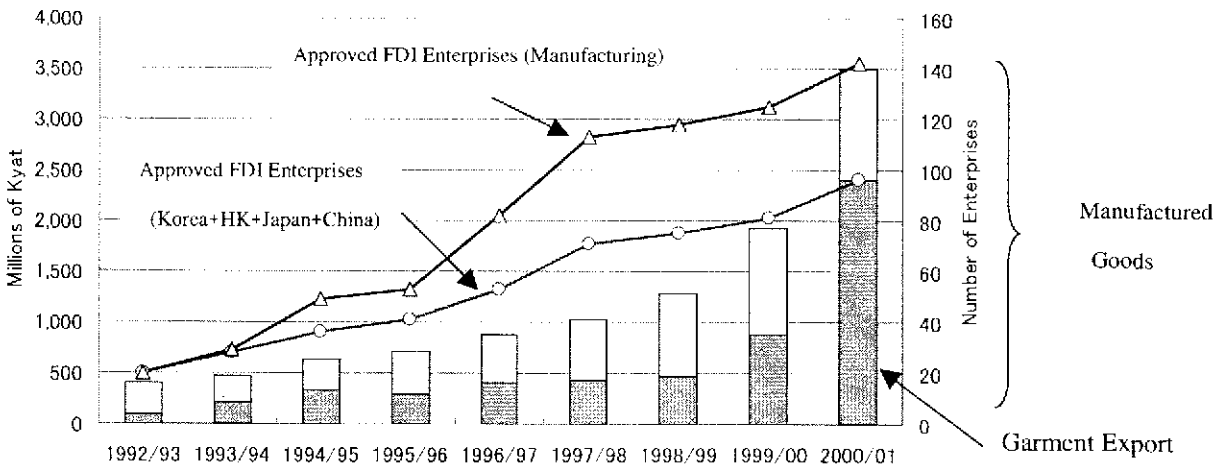
3.2.4 Status Quo and Outlook of FDI-preferred Lines of Business

(1) Garment

In Myanmar, the garment industry occupied only 1% or 2% of the entire industry in the past. Since the middle of 1990s, however, enterprises from Hong Kong, Taiwan and Korea have made inroads in Myanmar in a variety of capital forms. Since the second half of 1990s, the garments made in Myanmar has been expanding very rapidly. It is estimated that the textile-related enterprises mainly in the garment sector under Private Industrial Enterprise Law amounted to approximately 4,300 firms. Although the number of the enterprises has not increased so remarkably for recent years, the garment CMP exports mainly by foreign capitals have contributed greatly. Those FDI enterprises which started their operations after approved from the middle of 1990s and on are considered to have their production/exportation get full fledged of late.

Figure 3-29 A Time-Series of Changes in Korean, Chinese and Japanese FDI Enterprises Approved to Make Inroads in Myanmar and of her Exported Garments



Source: Directorate of Investment and Company Administration

Reflecting the increase in number of employees and in amount of investments by FDI enterprises, the sewers' income, characterizing a CMP form, has been growing. According to the export statistics, such income amounted to approximately 400 thru 500 million dollars in the middle of 1990s. This figure, however, has shown a rapid growth from about 900 million dollars for fiscal 1999 to 2.4 billion for fiscal 2000. This rapid increase in exportation tells us that 100% foreign capitals and CMP enterprises as the joint venture of a state-owned company with a foreign capital have enlarged their business. As referred to above, the garments export statistics that show an equivalent to sewers' wage income have been under evaluated in comparison with those on an FOB basis. Since the second half of 1990s, however, a rapid increase in exportation has caused the sewers' wage income to occupy 70% of the export by the manufacturing industry, and 20% of the total export.

The garment industry in Myanmar is composed of about 400 CMP enterprises exporting all of their sewn products while dependent entirely upon the importation of raw materials, such as raw silk or the like, including approximately 22,000 domestic capitals (state-owned companies and very small-sized businesses with a workforce of less than several employees, etc.) who undertake garment consigned by CMP enterprises and sold on the domestic market, such as Longyis or the like. Among the CMP enterprises, those export-competitive are mainly leading FDI enterprises. There are a number of CMP companies undertaking the garment consigned by leading FDI enterprises.

According to the survey materials available from a Myanmar investigation agency, MMRD, her main garment firms are broken down, as shown in a table below, into 310 principal garment enterprises (not matching with the current number of CMP enterprises, with the 1999 statistics only available), 12 companies owned 100% by foreign capitals, 26 joint ventures between foreign capital and state owned entity, and 272 domestic capitals. Some domestic capitals, however, are nominally managed by a Myanmar president but really owned by foreign capital (who has consigned the management to the Myanmar president). With consigned garment, technical guidance and distribution channels taken into consideration, furthermore, it is a really significant role that has been being played by foreign capitals including JVs), who are as a matter of course larger-sized in terms of production per enterprise, mechanical equipment, workforce and exportation.

Table 3-13 An Overview of Garment Industry in Myanmar (1999)

	Total	Foreign	JV	Local
Number of Firms	310	12	26	272
(%)	100	4	8	88
Production(1,000 Pieces per month)	15,943	1,103	2,540	12,300
(%)	100	7	16	77
Number of sewing Machines	76,320	8,290	11,896	56,134
(%)	100	11	16	74
Number of Workers	119,892	14,231	19,083	86,578
(%)	100	12	16	72
Export Value per month(US$)	34,660	5,515	7,620	21,525
(%)	100	16	22	62
Export Value per machine month	454	665	641	383
Export Value per worker month	289	388	399	249
Production Value per machine month	209	133	214	219
Production Value per worker month	133	78	133	142
Workers per Machine	1.6	1.7	1.6	1.5

Source: MMRD

Many FDI garment enterprises in Myanmar have come from Hong Kong, Korea, Taiwan, etc. A cumulative total of those who made inroads there in 1900s have reached approximately 40 cases. According to the hearing made in Korean enterprises, however, a total of 70 thru 80 Korean enterprises have made inroads in Myanmar (as of the end of 2001), about 50 of which are garment businesses. From this, it may be gathered that there are many enterprises that are engaged in the garment operation as Myanmar's CMP enterprises registered in MCIL without being registered in MIC as FDI undertakings.

Conventionally, the import substitution has taken a main position in the garment industry of Myanmar. Now, it has been difficult to receive orders from overseas. Too long a time taken in going through the customs clearance proceedings and underdeveloped communications with overseas has impeded a quick response. Consequently, her exports have been limited to low-priced regular items, such as underwear, T-shirt and children's clothing, and all having a long merchandize cycle while being consumed throughout the year. More recently, however, Myanmar has been gradually increasing the supplies of those products which are considered requiring a skill of processing, such as shirt, lingerie, pajama, etc. with the initiative taken by Korean and Japanese enterprises although she is under an economic sanction.

