3.1 FDI policy in Myanmar and Analysis of Inhibiting Factors

3.1.1 Current Status of 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 the Association of Southeast Asian Nations (ASEAN) such as Singapore, Malaysia, and Thailand, 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 specific FDI administrative organization and incentives are as follows.

- The Myanmar Investment Commission (MIC) is the administrative agency with the authority to approve investment applications and provision of incentives.
- Foreign firms make application in the prescribed form to the MIC. Upon obtaining its approval, they register with the registration bureau of the Ministry of National Planning & Economy Development (NPED) and (if they are engaged in export/import business) the Ministry of Commerce.
- The minimum amount of investment is (US) 500,000 dollars in the manufacturing sector and 300,000 dollars in the service sector.
- Foreign firms are allowed to participate in almost all industrial fields except those specially regulated by law concerning national enterprises, etc.
- In the case of joint ventures, the foreign side must own at least 35 percent of the total stock.
- Major incentives :
  - Exemption from the corporate income tax for at least three years (with the possibility of extension depending on the case)
  - Exemption from duties and other domestic taxes on imported capital goods needed for plant construction, test production, etc.

The MIC was initially called the "Myanmar Foreign Investment Commission" (MFIC), and 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 (serving as chairman and vice-chairman), its board originally consisted of the heads of 12 ministries (these serving as members or secretaries) including the No. 1 Ministry of Industry (serving as a member). More specifically, it is now chaired by the Minister of Science &

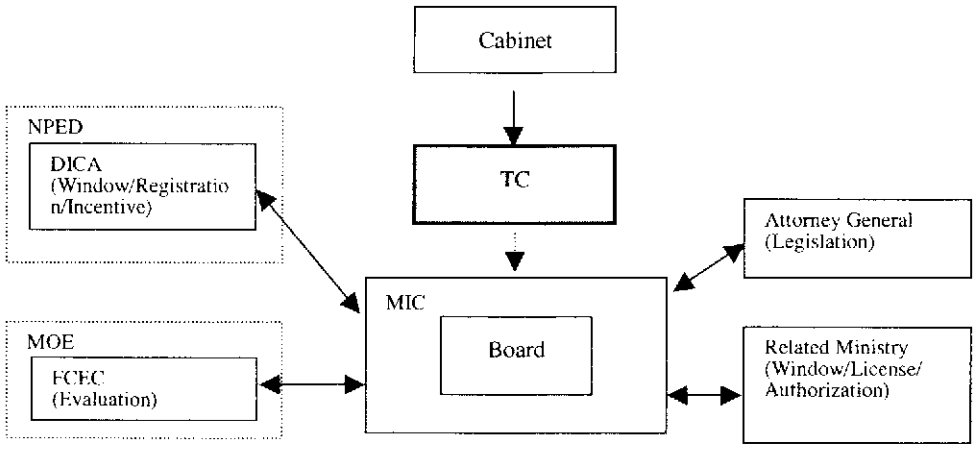
Technology, and has a membership of the four ministers of Electric Power, Commerce, Energy, and Finance & Revenue, for a total of five. Its powers in FDI policy deployment are said to have been weakened in the process.

The major related laws enacted since 1988, when the FIL was enacted, are listed below. Laws pertaining to national enterprises and private enterprises were joined by the Myanmar Citizens Investment Law (MCIL) in 1994. This law made it impossible for the government to take a policy stance providing incentives solely to foreign firms, and FDI began to receive basically the same treatment as domestic investment at the MIC, whose name was changed from the MFIC in the previous year (1993). This policy for uniform treatment of both foreign and domestic capital as regards incentives also surfaced in neighboring countries such as Thailand and Malaysia, but has the negative aspect of making it impossible to implement resolute measures to attract foreign investment.

Union of Myanmar Foreign Investment Law (FIL) (1988)
State-owned Economic Enterprise Law (1989)
Foreign Investment Law Notification (1989)
Private Industrial Enterprise Law (1990)
Promotion of Cottage Industries Law (1991)
The Cooperative Societies Law (1992)
Myanmar Citizens Investment Law (MCIL) (1994)
The Science and Technology Development Law (1994)

The MIC executes the following three major types of work: 1) acceptance of investment proposals from foreign and domestic companies/firms 2) assessment of proposals with respect to credibility in the financial aspect, economic merit of business activities, and technical propriety; and 3) deliberation and decision (approval/disapproval) on proposals. It 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 NPED and the Attorney General for the provision of window, registration, and other services; on the Foreign Capital Evaluation Committee (FCEC) under the Minister of Energy (MOE) and certain other ministries for examination of proposals and deliberation on issuance of export-import licenses; and on the TC, which is superior to it, for approval of investment projects and decisions on major items of FDI policy.

Figure 3-17 Administrative Organization Related to FDI Policy in Myanmar (MIC)



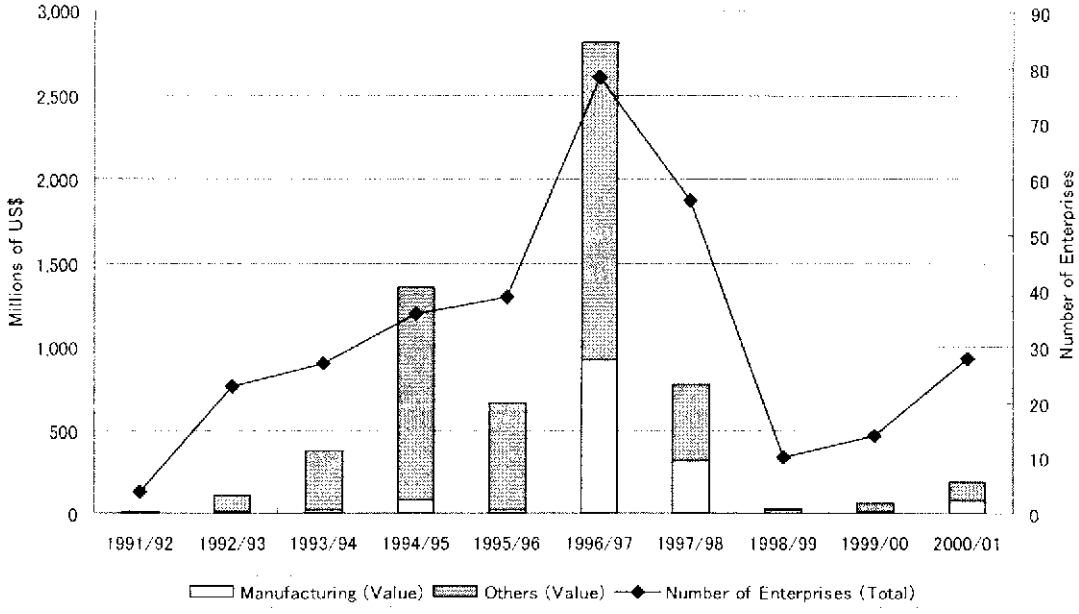
Source: Based on the findings of interview surveys conducted in Myanmar by the JICA Study Team.

In this way, the MIC has become the administrative entity for FDI policy. Behind this change are thought to lie factors such as a shortage of foreign currency and exchange problems.

3.1.2 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. It should be added that FDI on the actual basis is estimated to be 30 - 40 percent as high as on the approval basis. This suggests that, in many cases, foreign firms decide to postpone actual FDI once they embark on detailed siting studies and discover the numerous discouraging factors in the domestic investment climate.

Figure 3-18 Trend of FDI in Myanmar (Approval Basis)



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

The breakdown of the cumulative FDI on the approval basis by country of origin reveals that UK firms (many of which have sited for business in resource development) 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. Although FDI from Japan, North America, and Europe is down under the influence of the economic sanctions, the share occupied by other ASEAN countries has risen in relative terms and now accounts for about 50 percent of the total.

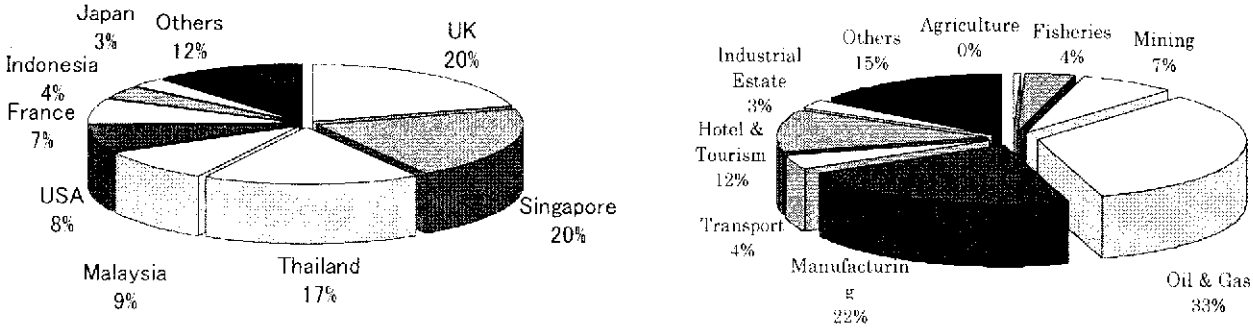
Japanese firms, which have so far made immense investments in the ASEAN region, account for only about 3 percent of the total in Myanmar. Their investment has been severely affected by the economic sanctions, and inclinations to invest in Myanmar have dropped even further recently. In fiscal 2000, there was not a single case of investment from Japan.

