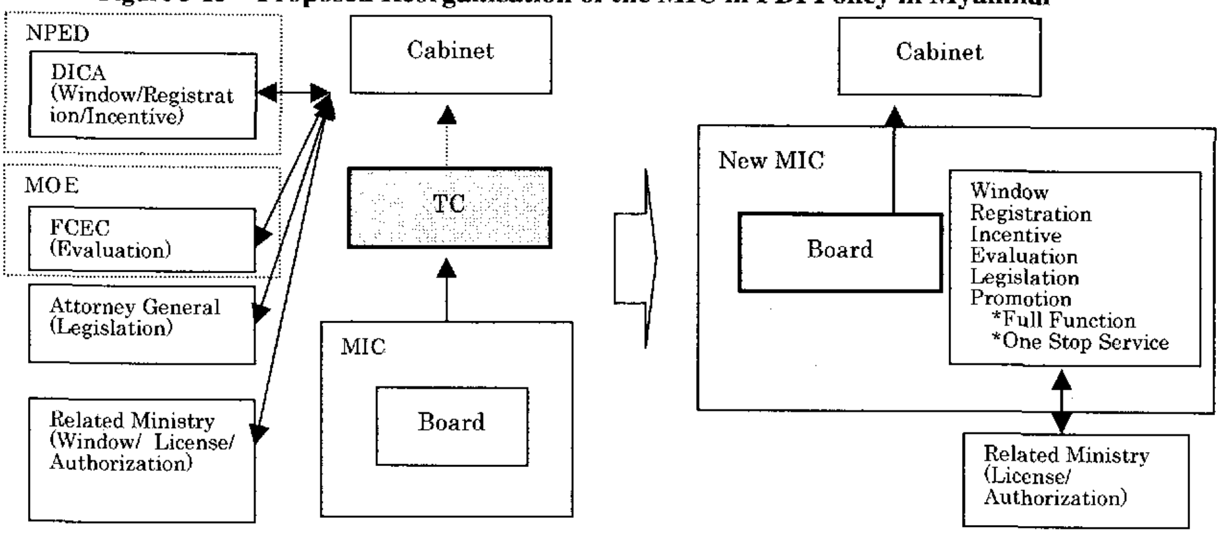
Source: JICA Study Team

The key tasks in establishing MEZA are as follows: a) preparation of laws and regulations enabling forceful promotion, under private-sector leadership, of in-earnest EPZ development; b) direct operation and management of the newly developed EPZs by MEZA; c) funding of MEZA's operation by the income from EPZ operation and management, and d) attachment of MEZA directly to the prime minister's office (or equivalent organ) to make its board more authoritative.

2) MIC reorganization and reinforcement

The renewed MIC should be organized along the lines of the BOI in the Philippines and have an effective unit (board) for practical decision-making related to FDI policy. It should also be equipped with the requisite capabilities in three areas: revision of related legislation and drafting of policy, performance of application acceptance and registration work, and promotion of investment.

Figure 3-15 Proposed Reorganization of the MIC in FDI Policy in Myanmar



Source: JICA Study Team

A status as an independent entity would be preferable for heightening the degree of priority placed on FDI attraction in the context of national policy. However, it would presumably also be vital for the entity with authority over FDI policy to remain under the NPED, if there are good prospects for the instatement of policy to attract FDI based on the national economic plan to be executed by the NPED.

(4) Development of bonded/export processing zones (EPZ)

1) Bonded processing zones

It is important to develop fully provisioned EPZs to serve as sites for acceptance of FDI. At the same time, consideration must be taken for the FDI firms already in Myanmar and export-oriented firms which come in the future but decide not to site in EPZs for various reasons. For these firms, it would probably be effective to instate a scheme of bonded processing zones, which would not require substantial legislation.

At present, procedures required for bonded processing are being carried out at organizations and facilities in the vicinity of the port of Yangon. In the case of production plants sited on the outskirts of Yangon or in provincial cities such as Mandalay, ports must be visited to perform procedures on each occasion of material import or product export. This could be avoided by sending personnel from bonded processing offices to provide services for each major siting firm or opening a bonded processing office for several plants in the vicinity.

2) EPZ development and conditioning

To attract siting, Myanmar cannot merely offer the industrial estates developed thus far; establishment of export processing zones (EPZs) is an urgent task. Such zones are to be equipped with a highly developed infrastructure of electrical power and other elements, facilities for bonded processing (use of 100-percent imported materials for processing and assembly, and export of 100 percent of the output), and one-stop services for execution of procedures for application to concerned ministries and administrative agencies, for example.