The garment industry in Myanmar has been receiving benefits, such as export/import license issuance, export duty exemption and privileged foreign currency exchange rate application, by taking the form of CMP. Recently, however, it is said that a market exchange of foreign currencies received has contributed to the weakening trends of Kyat. As a result, the garment industry in Myanmar has been put under more and more strict control, such as a mandatory obligation of every CMP enterprise to be registered in MIC, a mandatory obligation to exchange wage-covering foreign currencies in a publicly opened exchange agent (450 Kyat per dollar), and a strict examination of any export/import licenses to be issued.

Garment, an export contributing industry, has encountered with such severe situations because this industrial sector is considerd as a service industry resorting to wage earnings rather than the manufacturing industry, for the garment industry in the form of CMP has scarcely had technologies transferred without producing raw materials domestically. The measures taken as referred to above have been taken due to a rapid foreign currency shortage and a multiplex exchange system on the backgrounds. And they really have some aspects of inevitability. The garment industry, however, has been contributing more and more to the obtainment of foreign currencies. It is necessary to change the policy in the future so as to cultivate the garment industry as one of the important industrial sectors.

Up to the first half of 2001, the garment industry in Myanmar showed a remarkable increase in exportation. At present, however, it has entered in a depressed phase under the influence of a market sluggishness arising from the simultaneous multiple terrorism and of a control by the US Congress over the garments imported from Myanmar. Nevertheless, she would be more export competitive against China and Vietnam if the merit available on the Japanese market (6% import duty exemption on garments from Myanmar, Bangladesh, Cambodia, and Laos). Besides, there are possibilities that approximately 150 Korean enterprises now making inroads in Indonesia whose investment environments have turned more and more unfavorable may move elsewhere, including Myanmar, etc. And it has been indefinitely known whether or not the existing quota system may be completely abolished from 2005 and on. Thus, the garment industry in Myanmar may be considered to have potential of showing a new development in the future.

To aim at contributing to the export promotion in the related sector, it is necessary to promote a full-scale introduction of foreign capital, to materialize a faster technology transfer from overseas (including an invitation of experts overseas to upgrade the infrastructure and an establishment of centers provided with state-of-the-art equipment) and to take measures for enhancing her export competitiveness. Within the territory of Myanmar, moreover, there are a scarce number of the raw string processing and textile processing sectors capable of furnishing internationally competitive raw materials (cotton and synthetic strings). For the garment industry to enhance their export competitiveness, it is necessary to domestically produce raw materials from a long-term point of view. Foreign capital attracting measures in this sense will be also required.

(2) Wood Processing Industry

Myanmar exported wood processing products amounting to approximately 200 million dollars for 2000, which occupies approximately 10% of her total export, of which 70%, however, has been occupied by logs and other primary products. Myanmar is one of the leading teak supplier countries all over the world, with her owned market share reported to reach 75%. On account of a possible resource depletion and of an intended increase in national revenue, however, private enterprises have been banned from exporting material teak trees. Since 1994, the right to lumber any wooden resources including teak has been limited to the joint ventures with Myanmar Timber enterprise (MTE). And any other private enterprises have undertaken the wood processing business while receiving wooden materials from such joint ventures, being engaged in exporting and domestically selling the wood processing products.

As of March in 2000, it was reported that there were approximately 370 wood-related enterprises in Myanmar. And 50 of them were the big companies, including ten joint ventures with the state-owned enterprise MTE and 100% FDI enterprises. And the rest about 320 companies were medium- and small-sized businesses. FDI enterprise participants are reported to reach several companies, ASEAN Chinese merchants, Japanese and Korean capitals and European and American enterprises And many of these companies are involved in the business of finished *furniture* products and goods in process, such as flooring materials, etc. on the basis of a joint venture with MTE.

Myanmar has been exporting a variety of teak-applied furniture, interior products, flooring materials and other wood processing products all over the world. Approximately 80% of these exports, however, are destined to Asia, such as Thailand, Singapore, Hong Kong, India and Japan. Since they resort to old-fashioned out-of-date working machines and have remained in a poorly accurate or finished working/assembly technical level, the wood processing products assembled in Myanmar have had their export competitiveness downgraded more and more. As a result, the material wood or timber primarily worked by the state-owned enterprise is being increasingly exported to ASEAN member countries, such as Thailand and Malaysia. And the working assembly works in each of these countries have often come to be exported to Japan and others.

With 1994 when the private enterprises' operations were limited to wood processing only taken as a turning point, the Myanmar Forest Products and Timber Merchants' Association (MFPTMA) was established as a trade organization subordinate to the UMFCCI. Approximately 400 private enterprises mainly concerned in wood processing have participated in the MFPTMA. While conducting on a diversify of activities to promote the wood processing industry, the MFPTMA has encountered with two urgent challenges: one is to upgrade the technological level of wood processing for an increase in export competitiveness and the other is to make arrangements for procurement of material wood from joint ventures with MTE so as to secure an exportable quantity. For the former, the significant key lies in materializing the wood processing training center concept with subsides from developed countries. For the latter, it will be of critical importance to stop exporting the material wood to the wood processing assembly bases in the neighboring ASEAN member countries as well as to conserve the natural resources.

Table 3-14 A Time-Series of Changes in Myanmar's Timber Exports by Main Destination

(Millions of Kyat)

	1992/93	1993/94	1994/95	1995/96	1996/97
Thailand	303	538	148	362	390
Singapore	107	128	131	211	187
India	230	223	155	125	126
HK	188	209	68	107	105
Japan	24	24	17	15	71
その他	98	118	541	228	262
合計	950	1240	1060	1048	1141

Source : MTE, Ministry of Forestry

Table 3-15 Composition of Export in Forestry Sector

(%)

	1992/93	1993/94	1994/95	1995/96	1996/97
Log+Conversion	84.7	91.5	88.1	82.2	75.6
VA Product	15.3	8.5	11.9	17.8	24.4
Total	100	100	100	100	100

Source : MTE, Ministry of Forestry

In the future, it will be important to establish the base where highly added-value products may be exported through the efforts to introduce both capital and state-of-the-art technology into the wood processing sector from developed countries while taking into consideration the effective use of wood resources (by planned deforestation and forestation to protect global environments and secure natural resources while discouraging and stopping the exportation of poorly added-value material wood or primarily worked products). In this stage, it is essentially necessary to place emphasis on cultivating private enterprises able to perform more highly efficient working assembly operations and more vigorous marketing, with market needs taken into account, rather than orienting for a joint venture with the state-owned enterprise. From this very point of view, it is necessary to proceed positively with the FDI attraction policy, too. It is considered necessary for the Government to revise the existing import/export licensing system with priority given to state-owned enterprises while taking responsibilities for a planned material wood deforestation/forestation project. From a long-term point of view, meanwhile, it is considered possible to study the feasibility of fostering the paper pulp industry, making effective use of ample timber resources, not being limited to wood processing, such as furniture, building materials or the like only.