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. The garment industry, which began to gather momentum in the mid 1990s, is led by cut, make, and pack (CMP) firms, and many of them are strongly influenced by foreign firms in the aspects of capital, technology, materials, and logistics, as will be described below. Nevertheless, they are not necessarily 100-percent foreign-owned or even joint ventures; some were incorporated

under the name of a Myanmar executive or otherwise avoided registration with the MIC, and are presumably not fully reflected in these statistics. Therefore, the manufacturing sector share would, in effect, expand with the addition of CMP firms supported by foreign partners.

As for the breakdown by type of establishment, wholly-foreign-owned projects account for about 40 percent, joint ventures, for about 25 percent, and production sharing, for about 40 percent. Seeing that many CMP firms were formally established as Myanmar companies, the actual share occupied by 100-percent FDI firms is thought to be higher than appears in the statistics. In about 80 percent of the joint ventures, the Myanmar partner is a state enterprise or other public-sector entity.

Figure 3-19 Breakdown of Cumulative FDI in Myanmar by Country of Origin and Industry (Monetary Terms, Approval Basis)



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

Table 3-2 Number of Registered Firms and FDI Firms in Myanmar

(Number of Enterprises)

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00
Exporters/Importers	2,677	3,605	4,813	6,032	4,277	5,510	7,410	8,931	12,108	13,780
Business Representatives	480	768	947	1,225	1,509	1,805	1,981	2,076	2,113	2,170
Myanmar Companies Ltd	815	1,308	2,270	3,403	4,786	6,674	8,814	10,843	12,376	14,146
Partnership Firms	565	727	850	949	1,055	1,108	1,166	1,214	1,236	1,247
Foreign Companies & Branches	82	133	183	296	442	658	994	1,195	1,283	1,340
JV Companies Ltd (excluding those under FIL)										
State Owned Economic Enterprises & Private Entrepreneurs	11	12	14	17	18	24	30	36	43	44
State Owned Economic Enterprises & Foreign Companies	7	12	12	12	13	15	15	15	15	15
JV Companies Ltd formed under Foreign Investment Law	12	18	23	40	54	65	84	103	111	114
Other Organization	5	27	29	31	31	32	33	35	38	39
Tourist Enterprises			69	145	288	455	573	474	521	567
Tourist Transport Business			71	287	825	1,283	1,562	1,642	1,046	404
Hotel Business			27	72	112	179	266	302	321	334
Lodging House Business			19	62	102	177	229	198	171	181
Tour Guide Business			87	247	600	1,407	2,124	2,767	3,768	4,402
Total	4,654	6,610	9,414	12,818	14,112	19,392	25,281	29,831	35,150	38,783
FDI(under FIL+non-FIL)	101	163	218	348	509	738	1,093	1,313	1,409	1,469
%	2	2	2	3	4	4	4	4	4	4

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

Table 3-3 Trend of FDI in Myanmar under the FIL by Country of Rrigin (Approval Basis)

(Number of Enterprises)

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	1989~2001
Singapore	3	4		3	9	6	12	16	11	1	2		67
Thailand	2	6	1	4	5	8	3	11	3	2	3		48
UK	2	1		2	1	4	8	8	5	1	1	4	37
Korea	3	1	1		3	1		3	8		2	9	31
HK	1	3	1	3	4	5	1		3	1	2	5	29
Malaysia				1	2	4	2	10	6			3	28
Japan	2	2	1	1			3	6	6	1	2		24
USA	2	3		5	2	1	1	2					16
Canada	1						5	3	3			4	16
China				1	1	2	1	3	1	2		1	12
Indonesia								4	4	1	1	1	11
Netherland	1					1		3					5
France				1				2					3
Philippines						1			1				2
Others	1	2	0	2	0	3	3	7	5	1	1	1	26
Total	18	22	4	23	27	36	39	78	56	10	14	28	355

(Millions of US$)

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	1989~2001
UK	12	7		5	8	600	158	512	25	1	15	37	1,380
Singapore	3	5		23	229	55	287	603	138	4	4		1,351
Thailand	64	97		8	41	200	10	613	130	7	17		1,187
Malaysia				8	45	16	158	235	125			12	599
USA	80	93		30	20	4	15	341					583
France				10		455		5					470
Indonesia								211	25	1	1	1	239
Netherland	80						3	155					238
Japan	40	60	1				19	72	27	5	5		229
Korea	50	3	4		3			9	30		3	54	156
Philippines						7			140				147
HK	1	11	1	14	30	7	2		57	4	6	11	144
China					1	4		23	1	3		35	67
Canada	22						3	8	5			26	64
Others	97	4	0	6	0	4	13	27	74	5	5	8	243
Total	449	280	6	104	377	1,352	668	2,814	777	30	56	184	7,097

Source: Directorate of Investment and Company Administration, Directorate of Hotels and Tourism, Directorate of Trade
Country Report Myanmar (The Economist Intelligence Unit, UK)
Note: Data by country in 2000/01 is estimated based on 2000(1-12) data

Table 3-4 Trend of FDI in Myanmar under the FIL by Industrial Sector (Approval Basis)

(Number of Enterprises)

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	1989~2001
Agriculture				1				1	1			1	4
Fisheries		4		4	2	3	2	2	1	1	1		20
Mining	1	4		4	2	1	15	15	1	4	3	1	51
Oil & Gas	9	2		7	2	3	1	10	12		1	5	52
Manufacturing	6	6	4	4	9	20	4	29	31	5	7	17	142
Transport				1		2	4	3	4			1	15
Hotel & Tourism	2	6		2	12	7	5	5	1		2	1	43
Industrial Estate							1	2					3
Others	0	0	0	0	0	0	7	11	5	0	0	2	25
Total	18	22	4	23	27	36	39	78	56	10	14	28	355

(Millions of US$)

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	1989~2001
Agriculture				3				6	6			20	35
Fisheries		77		6	7	148	13	17	6	5	3		282
Mining	53	55		33	21	1	156	178	3	5	19	1	525
Oil & Gas	298	19		45	20	1,040	15	695	172		5	48	2,357
Manufacturing	16	43	6	13	18	76	21	924	319	20	13	77	1,546
Transport				1		1	119	48	106			3	278
Hotel & Tourism	82	86		3	311	86	79	115	40		16	5	823
Industrial Estate							12	181					193
Others	0	0	0	0	0	0	253	650	125	0	0	30	1,058
Total	449	280	6	104	377	1,352	668	2,814	777	30	56	184	7,097

Source: Directorate of Investment and Company Administration, Directorate of Hotels and Tourism, Directorate of Trade
Country Report Myanmar (The Economist Intelligence Unit, UK)
Note: Others→Real Estate Development, Construction, Others

Table 3-5 Trend of Manufacturing Sector FDI in Myanmar under the FIL

(Monetary Terms, Approval Basis)

(Number/Million Kyat/Million US$)

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	1989~2000
Manufacturing												
No. of Enterprises	6	6	4	4	9	20	4	29	31	5	7	125
Total Investment (Kyat)	147	588	162	148	275	660	208	5,750	2,300	135	81	10,454
Local (Kyat)	41	308	101	64	164	199	80	209	385	18	2	1,571
Foreign (Kyat)	106	280	61	84	111	461	128	5,541	1,915	117	79	8,883
→Foreign (US$)	16	43	6	13	18	76	21	924	319	20	13	1,469

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

Table 3-6 Trend of FDI in Myanmar under the FIL by Type of Enterprise (Approval Basis)

(Number of Enterprises)

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	1989~2000
100% FDI	1	4			7	11	25	46	23	8	12	137
JV	7	13	4	12	16	21	11	21	20	2	2	129
State Economic Enterprises	5	11	3	9	6	10	9	10	6	2	1	72
Myanmar Economic Holdings Ltd.	1	1		2	1	3	1	5	4			18
Yangon City Development committee					1							1
Private Enterprises	1			1	8	6	1	6	10		1	34
Co-operative Society		1	1			2						4
Production Sharing Basis	10	5		11	4	4	3	11	12			60
Myanmar Economic Corporation	0	0	0	0	0	0	0	0	1	0	0	1
Total	18	22	4	23	27	36	39	78	56	10	14	327

(Millions of US$)

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	1989~2000
100% FDI	10	79			238	68	453	1,375	409	23	53	2,708
JV	87	130	6	26	99	244	182	742	183	7	3	1,709
State Economic Enterprises	82	127	5	21	20	160	178	428	37	7	2	1,067
Myanmar Economic Holdings Ltd.	5	3		4	4	24	2	256	13			311
Yangon City Development committee					1				1			2
Private Enterprises				1	74	55	2	58	132		1	323
Co-operative Society			1			5						6
Production Sharing Basis	352	71		78	40	1,040	33	697	172			2,483
Myanmar Economic Corporation	0	0	0	0	0	0	0	0	13	0	0	13
Total	449	280	6	104	377	1,352	668	2,814	777	30	56	6,913

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

3.1.3 Case Study of CMP Firms

(1) Outline of CMP firms

In Myanmar, there are many cut, make, and pack (CMP) firms, which import all capital and production goods such as production machinery, raw materials, and components from other countries, utilize the low-cost labor there to process them into products, export their entire output, and thereby earn revenue from processing fees. As businesses inducing an inflow of precious foreign currency, CMP firms are shown consideration in the issuance of export-import licenses and given incentives such as export tax deductions or exemptions. While they are pure manufacturing enterprises, they nevertheless depend on import for all of their capital and production goods, and may be regarded as service industries premised on utilization of low-cost labor, with little technology-transferring effect. In recent years, there has been an increase in exchange of the foreign currency earned through CMP business into kyat, and some view the firms as at the root of the problem of a black-market exchange rate. In spite of their ability to bring the country much-needed foreign currency, CMP firms are consequently under tough restrictions as a whole.