It is obvious even from the cases of other ASEAN countries and China that extensive FDI cannot be attracted without EPZs. EPZs are absolutely essential in fields such as garment-making and electronic component assembly, where firms will have to depend entirely on imported materials for the time being and will export the entire output. Other ASEAN countries and China are vigorously developing such EPZs, which allow tenants to carry on their activities unencumbered by a lot of domestic regulations while enjoying incentives. Attraction of FDI through EPZs has helped them to generate employment, earn foreign currency, and achieve economic growth.

To take a realistic approach to EPZs, Myanmar would not have to make big expenditures for the development of completely new ones. Physically, it would be possible to prepare EPZs in a comparatively short time by equipping the existing industrial estates developed through collaboration between existing firms and the government (such as the

Mingaladon estate), and others remain largely unoccupied because of insufficient infrastructure. This could be done by endowing them (or sites adjacent to them) with dedicated electric power facilities and one-stop services for customs clearance and other items.

The approach should begin with the establishment of a few EPZs in the Yangon area, with a view to creating cases of successful EPZ siting and business, mainly by firms in the garment-making industry, which could be expected to consider siting in Myanmar even earlier than those in other industries. Once it can demonstrate its abilities for skillful management of EPZs in the garment-making industry to all parties, Myanmar could set about developing new EPZs with even better services for firms assembling electronic components.

New EPZs could be developed as joint-venture projects pairing the Myanmar government with private enterprises (domestic and foreign) as to date, and operated and managed by MEZA as described above. While development would be premised on FDI firms, the future holds the possibility of receipt of public-sector support from Malaysia and other more developed ASEAN countries in connection with intra-ASEAN economic cooperation. Through these and other approaches, the number of newly developed EPZs is anticipated to reach about five within the next few years, 10 - 20 around 2010, and 40 - 50 around 2020.

(5) Reinforcement of capabilities for investment promotion

Both the Philippines and Vietnam view promotional activities among foreign firms with great importance and are reinforcing capabilities for them. For investment-promoting entities such as PEZA, which operates and manages EPZs and depends on revenue from this operation and management to fund its own activities, these activities are indispensable to attract investment.

In Myanmar, there have been almost no promotional organizations or specific activities for attraction of FDI even by the MIC. The coming years are bound to see intensifying competition among ASEAN countries themselves and with China for attraction of siting by foreign firms. This points to a need for clear positioning of promotional activities, the preparation of capabilities for provision of information on the investment conditions to foreign parties, and the conduct of ongoing sales campaigns aimed at foreign firms that are promising potential investors at the entities executing FDI policy (i.e., the MIC and MEZA).

With financial assistance from the Japanese government, the Japan ASEAN Center engages in activities to support efforts to attract FDI, promote export, and develop tourism in ASEAN countries. Cambodia and Laos, two other less-developed ASEAN countries, recently became members. The Myanmar government, too, is apparently staying in fairly close contact with the Center through its embassy in Japan, visits to Japan by its ministers, and its participation as an observer in the Center's board meetings staged in ASEAN countries. It still has not decided to apply for membership, however, because it retains doubts about cost effectiveness and the requisite provision of internal information and data.

Upon payment of relatively low annual dues of between roughly 5 and 10 million yen each, the member-countries can look forward to receiving all sorts of support from Japan in their efforts to attract FDI, promote export, and develop tourism. It would be hard to say whether Myanmar would reap tangible benefits for FDI attraction soon after entry, because a lot depends on the climate of investment inside and outside the country. This reservation noted, Myanmar could probably expect considerable benefit, even over the relatively short run, in the aspect of tourism and trade. The JICA Study Team recommends immediate application for membership.