(3) Food Processing Industry

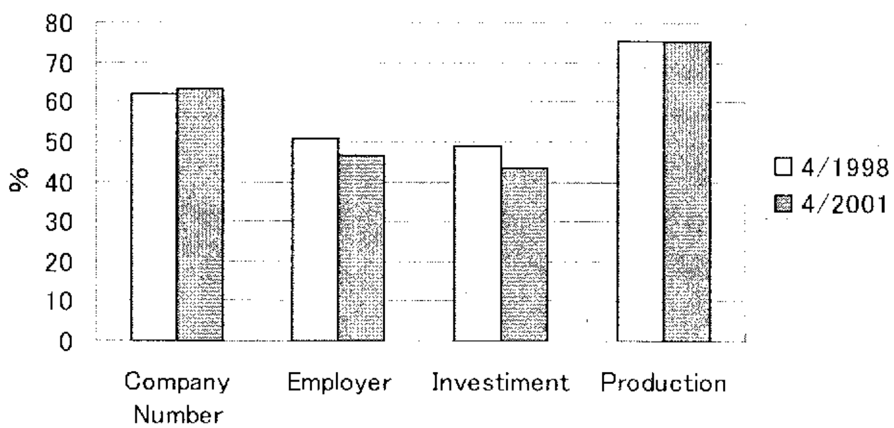
The food processing industry in Myanmar has occupied 80～90% of her total industrial production, highest percentage in the manufacturing industry. According to the Review of the Financial, Economic and Social Conditions, the food processing industry comprises approximately 30,000 companies, of which a little more than 200 each are reportedly state-owned enterprises and their joint ventures with private companies. The data available in the Directorate of Regional Industrial Co-ordination and Industrial Inspection have reported that there were approximately 23,000 private medium- and small-sized businesses engaged in food processing as of April in 2001. They shared the industry at a little more than 60% in number of enterprises, approximately 50% in number of employers, 40～50% in value of investments and around 75% in production.

Table 3-16 A Time-Series of Changes in Number of Enterprises in Food Processing Industry, Myanmar

	1989/90	(%)	1996/97	(%)	1997/98	(%)
State	242	1.8	209	1.0	209	0.7
Co-operate	322	2.3	219	1.1	220	0.8
Private	13,194	95.9	20,408	97.9	28,816	98.5
Total	13,758	100.0	20,836	100.0	29,245	100.0

Source: Review of the Financial, Economic and Social Conditions

Figure 3-30 Situation of Food Processing Industry of Registered Private Industrial Enterprises (SME)



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

Among the food products processed in Myanmar, primary material processing shows a higher percentage, such as rice cleaning, oil refining, milling and sugar manufacture. Equipment-intensive products, such as beer, soft drinks, instant noodles and the like, are being mainly supplied by big and medium companies, such as state-owned enterprises and their joint ventures with private firms. Bread, ham, sausage and diary products are being supplied mainly by small businesses. The joint venture operations between state-owned and private enterprises, such as soft drinks to be sold on the domestic market, have implemented relatively new production equipment. Many food-processing machines, however, are of domestic make at a lower level, being old fashioned or out of date and used for long years. In many cases, moreover, food is supplied in small quantities and at low quality levels. Besides, they lack stability in supply. These factors have deprived the food processing industry of their export competitiveness. Cleaned rice and frozen shrimps have been partially exported. Except for them, however, most of the foodstuffs processed in Myanmar have been being produced for sale on the domestic market.

For FDI enterprises, foreign capitals, mainly Chinese merchants resident in Thailand, Malaysia and Singapore, or within the ASEAN area, have made inroads in Myanmar to participate in the soft drink operations for sale on the domestic market, marine product processing, such as frozen shrimps for export, canned agricultural products and canning operations. Especially Thai FDI enterprises oriented for exportation have made inroads there in expectation of food materials and low-cost labor available in Myanmar. Many of them, however, have encountered with some problems, such as difficulties in procuring food materials, unstable power supplies, dependence of bottling, canning and packing materials upon importation, and a managerial issue of mismatching with a state-owned enterprise as joint venture party. Reportedly, a cumulative total of approximately 150 firms (with many cases assumed to fall within a category without any capital participation) have made inroads in Malaysia. It is reported, however, that more than 80% of them have already withdrawn because of too unfavorable investment environments.

The food processing industry in Myanmar has had a lot of challenges awaiting solution. Problems involved, however, may be summarized as follows:

Raw Material Procurement

- Brokers and commission agents have control over 80% of the routes through which raw materials could be produced. Direct purchases from producers show a low percentage. Since supplies have not been stabilized, the demand turns unstable while prices are fluctuating in a great measure.
- As far as sold on the domestic market, raw food materials have scarcely had their quality raise a problem. Products to be exported, however, involve a significant lot of challenges awaiting solution. Myanmar is required to be able to continuously supply a large quantity of food materials with stability and to secure a quality level enough to withstand exportation.

Infrastructure

- Many of FDI enterprises and leading domestic undertakings are able to operate in an industrial complex. A shortage for power (unstable power supply) and an improper buildup of communication infrastructure have been balking production activities.
- For those leading food processing enterprises mainly selling on the domestic market and exporting companies, a non-buildup of commodity distribution infrastructure, such as highway network and haulage means, have turned out to be leg-irons for their business expansion.

Processing Technology and Mechanical Equipment

- A capital-intensive operation, such as bottling or the like, has allowed mainly some leading enterprises to have introduced state-of-the-art equipment. Mainly small-sized businesses, however, have had their processing equipment composed of old-fashioned machines either domestically made or imported, showing a low level of processing technology.
- Import substitution has been prevailing while the domestic needs have not shown a high level of demand. Consequently, a shortage has been seen for skilled operators and engineers. Besides, sanitation and quality control have been understood insufficiently.