CMP firms consist mostly of garment makers and numbered about 400 as of the end of

2001. Of this total, 4 percent were wholly foreign-owned and 8 percent were joint ventures pairing foreign capital with state enterprises or other Myanmar entities; the other 88 percent were classified as local (Myanmar-owned). Some 60 percent of the CMP firms have at least 300 employees. Garment-making generally demands a large number of employees, and the leading FDI-affiliated entrants (including joint ventures) run plants with a few thousand employees. Many of the CMP firms in Myanmar entered from Taiwan, Korea, and China (including Hong Kong) to turn out goods for export, mainly to North America and Europe; the contingent from Japan is still small. Aside from the garment-making field, there are also a few CMP firms, both local- and foreign-owned, assembling electronic components, but successful development of business is still rare among them.

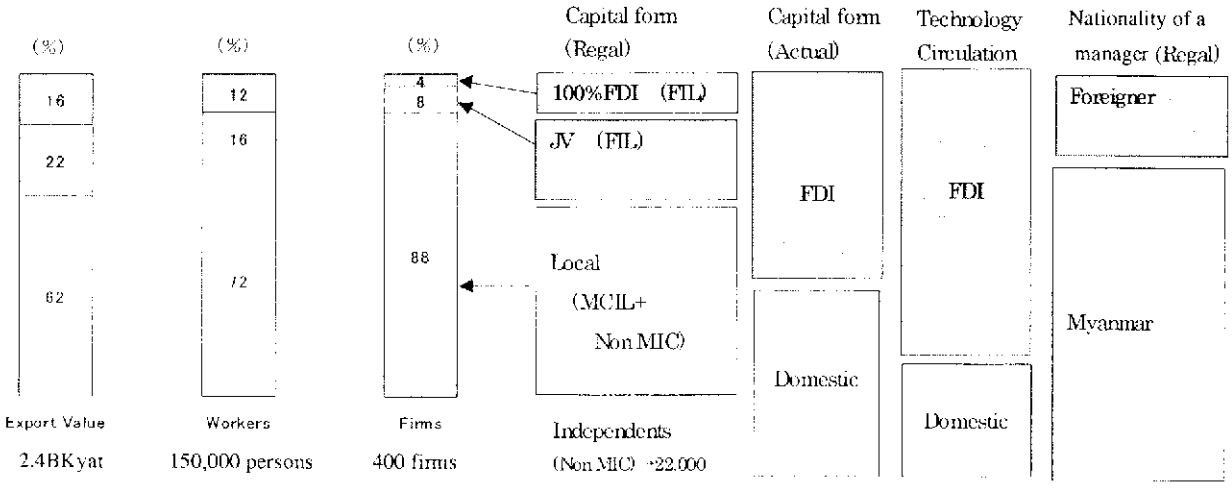
Of the roughly 400 CMP firms, about 50 percent (198 as of the end of 2001) have registered with the MIC. Of this total, 46 registered under the FIL, and 152, under the MCIL. The firms registered with the MIC (as compared to those which have not) receive certain incentives related to import of machinery and equipment, issuance of export-import licenses, and export taxes, but also must submit detailed reports in order to prevent the illegal diversion of imported materials. In addition, effective May 2001, they must make kyat conversions at official exchange houses (at a rate of 450 kyat to the dollar). At first, the government imposed this 450-kyat exchange requirement for all processing fee revenue, but this evoked opposition from the firms due to the serious impact, and the requirement was subsequently applied to the wage portion only. The firms which had not registered with the MIC, on the other hand, have the disadvantage of being compelled to obtain an export-import license from the Ministry of Commerce (MOC) for each project. However, the licensing standards are fairly low as compared to those of the MIC. Furthermore, unlike the MIC registerees, the non-registered firms can presumably convert foreign currency income into kyat at the market rate.

In a circular issued in late November 2001 for the purpose of centralized control of CMP firms (with notification to the related firms scheduled for June 2002), the government made it mandatory for all of them to register with the MIC. Those firms which register by the end of the year are eligible to continue receiving CMP privileges, but will have to make all foreign currency conversions at the official exchange houses (at the aforementioned rate of 450 kyat to the dollar). It is anticipated that, unless they have the registration certificate, these firms will not be able to obtain export-import licenses and, by extension, to stay in business. The international competitiveness of the CMP firms, which make a big contribution to foreign currency earnings, could be reduced by requiring them to register with the MIC and convert currency at a rate that is much lower than the black-market one. Nevertheless, some expect that this change of policy is part of preparations for a unification of exchange rates in the near future.

Even among the CMP firms registered with the MIC, the 152 registered under the MCIL, like the roughly 200 not registered with the MIC, are treated as domestic firms under Myanmar management. Although the exact number cannot be determined, a certain portion

of these firms are funded with capital from foreign firms. In such cases, the firm was founded under the name of a Myanmar national. The Myanmar Garment Manufacturers Association (MGMA) has a membership of 288 firms, 106 of which are foreign-affiliated. At most of the latter, the president is a Myanmar national, and the business is, in effect, controlled by the foreign partner through conclusion of a contract for consignment of the right of management. Moreover, there is a heavy dependence on the foreign partner for garment-making technology and channels to customers. It is estimated that, in many cases, even the local (Myanmar) CMP firms are doing subcontracted CMP jobs for foreign capital. In addition, apart from these CMP firms dependent on foreign capital and capable of export, there are about 22,000 independents doing subcontracted work.

Figure 3-20 CMP Structure in the Garment Industry



Source: Prepared by the JICA Study Team based on data from the Myanmar Marketing Research & Development and other sources.

(2) Contribution of CMP firms to export

This section examines the degree of contribution to export made by CMP firms based on the export activities of garment manufacturers, which account for the majority of such firms. Export of garments dependent on CMP firms rose rapidly beginning in the late 1990s. It totaled about 2.4 billion kyat (or about 400 million dollars at an exchange rate of 6 kyat to the dollar) in fiscal 2000 as opposed to just 0.9 billion kyat in fiscal 1999. This represents about 20 percent of Myanmar's total export and about 70 percent of the manufacturing sector export. Although their income comes from processing fees, the CMP firms are therefore making a vital contribution to precious earnings of foreign currency.

Table 3-7 Trend of Myanmar Export and Import, and Export of Garments

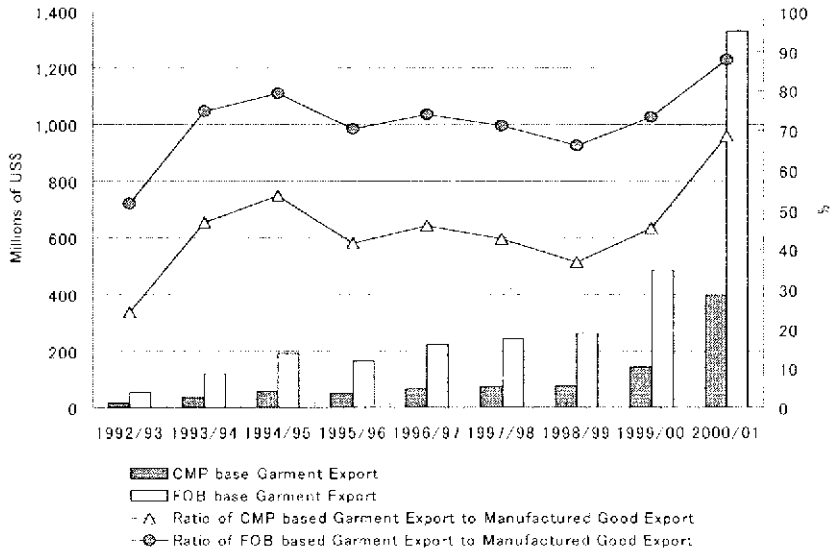
(Millions of Kyat)

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
Export	3,590	4,228	5,405	5,032	5,488	6,447	6,756	7,103	11,860
Manufactured Goods	401	469	640	722	873	1,024	1,279	1,936	3,500
(Garment)	97	220	343	300	402	436	471	877	2,400
Import	5,365	7,923	8,332	10,302	11,779	14,366	16,872	16,265	14,900
Manufactured Goods	3,219	5,295	5,073	6,859	8,393	10,621	13,030	11,507	na

Source: Statistical Yearbook 2000 (Ministry of National Planning and Economic Development)

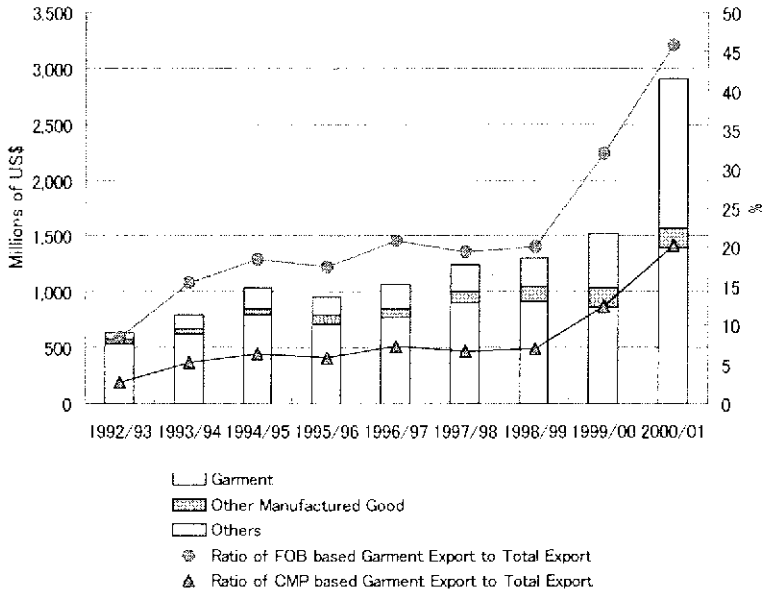
Regarding the foreign currency income from CMP firms, it should be noted that only the income from processing fees appears in the export statistics, and this makes their contribution lower than if their export were conducted on the free-on-board (FOB) basis, which is the standard for export of general manufactured goods. Processing fees in the garment industry, which contains the majority of the CMPs, consist of personnel costs plus power charges plus depreciation costs and other items. In the event of export on the FOB basis, such costs would amount to about 30 percent of the FOB price. As such, if the garment export were made on the FOB basis, the figure of about 400 million dollars for the fiscal 2000 export based on processing fees would translate into one of about 1.3 billion dollars, and this would drive the export total up from about 2 billion dollars (3.5 billion kyat) to 3 billion. As a result, the garment export as evaluated on the FOB basis would account for some 46 percent of Myanmar's total export, and nearly 90 percent of the manufacturing sector export, in fiscal 2000. As these figures indicate, the garment field's contribution to export must be rated as extremely important.