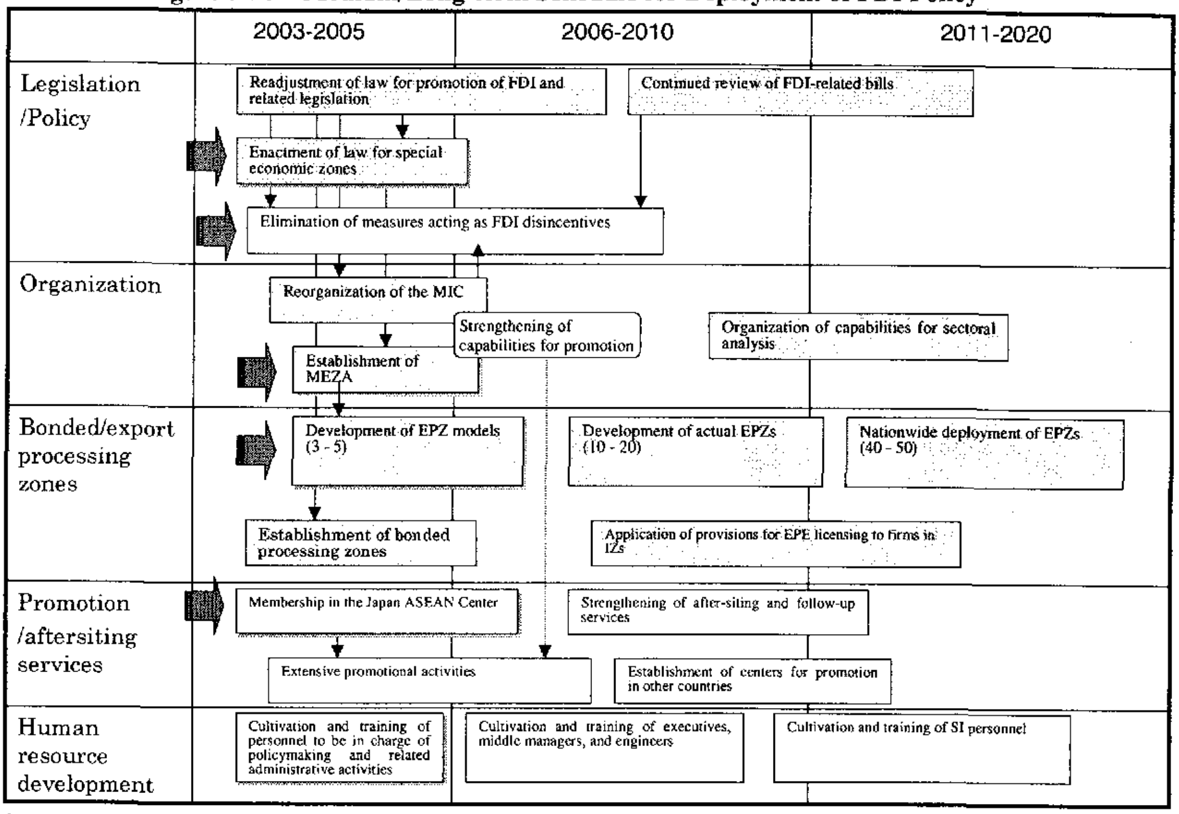
(6) Medium- and Long-term FDI Policy Deployment Time Schedule

A menu of the FDI-related policies in Myanmar could be positioned in a medium/long-term timeframe as referred to below. The FDI that bears exportation on the shoulder is an effective means that would allow Myanmar to dissolve her serious foreign currency deficiencies. And there are a lot of political issues that Myanmar should tackle with in attracting FDI enterprises.

Those Chinese investment environments, which have attracted the ASEAN member countries with the AFTA just at hand and many other foreign capitals, are changing vigorously. A long time will be required, furthermore, for Myanmar to build up the infrastructure because it must be accompanied with an establishment of such legal systems as to implement an economically privileged ward and to privatize power electric operations. In the FDI policy to be executed early, a financial burden of Myanmar government is not always big. Therefore, Myanmar government should begin to go through bold one step toward reform.

The sooner the Myanmar Government proceeds to the policy menu, the more desirable it is, accordingly. A menu of the policies that the Myanmar Government must tackle from now on to attract FDI enterprises should cover a lot of items, such as to establish/revise related legal systems, build up policy-related organizations and functions, develop and build up the infrastructure, improve the aspects of policy operations and make effective use of a support scheme provided by an international organization. In addition, it would be difficult for Myanmar to attract FDI enterprises as targeted without drastically improving her investment environments. As referred to below, therefore, we dare to propose that Myanmar should deploy policies, with more emphasis attached to those ranked at a higher priority order in the policy menu referred to below.

Figure 3-16 Medium/Long-term Schedule for Deployment of FDI Policy



Source: JICA Study Team

Note This mark indicates high-priority measures