Dependence upon Importation

- Main raw materials are mostly procurable domestically. Most of additives, pigments, seasonings, containers and packing materials, such as cans and the like, have been being imported, adversely affecting the profitability while giving rise to the necessity of obtaining foreign currencies.

Food processing in Myanmar is strongly inclined to serve as an import substitution industry. From the viewpoint of effectively utilizing her agricultural and marine resources, however, the food processing industry has high potentiality of changing into an export industry. In this stage, it may be duly envisaged that a domestic capital in Myanmar may introduce advanced production equipment from overseas while intending to expand the exportation as an extension to domestic sales. To make a full scale export promotion, however, it is necessary to grasp the needs on the market overseas, to implement the processing know-how and equipment backed up with state-of-the-art technologies and to secure users and sales routes. With these factors taken into consideration, Myanmar will naturally have to raise her dependence upon foreign capitals. Most of technologies, funds and sales routes will turn available with foreign capitals attracted. To this end, it is desirable to take a positive foreign capital attracting policy and to build up business environments in both hardware and software aspects within the country.

Those especially promising in FDI enterprises may be deemed Thai and Japanese capitals. In the periphery of Bangkok in Thialnd, many food processing enterprises are integrated, importing food materials without being limited to those available in the Thai territory and exporting post-processed products all over the world. More specifically, local capitals in Thailand, such as a financial combine or the like, have had a capital cooperation with leading capitals in Japan, Europe and America (distribution services, trading firms, etc.) to receive materials supplied from all over the world. After these materials have been processed on an OEM basis, Thailand has been expanding her business of export to the market in developed countries. More recently, however, there have been higher possibilities that labor cost hikes and trends to extend the acquisition of food materials over to neighboring countries may make Thialnd to divide the labor to Myanmar and Vietnam or the like.

In other words, the labor divided by Myanmar with Thailand involves the possibility that food processing in Myanmar may evolve into an export industry. In this stage, it is certainly likely that not only Thai capital but also Japanese and European and American enterprises will be concerned in the aspects of technologies and markets. As already referred to, Thai enterprises are significantly interested in the agricultural and marine resources available in Myanmar and many Thai firms have already made inroads there. Nevertheless, the investment environments in Myanmar have continued being not always satisfactory. And there have been a lot of those cases that have withdrawn. If such situations should last, Myanmar will become a mere export base of primary products and may lose an opportunity of developing an added-value industry as food processing. Myanmar is called upon to go on improving investment environments step by step from a long-term standpoint.

(4) Electronic Part Assembly Industry

The mechanical industry, including the electric/electronic sector, in Myanmar, has shared only 1% of her total industrial production. Generally, the import substitution is in its developing stages. While restricting on the import of finished products on the basis of tariffs and import licensing, Myanmar has had her state-owned enterprises assemble motor vehicles (domestic production ratio 10%), motor bikes (20%), farming machineries (20%), electric household appliances (20%) all sold on the domestic market.

As far as the electric/electronic sector only is concerned, the state-owned Myanmar Heavy Industries (MHI) is producing heavy electric machines and electric appliances. Most of electric household appliances, such as TV sets, refrigerators, etc. had been assembled and produced in a joint venture between MHD and Daewoo, Korea, until the middle of 1990s. These products were not competitive against products imported while Daewoo itself was liquidated. At present, therefore, such products have not been assembled at all in Myanmar.

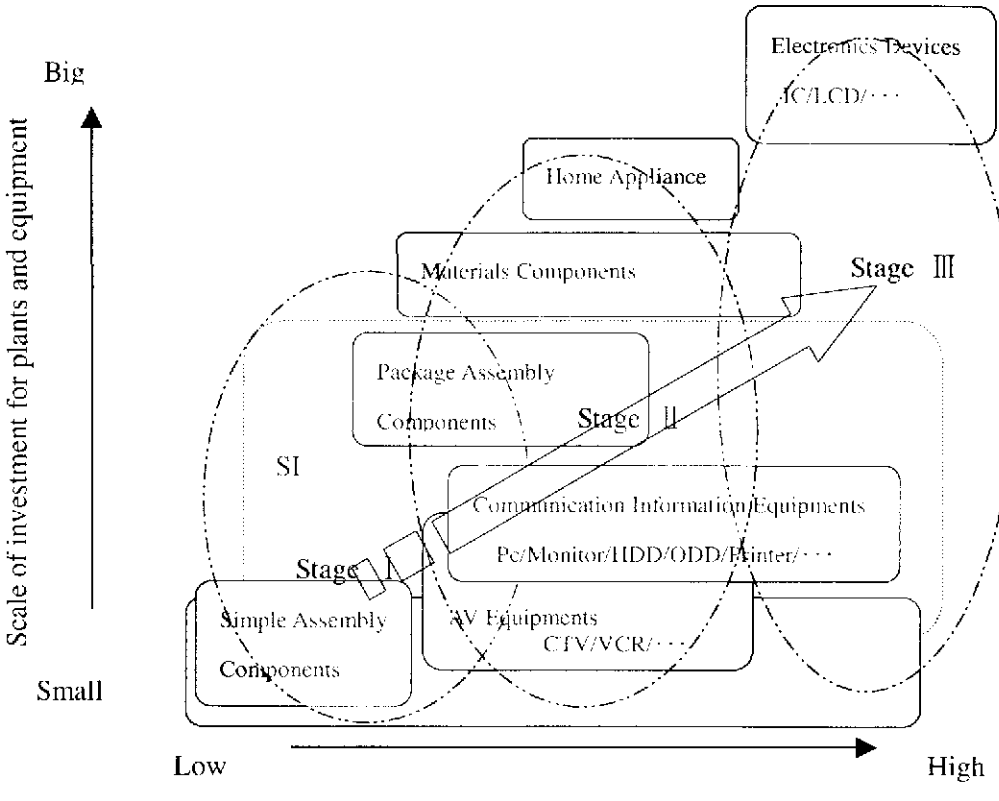
Electric equipment and related parts, including electric facilities sold on the domestic market have been being produced more or less but most of them are not internationally competitive.

Several Japanese and Korean enterprises have made inroads in Myanmar so far for the purpose of assembling and exporting electronic parts (coils, transformers, etc.) Her investment environments could not be deemed satisfactory. Nevertheless, the low-cost labor has charmed them to make inroads there. A VCR assembling Korean enterprise (Daewoo Electronics), among others, has been continuing their operations in a corporate size of several hundred employees. Japanese enterprises (2 companies), however, had to withdraw on account of Unfavourable investment environments (imported member procurement problem, assembled part sector alteration approval problem) and of Japanese head office's restructuring problem.