Figure 3-21 CMP Processing Fee Income in the Garment-making Industry and Its Export as Calculated on the FOB Basis



Source: Statistical Yearbook 2000 (Ministry of National Planning and Economic Development)

Figure 3-22 Contribution of Garment Export (Processing Fees) as Calculated on the FOB Basis



Source: Statistical Yearbook 2000 (Ministry of National Planning and Economic Development)

The number of employees in the garment-making industry, which consists mostly of CMP firms as noted above, is estimated at about 150,000. Another roughly 22,000 persons are working for themselves in this business. They form a structure for subcontracting, mainly for the domestic market, and some could possibly be doing subcontracted CMP work (for foreign capital). In light of this situation, the CMP-led garment-making industry is clearly providing Myanmar with massive employment opportunities. The CMP firms bring in garment-making machinery and fabric from other countries and must make garments in line with the designs presented by foreign buyers. It nevertheless may be assumed that the related technology is steadily being transferred to them as they adapt to the changing needs of various overseas buyers and customers while furnishing jobs to so many.

3.1.4 Factors Impeding FDI

The trend of FDI in Myanmar shows a big decline since the late 1990s. This section applied the following four approaches for determination and investigation of the factors impeding FDI in Myanmar.

(1) Interview survey conducted by local consultants

- Local consultants were commissioned to conduct an interview survey with 100 firms (mainly foreign-affiliated) in Myanmar (effective responses were received from 80).
- As a general rule, the subject firms were foreign-affiliated firms engaged in manufacturing. However, owing to a shortage of samples, the survey also covered some foreign-affiliated firms outside the manufacturing sector (e.g., service firms) as well as some Myanmar-owned

CMP firms.

- The list of subject firms was made upon acquisition of data in the possession of the UMFCCI, with its permission (all of the foreign firms are registered with the government).
- The survey was conducted during September and October of 2001.

(2) Interview surveys conducted by NRI consultants

- From September 2001 to March 2002, NRI consultants conducted several interview surveys in Myanmar with resident foreign firms, local (Myanmar) firms, and concerned governmental agencies.
- During this period, they made two trips to neighboring countries (Malaysia, Thailand, the Philippines, and Vietnam) for interviews with Japanese-affiliated firms and personnel in charge of FDI policy to learn about factors inhibiting FDI in Myanmar.

(3) Utilization of the findings of the study of factors impeding FDI in the aspect of legislation (JICA PJ under the leadership of Mr. Oba of UFJ Research Institute)

- The Study Team made reference to the contents of the draft version of the final report (compiled as of the end of March 2002) from the aforementioned study, which was initiated in September 2001.

(4) Survey of existing documentation

Based on the findings of these four approaches, the factors impeding FDI in Myanmar may be summarized as follows.

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 the International Monetary Fund (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. Under these circumstances, they have not had sufficient margin for studying the prospect of stretching their divisions of production labor to encompass additional ASEAN countries such as Myanmar.
- 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) Internal factors

a) A. Problems with FDI-related legislation

- In the context of FDI policy, the implementation of specific measures acting as disincentives, as will be described below, because the authorities have suspended the constitution, firms which have obtained approval for their investment plans under the FIL cannot be entirely certain that their rights will be secured in practice, in spite of the guarantees in law. In addition, they could not necessary count on full and effective arbitration and mediation by national agencies such as the MIC and MOC in the event of disputes with other firms, for example.
- Although the FIL was prepared with consideration of precedents in neighboring ASEAN countries, its primary purpose apparently lies in the establishment of systemic provisions for approval of FDI and installation of a scheme for selecting investment projects. In the case of Malaysia's law for promotion of FDI, industries contributing to economic advancement and export are defined as pioneer industries and offered incentives including tax exemptions. The law is therefore actively working to attract FDI. In contrast, to judge from its provisions, Myanmar's FIL could properly be interpreted as focusing on FDI within its framework and providing tax incentives and guarantees of rights only to projects that fit this framework (and are therefore accorded approval). In this respect, it could not be regarded as actively promoting and encouraging FDI.
- The establishment of enterprises by foreign firms is a matter for deliberation and approval in accordance with the FIL, but the establishment procedures are based on company law and other domestic law. In other words, unlike its counterpart in Vietnam, for example, the FIL is not complete in itself; other related domestic laws serve as the grounds for all sort of rules applying in all phases from establishment to withdrawal. Besides the FIL, there are many other laws pertaining to the development of business by siting firms. These other laws still contain various technical defects in areas such as labor regulations (which have not been brought up to date), settlement of disputes, tariff regulations (which are not completely in order), and intellectual property rights (Myanmar is a member of the World Trade Organization but has not yet signed the agreement for protection of these rights). There is ample possibility that such defects could impede the business activities of foreign firms.

b) Problems with the FDI administrative agency (the MIC)

- As described above, authority for policy and approval related to FDI is concentrated in the TC, and the MIC has undergone a decline in the powers of its board and in its specialized administrative capabilities. This has resulted in the implementation or operation of FDI measures by the TC that acts as a disincentive. In addition, there are various other drawbacks, including a dependence by the MIC on other agencies for functions that should belong to it (e.g., application acceptance, corporate registration, and examination of applications), a complication of application procedures due to the lack of coordination

among related agencies, and a lengthening of the time required to obtain approval.

- Article 12 of the FIL stipulates that the MIC shall take the requisite action if investors are unable to enjoy the rights which are properly theirs. Because of the erosion of its authority, there is a risk that the MIC will not be able to observe this provision. Similarly, the FIL also states that the MIC is to have jurisdiction over and provide arbitration and mediation in the event of disputes about interpretation of provisions or operation of the business among its investors. Nevertheless, besides the fact that the MIC is, strictly speaking, not legally bound to play this role, it can noted that the weakening of its authority may have also impaired its arbitration and mediation abilities.
- In addition to promotional functions for FDI attraction, Myanmar lacks arrangements for after-siting and follow-up services for resident firms. As noted above, the legislative system could not be regarded as actively advocating FDI attraction. Among government and administrative authorities, too, there is a strong wariness of FDI. An atmosphere of actively attracting and welcoming FDI with favorable treatment is clearly absent.

c) Problems with FDI policy operation

- Because Myanmar does not have a medium-to-long-term industrial vision or industrialization plans on the national level, it also lacks a good appreciation of the importance of FDI for the country's economic advancement. This is reflected in a lack of clarity about the degree of priority attached to FDI policy, which is consequently swayed by the prevailing economic situation as regards tax revenues and foreign currency shortage. FDI policy therefore suffers from a loss of consistency, and transparency, in its operation.
- These disincentives are outlined below.

<u>Procedural complexity and frequent policy changes</u>

- Interviewees noted the complexity involved in performance of administrative procedures in filing FDI applications and obtaining an export-import license. Partly because of the lack of system, foreign firms applying for siting cannot expect one-stop services. For example, applications for an export-import license must be made to the MIC in the case of MIC-registered firms and to the MOC in the case of other firms.
- It also takes a long time to receive approval for FDI. It also takes a long time to perform procedures for obtaining export-import licenses.
- Policy is frequently changed, especially in connection with export and import. Moreover, firms are in the dark about the promulgation timing and contents of the related circulars. Sometimes the rules governing trade and other activities are modified without any advance notice in official bulletins.
- Partly because of the system, decisions at all agencies require the approval of the minister or other top-ranking official; there is little delegation of authority. This delays approval procedures.

Regulations related to establishment of enterprises

- The minimum requisite capital for foreign establishments is the equivalent of 1,000,000 kyat in the manufacturing, 500,000 kyat in the commercial sectors, and 300,000 kyat in the service sector (foreign currency is converted at the official rate).
- Foreign firms must remit 50 percent of the capital in advance of issuance of a business license and the other 50 percent no later than 2 years after issuance.

Regulations impeding business activities

- There are regulations on import of all kinds of capital and production goods. There are also non-transparent restrictions on import of production facilities, raw materials, and energy, as well as limits on import of raw materials by import-replacing firms and export requirements. While obtaining the MIC's approval to site in Myanmar, some manufacturers with assembly operations depending on imported components were unable to get permission for component import owing to the foreign currency shortage, and were compelled to discontinue their production or do trading-firm-type deals in order to earn extra foreign currency.
- In import of components and materials, clearance procedures differ depending on the source country and lengthen the time needed for receiving. This can cause serious difficulties, because the delayed supply of certain such components and materials can result in production shutdown.
- The authorities do not have a sufficient understanding of materials and equipment needed for business, and can make it impossible to import or otherwise obtain the same in adequate quantities, with disruptive effects on the operation. For example, electrical power must be constantly available to carry out high-temperature endurance tests around the clock, but there is a shortage of fuel needed to run diesel engines. Similarly, air conditioning systems are indispensable in the production process, but CMP firms (in the garment-making industry) are not allowed to import additional ones (as requested by customers to ensure reliability) due to the possibility of illegal sales. Yet other firms want to get more forklifts to transport heavy parts but face the same import restrictions as applied for automobiles.
- Foreign firms are permitted to apply up to 75 percent of the foreign-currency deposit with foreign exchange banks to import costs, but in effect are forced to earn additional dollars in order to import needed materials. Those which do not have dollars have no choice but to procure them by interaccount exchange with firms that do (converting kyat into dollars at a rate that is even higher than the market rate) or earning them through separate export. Formerly, CPM firms were able to make interaccount exchanges at foreign exchange banks for companies needing dollars, but this practice has since been prohibited.
- ・There is some taxation. The so-called export tax was suddenly instated in 1999 against the background of the foreign exchange shortage, and consists of an income tax and a commercial tax, as shown below. While the rate varies depending on whether or not the firm is registered with the MIC or is a CMP operation, the placement of priority on gaining tax revenues from export is liable to lower export competitiveness.

Figure 3-23 Import Duties and Export Taxes (Income, Commercial, and Corporate Taxes) in Myanmar

	Import duties		Export taxes (imposed on remitted dollars)		Cooperate Tax
	Sales in Myanmar	Re-export	Income Tax	Commercial Tax	
MIC-registered firms CMP category	Yes	0%	First 3 years 0% Beginning in the fourth year 2%	8%	First 3 years 0% Beginning in the fourth year ~30%
		0%	First 3 years 0% Beginning in the fourth year 2%	0%	First 3 years 0% Beginning in the fourth year ~30%
Commercial license firms CMP category	Yes	Yes	2%	8%	~30%
	--	0%	2%	0%	

Source: Statistical Yearbook 2000 (Ministry of National Planning and Economic Development)

- The labor regulations limit working hours to no more than eight per day and 44 per week, and stipulate an pay for overtime work that is twice as high as the uniform standard wage.
- The customs system is deficient. As an approach to curtailing import of production goods, high duties would at least be more transparent than control in phase of enforcement.

CMP regulations

- The government of Myanmar has positioned CMP (which is led by the garment-making field) as a service industry merely earning processing fees as opposed to a manufacturing industry. In spite of its character as an earner of precious foreign currency, it is considered to have few ripple-effects for local sourcing and technology transfer, and has not been given high ratings, at least explicitly, for its contribution to export.
- As compared to foreign firms in general, CMP firms are eligible for export tax exemptions and given special consideration in issuance of licenses for production goods and for export-import activities. If they are registered with the MIC, however, they are not only compelled to bring in new machinery but also to submit periodic reports on their business.
- Of their foreign currency earnings, the roughly 200 CMP firms registered with the MIC must convert at least the portion equivalent to personnel expenses (wages) into kyat at official public exchange houses (at a rate of 450 kyat to the dollar). They also must present proof of such conversion in applying to the MIC for an import license.
- A circular issued in November 2001 required all CMP firms to register with the MIC (the corporate promulgation is to be made in June 2002). Thus far, the CMP firms not registered with the MIC (numbering about 200 and accounting for about 50 percent of the total) have been able to convert their foreign currency earnings at the market rate and to obtain export-import licenses from the Ministry of Trade with comparative ease. The circular, though, will make it mandatory for all CMP firms to register with the MIC, submit periodic reports, and convert their foreign currency earnings at the official exchange houses at the

450-kyat rate, starting in 2003.

- The share of all foreign currency earnings occupied by those earned by CMP firms is increasing (they now account for about 20 percent of all export). There is criticism to the effect that conversion of their earnings into kyat has a great impact on the level of the market rate. Some believe that, by putting CMP firms under the strict jurisdiction of the MIC, the Myanmar government is moving not only toward control through import license issuance but also instatement of a fixed exchange rate and other revision of the much-criticized policy on exchange.
- The CMP system relies on import for all materials and rests on export of all of its output (of processed goods). Domestic sourcing of materials for higher local contents would lead to a loss of the advantages of CMP. Certain molded and stamped items such as cases for electronic components can conceivably be produced in Myanmar, and some firms are studying the prospect of producing them in-house or at a separate enterprise. This would make it possible to eliminate delays associated with import of such items and also be linked to lower costs and higher value-added. The problem, however, is that in-house production or local sourcing of some items is a departure from the CPM system and would spell the loss of the advantages it currently affords (i.e., no need to earn foreign currency for import or to pay an import tax).

d) Problems with the infrastructure

- Owing to the shortage of funds under the influence of the economic sanctions, suspension of ODA, and other such developments, Myanmar's infrastructure of electrical power, telecommunications, roads, and harbors is underdeveloped in all parts of the country, with the exception of certain districts. Although the Ministry of Construction is systematically building industrial estates, the infrastructural condition must be rated as poor for all elements including power, telecommunications, water, roads, seaports, airports, and physical distribution networks.
- Of all infrastructural elements, the problem with the supply of electrical power is particularly serious. With the exception of certain districts, most of the industrial estates in the vicinity of Yangon experience outages lasting from one to two hours during the daytime. As a general rule, power is not available from 5:00 PM until midnight, and is sometimes transmitted from midnight until 5:00 AM. Firms would not be able to carry out production activities on a stable basis if they had to rely solely on utility power. They would not even be able to apply a shift system in order to increase production efficiency, and have no choice but to install their own generation facilities for processes in which continuous operation is the rule.
- In developing countries, it is customary for businesses to possess their own power generation facilities because of the instability of utility power supply. However, such facilities are essentially emergency means. The situation of frequent power outages must be promptly

corrected, not only to assist FDI attraction but also to support the production activities of CMP and other firms already in Myanmar.

- At present, Myanmar does not have any export processing zones (EPZs) that are equipped for full supply of one-stop services and available for tenancy by foreign firms carrying out processing for export. As mentioned above, industrial estates are being systematically developed by the Ministry of Construction but lack good infrastructures of power and other elements.

e) E. Problems with economic policy, etc.

- There are various tiers of kyat-dollar exchange rates, e.g., the official rate (6.29 kyat), the official exchange house rate (450 kyat; CMP firm rate), and market rate (800 - 900 kyat). This multiplicity of exchange rates has many negative effects, including exchange rate loss in investment by foreign firms, joint venture outlays, and export earnings.
- For utilities and other public services (power, telephone, water, land leasing, domestic flights, etc.), there are rates charged only to foreign firms (i.e., a dual price system).
- The law governing real estate limits the term for land-leasing by private parties to one year, and the construction of manufacturing plants on leased land is generally not recognized (basically, approval cannot be obtained from the MIC). As such, foreign firms are not free to site plants outside the industrial estates developed through collaboration between the government and foreign capital.
- State enterprises have moved into many fields of business and are encroaching upon the domains of private enterprises by taking full advantage of their privileges in aspects such as obtaining export licenses and procuring materials. This also applies to foreign-affiliated firms; interviewees cited unequal treatment for the foreign partners in joint ventures (e.g., employee pay differentials, curbs on reinvestment plans due to an emphasis on profit, etc.)

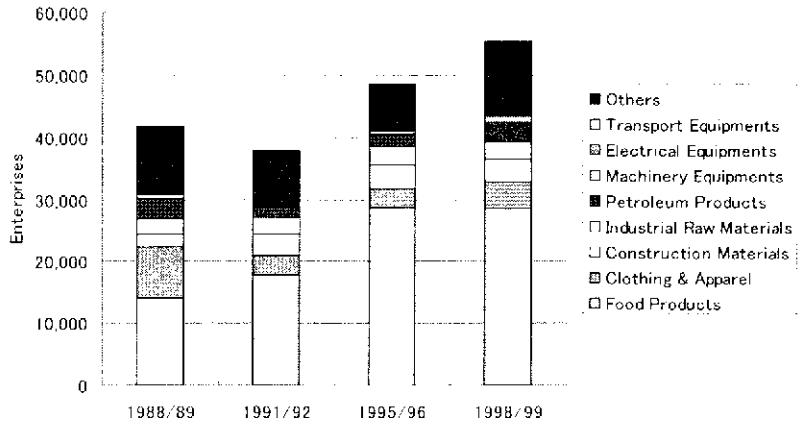
3.2 Specification of Priority FDI Industries in Myanmar

3.2.1 Review of Major Manufacturing Fields

In Myanmar, the number of manufacturers established in accordance with the Private Industrial Enterprise Law grew at a rate of about 5 percent during the 1990s and reached 57,496 in fiscal 2000. Food processing accounted for the lion's share at about 50 percent, followed by the construction/industrial materials field at 12 percent and textile (clothing and apparel) field at 8 percent. There has been no major change in the share make-up for the last ten years. The field of machinery assembly and processing, which includes electrical equipment and transportation machinery, accounts for a very small share on the order of a few percent. There are three basic types of manufacturing firms: state-run, purely private, and joint ventures between the public and private sectors. The state-run and joint ventures

account for only 3 and 1 percent, respectively, of the total number, but they both can be found in all fields. Furthermore, because they enjoy various privileges in aspects such as export-import licenses, they are estimated to hold a fairly high share of the production, particularly for facility-intensive goods. The following page outlines the trends in the major fields and the participation by FDI firms.