In the meantime, attention has been being drawn by not a foreign capital but a local electronic part assembler/exporter enterprise "Earth Industry." This company has been supplied with assembly know-how and member parts by a Japanese enterprise (Tamura Electronics Mfg.) having an assembly base in Malaysia. This CMP enterprise locally capitalized in Myanmar is totally exporting all of the parts assembled (transformers, power supplies, and thermal fuses). Its management has fully understood the parts business and a Japanese way of managing the company. Even a local capital has succeeded in the export business. This fact suggests that a foreign capital will be able to make the electronic part assembly operations fully viable even in Myanmar so long as her investment environments are set up in place.

In the electric/electronic industry, it is in the simple electronic part assembly/processing sector that Myanmar may secure export competitiveness and will be able to contribute to the obtainment of foreign currencies. The electric/electronic industry has such characteristics as broadness in coverage (application → from electric household appliances and information communications to defense and space development, form → hardware, software and services), diversity of production forms (products, parts, processing and materials). And a size of investments, therefore, is required according to an area to be covered and to a form of production. An investment size suitable for each stage of development, therefore, would make the investment to have a significant far-reaching effect on employment absorption/technology. This industry, therefore, has a larger capability of creating a favorable cycle of foreign currency obtainment → economic growth than that of any other industrial sector. This factor has been historically demonstrated in many Asian countries (Singapore, Malaysia, Thailand, Indonesia, Philippines, etc.), including Japan as well. Although the times and backgrounds differ, it will hold fully true in such a developing country like Myanmar.

Figure 3-31 Scenario for Evolution by Stage of Electric and Electronic Industries



Source: Nomura Research Institute

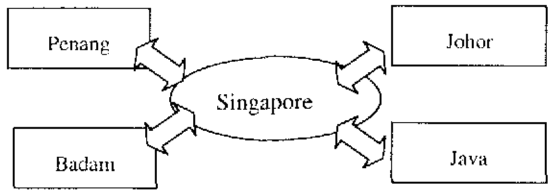
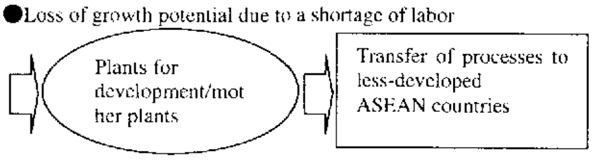
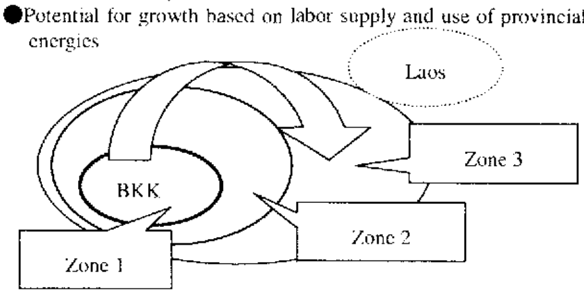
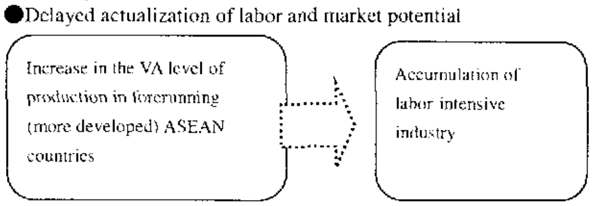
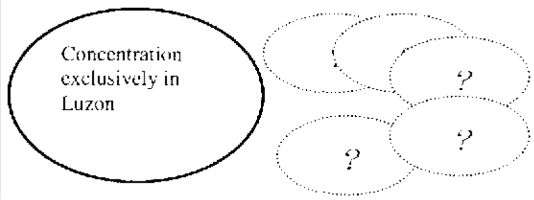
As a powerful foreign capital in the electronic part sector, there are Japanese enterprises, who are the most significant contributors to the development of this industry in each ASEAN member countries, such as Singapore, Malaysia, Thailand and the like. International industrial capitals, including those Japanese who have developed the ASEAN member countries, have been paying special attention to the ample low-cost labor resources available in Myanmar while China is on the rise. Nevertheless, she has still had a plenty of issues, such as inroad incentives, location environments (infrastructure, such as EPZ, electric power and the like), exchange rates, etc. And most of the international industrial capitals have been standing without making full-scale inroads. Those international capitals that have deployed in forerunning ASEAN member countries, have begun being aware of the transfer to a division-of-labor system all over the wide area, including Vietnam and Myanmar while glaring at the AFTA.

The electronic part assembly is the sector that could be caught up with in the most initial stages of development in those varied electronic products/parts which might well be characterized on the basis of equipment investment and/or industrial engineering level. And it is the sector that has supported many ASEAN forerunning member countries, such as Singapore, Malaysia, Thailand and the like in initial stages of their developments. The electric/electronic industry in the peripheral countries, moreover, has had a division-of-labor system constructed as shown in the figure below. The labor-incentive electronic part assembly has been rapidly loosing competitiveness in forerunning ASEAN member countries, such as Singapore and the like. Myanmar. Therefore, has a high possibility of increasing the opportunities of making investments in such a sector toward the AFTA. At present, China has begun to build up an overwhelming competitiveness in labor-incentive industries. Under such circumstances, Myanmar need promptly build up a foreign capital attracting policy and industrial infrastructure to invite such enterprises.

3.3 Case Study of FDI Policy and Related Organization in the Philippines and Vietnam

A study was made of precedent cases in neighboring countries for the purpose of identifying advisable measures for attraction of foreign investment and the related organization in Myanmar. Judging from their results as well, the cases in Singapore, Malaysia, and Thailand should serve as valuable models of success among other member-countries of the ASEAN. However, these cases also present problems, in that the research must extend a fairly long way back into the past, and that there is a lack of relevance to Myanmar in many respects owing to the changes in the investment environment in recent years.