Figure 3-24 Trend for the Number of Manufacturing Firms Based on Private Industrial Enterprise Law in Myanmar



Source: Industrial Development in Myanmar (JETRO)

Note: 2000/2001 State 1,586 Co-op 683 Private 55,227 Total 57,496
(Ministry of National Planning and Economic Development, Pamphlet March 2001)

Table 3-8 Situation of Type of Registered Private Industrial Enterprises

(Enterprises)

	1991/92		1995/96		1998/99	
	State Owned	Cooperative and Private	State Owned	Cooperative and Private	State Owned	Cooperative and Private
Food Products	242	17,484	210	28,551	197	28,322
Clothing & Apparel	59	3,091	33	2,925	33	4,304
Construction Materials	130	3,503	127	3,692	125	3,495
Industrial Raw Materials	928	1,637	826	2,143	818	1,890
Petroleum Products	23	1,569	22	2,168	24	3,229
Machinery Equipments	10	24	10	264	11	792
Electrical Equipments	305		305		305	0
Transport Equipments	5	139	5	160	4	284
Others	67	8,718	69	7,091	59	11,631
Total	1,769	36,165	1,607	46,994	1,576	53,947

Source: Directorate of Regional Industrial Co-ordination and Industrial Inspection

3.2.2 Factors Encouraging FDI in Myanmar

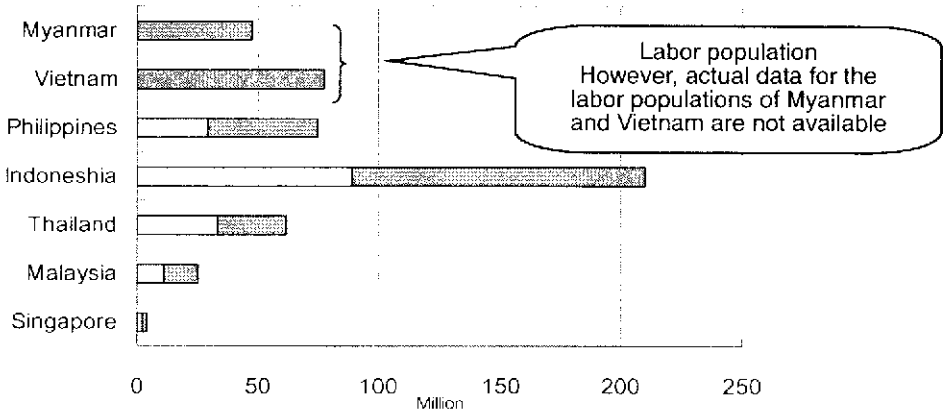
While there are various factors impeding FDI in Myanmar as related above, there are also many advantages (encouraging factors) for FDI, including external ones, as noted below. In addition to its plentiful low-cost labor, wealth of resources (agricultural, forestry, marine,

and mineral), and sizable latent market (with a population of about 50 million), Myanmar may be rated as offering a big benefit in the form of its proximity to more populous markets, i.e., other ASEAN countries, China, and India (with a combined population of about 3 billion).

Myanmar advantages for FDI

- Abundant supply of low-cost labor
- Wealth of agricultural, forestry, and marine resources, and precious mineral resources
- Advantageous situation (location)
  - One of the ASEAN countries (with a combined population of over 500 million)
  - Proximity to the markets of China and India (populations of about 1.3 and 1 billion, respectively)
- Domestic market with large potential (population of about 50 million)

Figure 3-25 Comparison of Total Populations and Labor Populations in ASEAN Countries



Source: National population and labor statistics

Table 3-9 Review of Major Manufacturing Fields in Myanmar

Major manufacturing fields	Current status and issues	Participation by foreign firms
Food processing	• This is the biggest manufacturing field in Myanmar, accounting for over 80 percent of the total industrial product. • Capital-intensive product areas such as beer, soft drinks, and instant noodle dishes are in the hands of large and medium firms, some of which are state-run; smaller firms are involved mainly in labor-intensive areas such as polished rice, refined oil, confectionery, dairy products, and bread. • The field basically lacks export competitiveness for a variety of reasons, including the level (quantitative and qualitative) of foodstuffs, low supply stability, and the level of processing technology (equipment dependence on simple locally-produced models and used imported ones). • The only areas that are thought to be comparatively export-competitive are frozen shrimp and polished rice.	• Thai firms and ASEAN Huaqiao (ethnic Chinese) capital are producing soft drinks for the Myanmar market as well as frozen shrimp and other processed seafood for export. • Many Thai firms have withdrawn due to numerous problems, including the irregular supply of electrical power, difficulties in finding stable sources for foodstuffs, and lack of business awareness on a par with international standards among JV partners.
Timber processing	• Export in this field amounts to about 200 million dollars and accounts for about 10 percent of the total export (however, about 70 percent of the timber is exported in the form of logs and goods that have undergone only primary processing). • The key type of timber is teak. Myanmar has about 75 percent of the world supply of teak. • To prevent the deletion of its resources and expand the state revenues, Myanmar has prohibited export of teak pulpwood, and domestic sales are monopolized by a state enterprise. • Timber is used to make a diversity of furniture, interior items, and floorboards for export mainly to other Asian countries and Europe, but the level of processing technology is low because of outdated equipment.	• In this field, there are over ten foreign firms, including Huaqiao, Japanese, Korean, and Western ones. They are engaged in processing and assembly of furniture, construction materials, and other such items, mainly through JVs with MTE. • It is becoming more difficult to source teak domestically (due to the increased export of pulpwood and primary processing products by state enterprises). There is a rising trend toward processing into finished products in neighboring countries for export mainly to Japan and Europe.
Garment -making	• CMP-based production rapidly expanded beginning in the late 1990s. In fiscal 2000, the industry earned about 2.4 billion dollars' worth of foreign currency. This represented about 20 percent of the total export and 70 percent of the manufacturing sector export. • There are about 400 CMP firms that process imported materials into products for export (of this total, FIL-based foreign firms, whether wholly foreign-owned or JVs, account for about 40). Apart from CMP firms, there are about 22,000 petty operations selling mainly in the domestic market. • Restrictions on the activities of CMP firms have recently been tightened in spite of their export contribution. Besides being compelled to register with the MIC, they now face requirements for conversion of funds for processing wages at the 450-kyat rate, and tougher standards for issuance of export-import licenses. • In this field, FDI firms have a high opinion of Myanmar in the aspects of labor quantity, quality, and cost. Myanmar-made garments could very well be competitive enough to permit export to Japan and other markets.	• The foreign presence includes firms from Hong Kong, Taiwan, Korea (about 50), and Japan (a few). • Aside from those registering with the MIC (whether 100-percent foreign-owned or JVs), FDI firms in many cases participate as private Myanmar firms registered with the MCIL. • FDI firms hold and control all the capital, facilities, technology, and distribution channels. • There are good prospects for a quickening of activity by Korean and Japanese firms.
Construction /industrial materials	• Companies manufacturing cement, brick, concrete products, plate glass, sheet metal, bar copper, paint, and other construction materials account for about 10 percent of the total number of firms. • The dependence on state enterprises tends to be higher in areas requiring more capital investment or imported materials.Because of the lack of foreign currency and technology, the production capacity for construction materials is not rising very quickly, and the supply continues to be on the short side relative to the demand.	• This is the typical import-replacing industry. There is a foreign presence in the form of wholly-owned firms and JVs with state enterprises, but foreign participation is basically confined to business in galvanized iron plate (affiliated with trading firms).
Petrochemicals	• Firms in this field are engaged in production of gasoline, kerosene, diesel oil, and chemical fertilizers. They account for about 5 percent of the total industry in terms of both number of firms and production value. • All of the major entrants (such as Myanmar Petroleum) are state enterprises. Like that of construction/industrial materials, this field is one of chronic supply shortage relative to the domestic demand.	• At present, the extent of foreign participation in this field is not clear. • State enterprises are looking for ways to increase the production capacity through JVs with foreign firms in order to resolve the supply shortage, particularly in the area of chemical fertilizers.
Electric /electronics	• Among the state enterprises, Myanmar Heavy Industries (MHI) produces heavy equipment and electrical products. • Many TV sets, refrigerators, and other electrical appliances for the home used to be assembled by a JV linking MHD (MHI?) with the Korean firm Daewoo, but this production has been virtually suspended because of the inability to compete with imported counterparts and the break-up of Daewoo proper. • In the area of electronic components, Earth Industry assembles coils and transformers for OEM supply to a Japanese component manufacturer, and Daewoo has an assembly of VCR heads employing a few hundred.	• There used to be both Japanese and Korean firms in this field, but the only foreign production at present is the Daewoo assembly of VCR heads. • The Myanmar firm Earth Industry is doing OEM for the Malaysian plant of a Japanese component manufacturer, but has not concluded a formal OEM contract with it.
Machinery	• The state enterprise MHI has plants for heavyweight vehicles, lightweight vehicles, agricultural machinery, and industrial machinery. However, it depends on outdated technology, and the technical level of its production is therefore very low. • Many of the firms in this field are engaged in repair of used machinery. Matters are compounded by the critical shortage of spare parts and materials.	• Suzuki Motor Co., Ltd. is considering an assembly operation in Myanmar, but there has not been any significant move in this direction by other foreign firms.

Source: Prepared by the JICA Study Team based on the findings of a documentation survey and an interview survey.

The prospects for development of economic interchange with other ASEAN countries and China are anticipated to expand into the future, and this can also be regarded as encouraging FDI. In more concrete terms, given its status as one of the less developed ASEAN countries, Myanmar is expected to benefit from various ASEAN schemes for support in connection with large-scale joint development, for example. In the same way, it can apparently look forward to the building of bilateral ties of economic cooperation with countries including Singapore and Malaysia. This applies especially to Malaysia, where the Mahathir administration could hammer out policy for extensive economic assistance for Myanmar. Moreover, there is a continuously hot relation with Thailand due to the national border issue. Thailand, however, is very nervous about an enhancement of economic relations between China and Myanmar. From a medium- and long-term point of view, it may be fully envisaged that Thailand may begin to emphasize an improvement of relations with Myanmar in the sense that Malaysia need be checked.

Table 3-10 Comparison of Worker Wage Levels in ASEAN Countries and China (US$/month)

	Worker	Engneer	Middle managers	Nominal wage increase rate 96 97 98 99	Corporation tax/income tax
Singapore	442~594	1,051~1,944	1,830~2,511	6.7 →5.5→△0.5 →2.6	26%/28%
Malaysia (K/L)	341	649	1,454	7.2 →9.2→6.2→5.8	28%/30%
Thailand (BKK)	147	325	646	9.8→9.7→3.8→△0.4	30%/37%
Indonesia (Djakarta)	30~214	33~322	39~847	9.5→△43.3→△33.3→12.2	30%/30%
Indonesia (Batam)	51~62	119~232	422~649	9.5 →△43.3→△33.3 →12.2	30%/30%
Philippines (Manila)	114~244	237~383	430~697	3.5 →13.2 →7.8 →6.4	33%/33%
China (Dalian)	54~195	72~278	62~458	10.7→7.1→4.7→26.3	15~30%/45%
China (Shanghai)	126~272	181~544	290~906	NA→7.1→4.3→11.2	15%/45%
China (Chongqing)	100~132	107~222	201~306	11.1 →9.8 →3.8 →10.3	15%/45%
China (Shenzhen)	70~135	219~458	318~632	NA→14.0→10.2→12.7	15%/45%
Myanmar (Yangon)	23~40	72~137	119~284	NA	30%/15%
Vietnam (HCMC)	76~114	158~274	420~559	NA	25%/50%
Vietnam (Hanoi)	78~108	197~329	498~574	NA	25%/50%

Source: JETRO Sensor

Naturally, manufacturing firms from Japan and other countries have begun to explore approaches to wider divisions of labor in the ASEAN region as related above, and investment in Myanmar could quicken dramatically with an end to the Western economic sanctions.

3.2.3 Analysis on Comparative Advantages of Myanmar, and FDI -preferred Industrial Sectors

Under the new five-year plan currently implemented in Myanmar, the industrial sectors to be developed with priority are expressly specified as major six: 1) Agriculture 2) Livestock and Fishery, 3) Mining , mainly exploring and producing crude oil, natural gas, precious stones and jade, 4) Transport and energy, 5) Added-value industry, agriculture-based processing and manufacturing, 6) Financing and services. Under the Foreign Investment Law in Myanmar, moreover, investments are encouraged in seven major sectors: 1) Promote and expand exportation, 2) Exploit natural resources whose development requires an immense amount of investments, 3) Transfer high technologies, 4) Support and subsidize those products and services, which require a huge amount of capital, 5) Create employment opportunities, 6) Develop the energy-saving business, and 7) Develop rural areas.

The manufacturing industry, which is expected to play a significant role in the economic industrial policies and FDI measures of the country, however, has been shared by foreign capitals at as low as 19% so far. Looking around neighboring countries, e.g. Vietnam, this percentage has exceeded 40% while China has achieved as high as 70% indeed. As gathered from the experience in peripheral countries, it is evaluated that the manufacturing industry will be able to attract foreign capitals most effectively by prompting exportation, upgrading the industrial structure, creating employment opportunities, and developing and promoting rural areas. The present project, therefore, will mainly summarize the manufacturing-associated foreign capital attraction policy, with due consideration given to its matching with economic and industrial policies.

Under the industrial vision of Myanmar, including her industrial development plan, it is important from a medium- and long-term point of view to introduce foreign capitals in the agriculture and fishery and resource development industries as well as in such import-substitution sectors as metal working, resin processing and social/industrial infrastructure materials, such as cement or the like. In her initial stages of industrialization, however, Myanmar has to obtain foreign currencies, an urgent challenge to be tackled with for the time being, and to secure the industrial base that should support entrepreneurial activities. From this standpoint, the industrial sector considered optimum as an FDI-preferred promising line of business is manufacturing, especially light industry for which agricultural and marine resources and low-cost labor are domestically available while requiring a relatively small-sized investment.

Objective of Introducing FDI

To select the FDI-preferred industrial sectors, the first consideration was given to how the FDI-implementation objectives of obtaining foreign currencies by expanding exportation, of

promoting import-substitution, of establishing a basis for industrialization and of setting up skirt industries should be weighted from short-, medium- and long-term points of view up to 2020. More specifically, priority should be given to the obtainment of foreign currencies by expanding exportation on a short- and medium-term basis. The import substitution should be positioned as a medium- and long-term challenge. Once the economic growth has begun to run in a favorable cycle with the exports expanded by FDI enterprises, they will spontaneously make inroads into the import-substitution industry. It is a long-term challenge to attract FDI enterprises concerned in agricultural, heavy chemical and SI industries. It is, however, one of the industrial sectors indispensably necessary from a policy-oriented point of view

Conditions under which an FDI Line of Business should be Extracted

The conditions taken into consideration in extracting some FDI lines of business include matching with the industrial vision and industrial development plans (clearly positioning the FDI), possibility to obtain foreign currencies by exportation on a short- and medium-term basis while requiring a relatively small amount of equipment investment, Myanmar's having relative advantages (agricultural and marine resources and ample low-cost labor) and the changes in investment environments (trends of FDI enterprises in the AFTA member countries) of neighboring countries (ASEAN member countries and China). In addition to the manufacturing industry, there are some attention-drawing industrial sectors studied separately from a foreign currency obtainment point of view, such as tourism services, etc.

An Analysis of Characteristics in Manufacturing Industry, and Promising Lines of Business in which Myanmar Should Attract Foreign Capitals with Priority

A variety of manufacturing sectors had their characteristics analyzed by form of production, of import-export and of capital to extract the promising lines of business to be attracted with priority while taking into consideration the potential and comparative advantages of Myanmar.

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.

Table 3-11 FDI Promising Sector Extraction Logic

Objective of Introducing FDI	Short	Medium	Long
• Obtain foreign currencies by expanding exportation. (Cultivate light industries of assembly and processing type.)	◎	◎	○
• Promote import substitution. (Cultivate production goods, construction equipment and agriculture-assisting industries).	△	○	◎
• Promote industrialization. (Foster heavy chemical industry, iron and steel/plant, etc.)	△	△	◎
• Set up peripheral industries (Implant base-oriented mechanical processing technologies in the locality).	△	○	○

Conditions under which FDI-preferred Lines of Business are Extracted

- Matching with industrial vision and industrial development plans (Expressly position FDI.)
- Possible to obtain foreign currencies on a short-/medium-term basis while requiring a relatively small amount of investments.
- Relative advantages that Myanmar has (agricultural and marine resources and ample low- cost labor).
- Changes in investment environments of neighboring countries (ASEAN and China) (trends of FDI enterprises in AFTA)

Analysis of Main Sector Characteristics and Myanmar's Comparative Advantages

Promising FDI industries in Myanmar

Source: JICA study team

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. Such limitation, however, will disappear in the food processing sector that could be expected to evolve on a long-term basis into a scheme where a variety of food materials may be imported from abroad.

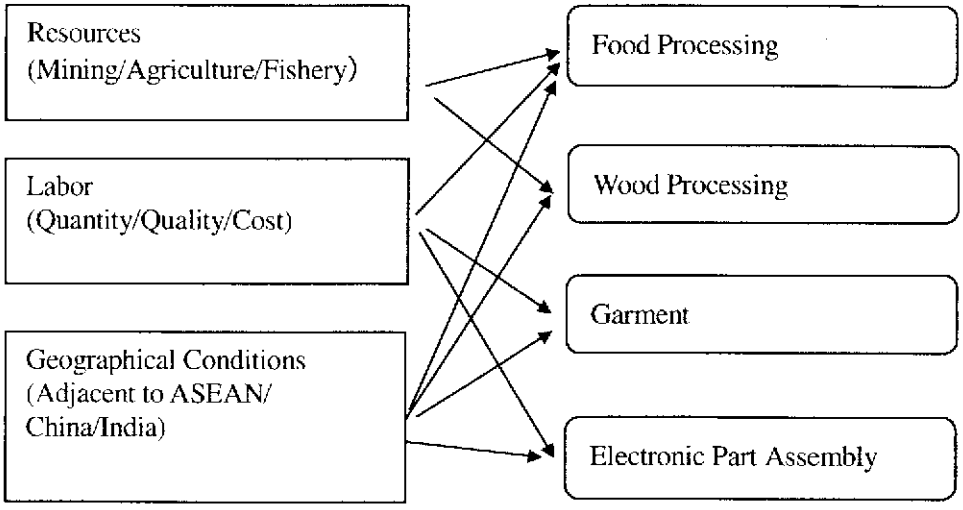
The garment sector, on the other hand, does not allow for an optimistic view of exportation

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 (6% and 23% exemptions of customs duties on textiles and shoes garment products imported into Japan from Myanmar, Bangladesh, Cambodia and Laos). With these facts taken into consideration, it is considered promising to attract foreign capitals in the FDI sector of Myanmar. Many Korean and Hong Kong FDI enterprises have already made inroads in Myanmar in the form of CMP. With the economic sanction really lifted up, however, there is a possibility that the garment industry in Myanmar may evolve all the more.