Figure 3-32 Structural Change and Orientation of Extended Divisions of Production in the Electric/Electronics Industry in the Main ASEAN Countries

	Factors behind structural changes (factors encouraging and impeding advancement)	Structural change and the orientation of extended divisions of production
Singapore	○ Governmental policy for active attraction of foreign investment ○ Full conditioning of the service sector infrastructure (financing, distribution, etc.) ○ First-rate engineering capabilities × Small land area × Small labor force	● Growth of IT industry ● Establishment of international competitiveness based on division of production within the ASEAN region 
Malaysia	○ Highly transparent economic and industrial policy ○ Effect of the build-up of set and component industries ○ Transfer of design and development capabilities × Post-Mahathir order × Labor shortage and dependence on foreign workers × Policy favoring ethnic Malays × Lack of a manufacturing aptitude among ethnic Malays	●Transition to high-VA assembly products ●Loss of growth potential due to a shortage of labor 
Thailand	○ Expansion of new foreign investment projects (post-crisis reevaluation) ○ Build-up of mechanical processing firms due to the growth of the auto industry ○ Well-established distribution network (as front line infrastructure for the U.S. forces during the Vietnam War) × Lack of stability in the political order × Lack of governmental initiative in industrial policy × Chronic shortage of technicians, engineers, and other specialized personnel	●Spiral-type development of the electric/electronics industry and machine industry ●Potential for growth based on labor supply and use of provincial energies 
Indonesia	○ Reform of the political order ○ Wealth of natural resources ○ Abundance of low-cost labor × Country risks × Withdrawal of ethnic Chinese capital, which has supported the industrial structure × Issues regarding the educational level, diligence, and skill of workers	●Development of labor-intensive electric/electronics industry ●Delayed actualization of labor and market potential 
Philippines	○ Industrial policy with preferential treatment for foreign capital ○ Well-developed infrastructure on the island of Luzon ○ Potential of the labor force (level of skill and English proficiency) × Instability of the political order × Country risk × Inefficiency in economic activities due to dispersion (as regards labor force, market, and the transportation/distribution network)	●Siting of assembly operations for PC peripherals ●Delayed actualization of the labor potential 

Source : Nomura Research Institute

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 foreign direct investment (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.

The case study of FDI policy and related organization in the Philippines and Vietnam was carried out through visits to both countries for field studies consisting of interviews with concerned parties and survey of documentation, with attention to the following items.

* FDI policy and institutions
* History (actual trend) of FDI attraction
* Extended effects of FDI
* Organization and capabilities for execution of FDI policy
* Conditioning of IZs and EPZs
* Promotional organization and activities for FDI attraction

3.3.1 FDI Policy in the Philippines

(1) FDI policy and institutions

Enactment of FDI legislation

* In 1987, under the Aquino administration, the Philippines enacted the Omnibus Investments Code, which decontrolled FDI in the country as a general rule. This was followed in 1991 by the Foreign Investment Act, which made full provisions for FDI inflow.
* In respect of the related legislation and organizational setup, the Philippines took mainly the BOI in Thailand as a model. Initially, the Bureau of Investment (BOI), which was instituted in 1968 under the Department of Trade and Industry (DTI), was placed in sole charge of deploying FDI policy.
* Up to and including the first half of the 1990s, the Philippines did not attract a lot of FDI because of the disadvantages of its investment climate relative to Malaysia and Thailand, owing to political instability, a shortage of electrical power, and underdeveloped industrial

estates.

Establishment of special economic zones

* Inaugurated in 1992, the Ramos administration enacted a new BOT law in 1994 on the heels of an "electrical crisis law" for conditioning of the infrastructure. This legislation paved the way for mitigation of the electrical power shortage through the privatization of electrical enterprises, with resulting improvement of the investment climate.
* In 1995, the former Export Processing Zone Authority (EPZA) was dissolved and supplanted by the Philippine Economic Zone Authority (PEZA). At the same time, the government made arrangements for certification of industrial estates developed by the private sector as special economic zones, and launched aggressive activity aimed at attracting investment by export-oriented firms.
* Outside PEZA's jurisdiction, the former sites of U.S. bases at Subic Bay and Clark were turned into export processing zones under the SBMA and CDC, respectively. In the process, there was an extensive inflow of investment in fields such as information and communications, thanks to the rise of the IT bubble in the United States and (for Japanese firms) the soaring strength of the yen.
* FDI policy in the Philippines has been in line with the larger economic policy, which places highest priority on assuring employment. With the establishment of the special economic zones and PEZA, the policy for attraction of investment promoted through the BOI was replaced by a more positive stance aimed more directly at foreign capital.
* The FDI incentives offered by the Philippines are roughly the same as those in other more developed ASEAN countries; there is no substantial difference. In addition, although the same incentives are available to all investors regardless of nationality (domestic or foreign) as far as the law is concerned, practical-minded steps are taken to see that foreign investors are given more incentive in actual practice.

(2) History of FDI attraction

* As of 2000, the Philippines had attracted a cumulative total of 31.6 billion dollars in FDI for projects approved by the BOI, PEZA, SBMA, and CDC. This is nearly five times as much as in Myanmar. The amount of projects approved jumped in the mid 1990s thanks to a variety of factors, including the improvement of FDI-related legislation, infrastructural conditioning, an upturn in circumstances in the market, and a more favorable investment climate.
* The investment projects handled by the BOI are generally large-scale undertakings in fields such as power generation, waterworks, and resource development, where there is great

fluctuation in the FDI inflow. In contrast, PEZA handles mainly investment projects involving siting by export-oriented firms in EPZs. Many of these firms site assembly and processing locations for IT-related sets or components. By source country, Japan has accounted for about 20 percent of the total FDI since the mid 1990s, with the United States and United Kingdom having shares of about 10 percent each.

* After peaking in 1997, the FDI inflow rapidly dropped off under the influence of the Asian currency crisis and the investment surge in China. The limits have appeared to attraction of assembly- and processing-oriented FDI as in the past, and the BOI and PEZA are consequently starting to put energy into attraction of FDI for design centers and design business with an emphasis on the supply of first-rate personnel with excellent English and engineering skills.