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. Nevertheless, there have been some success stories in the developed ASEAN member countries while a wide-area division of labor is showing a clear current. Under such circumstances, there are high possibilities that the electronic part assembly sector may grow into a significant export industry in a medium- or long-term. The reason why the electronic part assembly has been targeted focally out of the electronic industry composed of various sectors, is because:

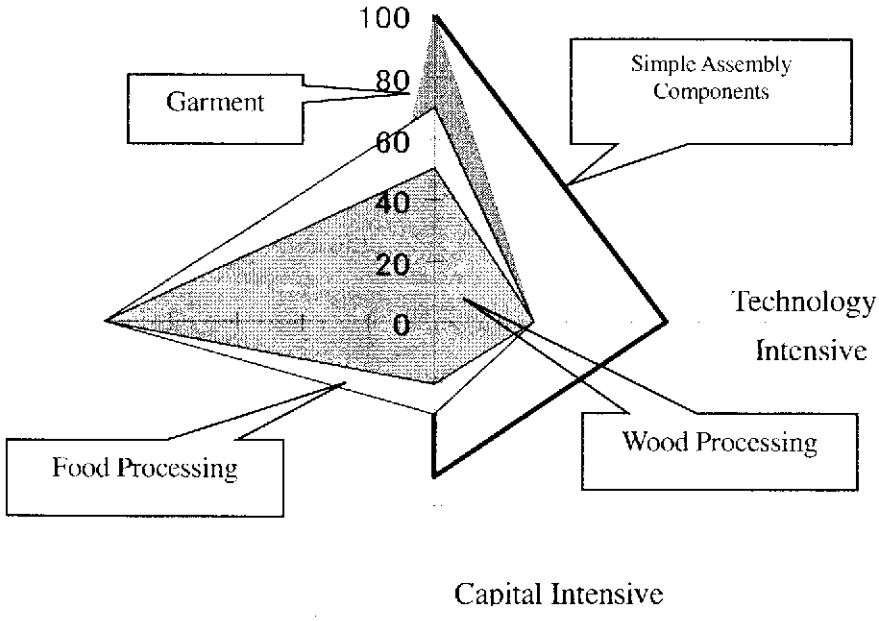
- Requiring a relatively small amount of investments but not necessarily an advanced level of industrial engineering and an SI integration,
- Composed of relatively labor-intensive processes while requiring ample low-cost labor,
- Based on assembly operations with automated machines though labor-intensive while requiring skilled diligent labor to increase the production efficiency
- Applicable products in the broadest sense occupy approximately 10% (around 1 trillion Japanese yen) of the ASEAN electronic industry. These electronic parts, however, have been urged to reduce cost, with an intra-regional division of later, especially in competing against China.

Figure 3-26 Promising FDI Sectors in Myanmar



Source: JICA Study Team

Figure 3-27 Labor Intensive



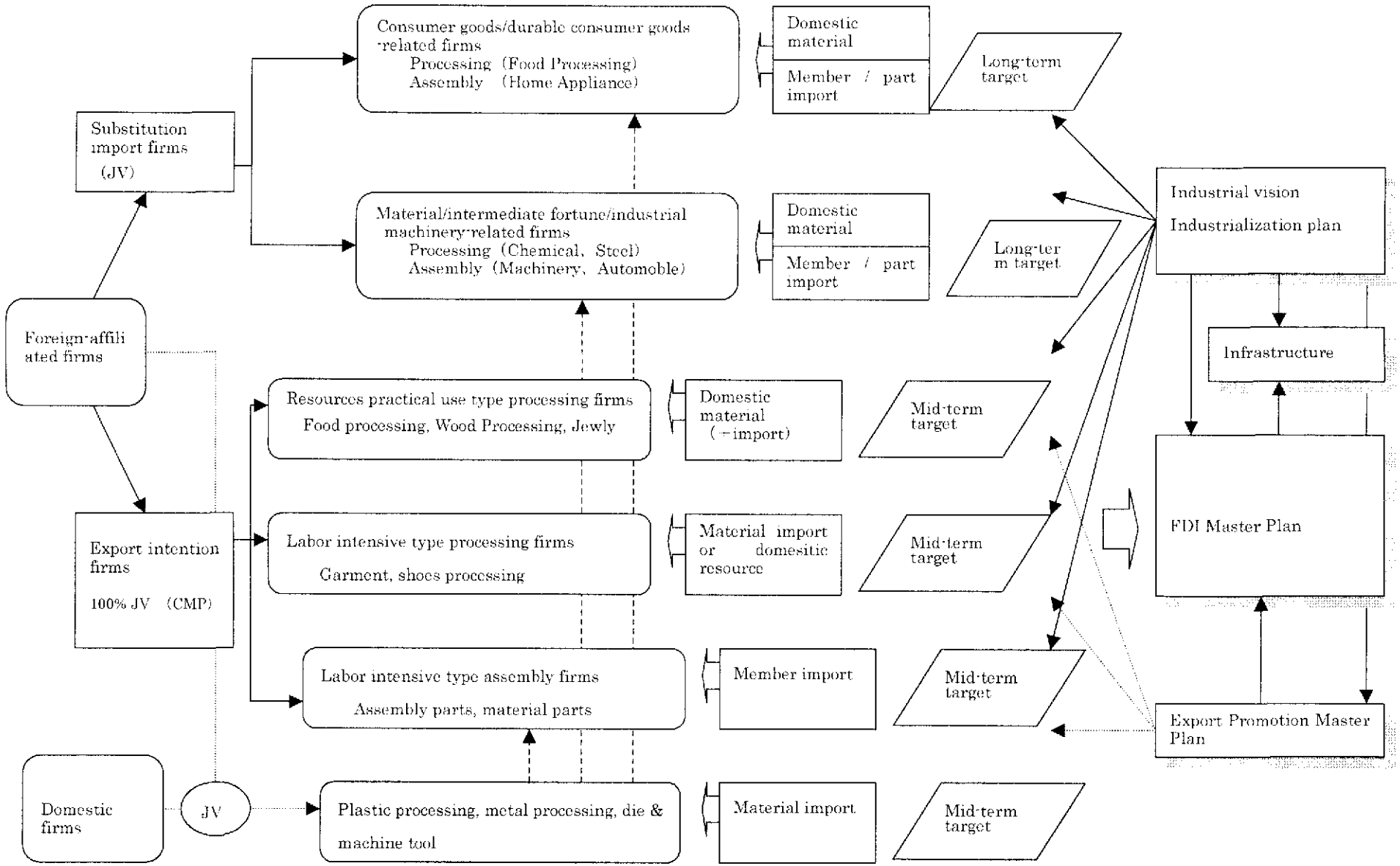
Source: JICA Study Team

Table 3-12 Characteristic Analysis of Manufacturing Industry and Extraction of a Promising Industry that Myanmar should Invite with Precedence

Type of industry		A production form				An import and export form		A capital form			Myanmar latent faculties	FDI priority promising industry		Japanese FDI for ASEAN (~99)		Production retio for manufacturing industry in Myanmar (98/99)
Large classification	Middle classification	Labor intensive	Capital intensive	Technology intensive	Material dependence	Export intention	Import Substitution	100%	JV	CMP		Short term	Mid-term	Number	B yen	
Food processing	Dairy products				○	○	○	△	○					556	233	85.0
	Vegetables/fruit product				○	○	○	△	○		○ (Domestic Resource)	◎				
	Flour milling cakes				○	○	○	△	○		○ (Domestic Resource)	◎				
	Fisheries product				○		○	△	○		○ (Domestic Resource)	◎				
	Refreshing drinks/alcoholic beverages		○				○		○							
Fiber	Fiber/Spinning		○	○			○						○	977	430	1.5
	Garment	○				○		○	○	○	○ (Cheap labor)	◎				
	Hides/shoes processing	○				○		○	○	○	○ (Cheap labor)	◎				
Wood Processing	Plywood		△		○		○		○				○	499	165	1.2
	Furniture				○	○			○	○	○ (Domestic Resource)	◎				
	Pulp, paper/paper processing		△		○		○		○							
Chemical	Chemical article		○	○			○		○					1023	964	4.3
	Petrochemistry		○	○			○		○							
	Plastic product		△	○			○		○				△			
	Cosmetics/medical supplies		○	○			○		○							
Iron / non-iron	Iron and steel		○	○			○		○					1003	854	
	Nonferrous metal		○	○			○		○							
	Metal article		△	○			○		○				△			
Machinery	Industrial Machinery		△	○			○		○					641	383	0.3
	Agricultural machinery		△	○			○		○							
	Precision instrument		△	○		○	○	○								
	Die / Machine		△	○			○		○				△			
Electric & electronics	Electrical machinery		△	○			○		○					1365	1137	0.1
	Home appliance		△	○		○	○		○							
	Active components		○	○		○		○								
	Assembly passive components	○				○		○		○	○ (Cheap labor)		◎			
	Material passive components		○	○		○		○			○ (Cheap labor)		○			
	Mechanism part			○			○		○				△			
	Softwear	○		○		△	○		○	○			△			
Transportation machinery	Car		○	○			○		○					578	521	0.5
	Motorbike			○			○	○	○							
	Bicycle			△		△	○	○	○							
Others	Ceramics				○		○		○					1315	677	7.1
	Jewel				○	○			○		○ (Domestic Resource)	◎				

Source: JICA Study Team

Figure 3-28 Frame Work for SpecificAtion of a Promising Industry that Myanmar Government should Invite with Precedence



Source: JICA study team