(3) Extended effects of FDI

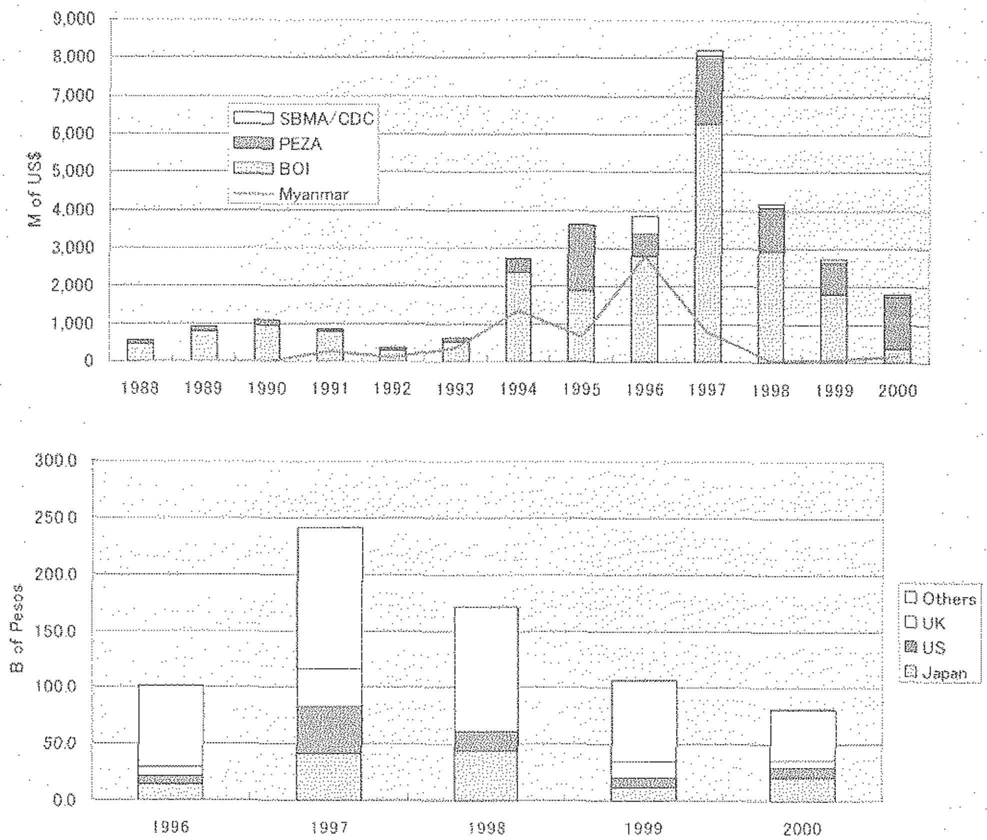
* The extended effects of FDI for creating employment and expanding export are shown Figure 3-34. As of the end of fiscal 2000, the special economic zones had some 700,000 employees. Similarly, export by firms (basically manufacturers) in them outweighed export by manufacturers outside them, and is therefore driving up the country's total export significantly. Manufacturing-sector export now accounts for about 95 percent of the total, and the field of electronic components, where there has been a big increase in FDI in recent years, occupies about 50 percent of it.
* When the indirect effects associated with export by firms approved by the BOI and the activities of firms doing business with FDI firms are also taken into account, the FDI role in employment and export must be termed extremely great.

(4) Organization and capabilities for execution of FDI policy

* The chief executors of FDI policy are the BOI, which is attached to the DTI, and PEZA, which is also under the DTI but is self-funded and has a privately-run disposition. The two are in fierce competition with each other to unearth promising FDI and other investment projects. The circle of concerned entities also includes the SBMA and the CDC as the authorities for conversion of the former U.S. military bases at Subic Bay and Clark, respectively.
* Some foreign firms offered criticism to the effect that the plurality of entities functioning as FDI windows (BOI, PEZA, etc.) has made the setup for FDI policy execution needlessly complex. It has also been pointed out that this plurality leads to inefficiency because of redundancy in overseas promotional activities, for example. The BOI and PEZA are currently headed by the same DTI undersecretary, and studies are being made of approaches

for an integrated organizational setup for FDI promotion on the national level in order to correct these drawbacks.

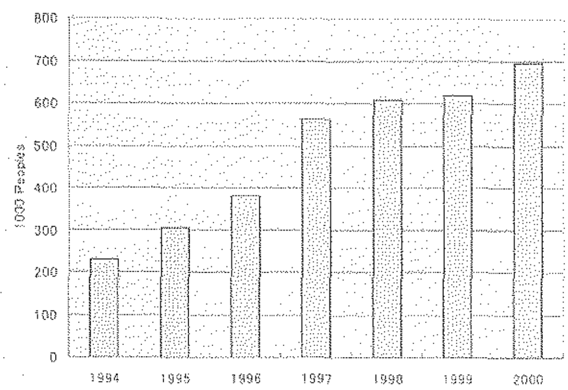
Figure 3-33 Actual Trend of FDI in the Philippines (Approval Basis)



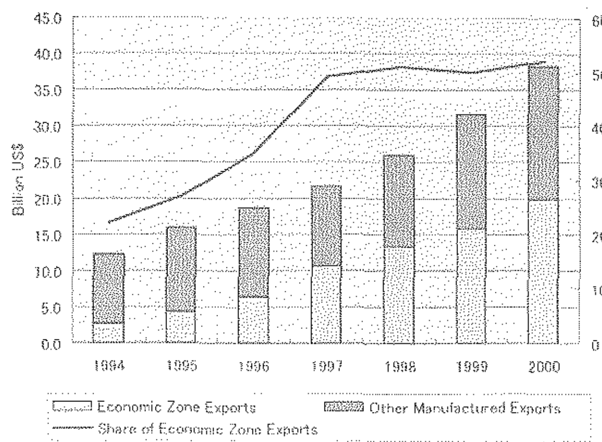
Source) BOI Material、PEZA Material

Figure 3-34 Effects of FDI Attraction in the Philippines (Employment Creation and Export Contribution)

Economic Zone Employment



Economic Zone Exports



Source) PEZA Material

BOI

* Instituted in 1968, the BOI determines policy and issues approval related to investment, whether domestic or foreign. It also deploys campaigns to attract investment. Whereas PEZA sets its sights on attraction of FDI premised on siting in EPZs, the BOI also searches for worthy projects of investment by indigenous capital.
* The BOI organization consists of a decision-making body (the Board of Investment) for policy and approval and subordinate departments in the areas of investment window services, sector-specific investment and industrial policy and planning, and investment promotion. The Board is chaired by the DTI secretary. The role of the Bureau director-general is played by the DTI undersecretary.
* The Philippines has a president who serves a term of six years, and the authorities in most areas are therefore usually replaced along with the change of administration. This detracts from organizational capabilities for in-depth studies of industrial policy as part of the governmental and administrative framework. For this reason, the BOI contains departments assigned to sector-by-sector industrial analysis and studies of strategy for industrial promotion required for the execution of policy to attract investment.
* In 2001, the BOI had a staff of about 340 and an annual budget of 181 million pesos.

PEZA

* PEZA was established in accordance with the Special Economic Zone Act of 1995. Although the EPZA, its predecessor, was under the direct jurisdiction of the president, PEZA was placed under the DTI, like the BOI.
* Unlike the BOI, PEZA is in charge of industrial estates (most of which have been certified as special economic zones) that were newly developed mainly by private firms, and focuses on attraction of siting by export-oriented foreign firms. For this reason, as compared to the BOI, it generally offers more advantages to foreign firms by making efforts to improve incentives in the operational aspect without rigid adherence to the existing legislation.
* Although PEZA is a public institution under the DTI (headed by the DTI undersecretary), it is run autonomously with income from EPZ management. It is equipped for work including application acceptance, one-stop administrative services, and promotional activities. Its efforts to promote investment are more efficient and also developed more from the perspective of the investing firms.
* As for its organization, PEZA has a board which is chaired by the DTI secretary (and composed of undersecretary-class personnel from the major agencies). Under the board are the policy and planning department (in charge of investment policy, EPZ development and operation, and coordination with concerned agencies), operation department (in charge

of window and registration services), EPZ operation and management department, and investment promotion department (reporting directly to the PEZA director general; see the attached data).

* In spite of the change of administration in recent years, there has been almost no change in PEZA's staffing as regards the director general and leading officers. This has better enabled PEZA to achieve consistency in policy toward the official aim of creating employment through activity in aspects such as one-stop services, reinforcement of EPZ features, incentives for foreign investors, and post-attraction follow-up work. As a result, it has made a big contribution to the increased influx of FDI beginning in the mid 1990s.
* The PEZA-managed industrial estates certified by the president currently number 78. Of these, 48 have already been placed into operation and have a combined number of about 1,000 tenant firms. PEZA's staff numbers about 640 (about 500 of whom are working at EPZs).

(5) Conditioning of IZs and EPZs

* Although the Philippines had enacted legislation for FDI, the IZs and EPZs available for siting up to the mid 1990s were confined to the pre-existing state-run industrial estates and a few privately run zones. Moreover, firms were already sited in much of their space, and there were obstacles to the establishment of additional estates. At the time, IZs and EPZs were being developed in Malaysia, Thailand, and Indonesia, and FDI firms did not feel any particular need to site in the Philippines, which was also saddled with a poor infrastructure.
* In 1995, President Ramos instituted the provisions for special economic zones and opened up the development of IZs/EPZs aimed at FDI to private firms. At the same time, PEZA was established for FDI attraction and IZ/EPZ management. To improve the power supply situation in particular, the government embarked on privatization of the power sector based on BOT schemes beginning in the early 1990s, and this program alleviated the power shortage.
* About 100 IZs/EPZs (state-run or private) have been certified nationwide, and about 60 of them are now in operation. (As noted above, the special economic zones and EPZs that are under PEZA jurisdiction and have been certified by the president number 78, and 48 of them are now in operation.)

(6) Promotional organization and activities for FDI attraction

* The BOI, PEZA, and other entities promoting investment are each equipped for promotional campaigns and making active approaches to both domestic and foreign firms. More specifically, they prepare promotional materials, stage seminars inside and outside the

Philippines, and make visits to target firms to encourage investment.

* Creation of employment is one of the top priorities on the country's political and economic agenda, and attraction of FDI and other investment is regarded as a major means to this end. Former President Ramos, who was especially keen to create jobs, took detailed promotional materials along on his visits to other countries in order to encourage investment in the Philippines.
* The distribution of promotional functions among the BOI, PEZA, and other entities initially had a positive effect for attracting FDI, but has also been cited as a cause inefficiency, especially in overseas campaigns. Besides such campaigns, more emphasis has lately been placed on post-siting follow-up activities for positive response to the complaints and problems of tenants.
* The BOI has instituted a unit known as the "Japan Desk" staffed with experts sent by JICA for long-term visits. The Desk offers wide-ranging advice on BOI activities. It also compiles all sorts of requests from Japanese firms sited in the Philippines and is engaged in studies of ways to add capabilities for improvement as viewed from the standpoints of both the BOI and PEZA, as well as avenues of coordination with PEZA.

3.3.2 FDI Policy in Vietnam

(1) FDI-related policy and institutions

* Against the background of the "Doi Moi" (reform) policy instated in 1986, Vietnam enacted a law providing for the acceptance of foreign investment in 1988 and initiated substantive measures for attraction of FDI. FDI-related legislation (laws and regulations) were revised and amended in 1990, 1992, 1996, and 2000 for the purpose of improving the investment climate in response to criticism by foreign firms. While the country went about the improvement in its characteristic manner of making minor adjustments on an ongoing basis, the investment conditions have definitely been improving in the process.
* The key point of the 1996 revision was the partial delegation of authority for FDI approval (licensing), which had been concentrated in the prime minister and Ministry of Planning and Investment (MPI), to the people's committees on the local (provincial) level. This step in effect distributed authority between the MPI, which handles FDI projects in certain industries or on a large scale, and the people's committees, which handle all other FDI projects in Hanoi, Ho Chi Minh, and other local areas.
* This decentralization of authority brought several benefits. For one, it greatly reduced the time required to obtain approval, because investors make application to the people's committees with jurisdiction over the industrial estates in which they desire to site (the

requisite time is in the range of 15 - 30 days as compared to up to 45 days for approval by the MPI). For another, the competition among the people's committees is having the effect of bolstering one-stop service capabilities and improving the investment conditions for foreign firms considerably. The greater emphasis on export-oriented FDI is another major development.

* Meanwhile, the fierce competition for FDI is reflected in a difference between the national and local levels in respect of the operation of FDI policy. In some cases, FDI projects which are under constraints as a matter of national policy due to the type of industry or firm are being arbitrarily approved by people's committees in order to build up their record of successful attraction.

* The key point in the 2000 revision was the instatement of a scheme for business registration. This made it possible for projects meeting certain conditions to go into commercial operation without obtaining official approval. This move is apparently aimed at eventual unification with the Enterprise Law. Whereas the government formerly encouraged joint ventures with indigenous capital to promote the growth of domestic industry, the focus has begun to shift toward promotion of processing industries, including recognition of 100-percent foreign ownership, in the fields of electronic goods, marine products, and agricultural products. Furthermore, it has become easier for firms in IZs to be licensed as export processing enterprises (EPEs), and the licensing conditions have been relaxed; the requisite export rate is now no less than 80 percent.

* There still has not been an overall relaxation of the provisions for unanimous decisions by the board of directors, which has come under strong criticism from joint ventures for some time. Similarly, there remain many other problems with unreasonable rules, such as the fact that transactions between a firm in an EPZ and one outside is deemed a domestic transaction and consequently not reflected in the local contents rate.

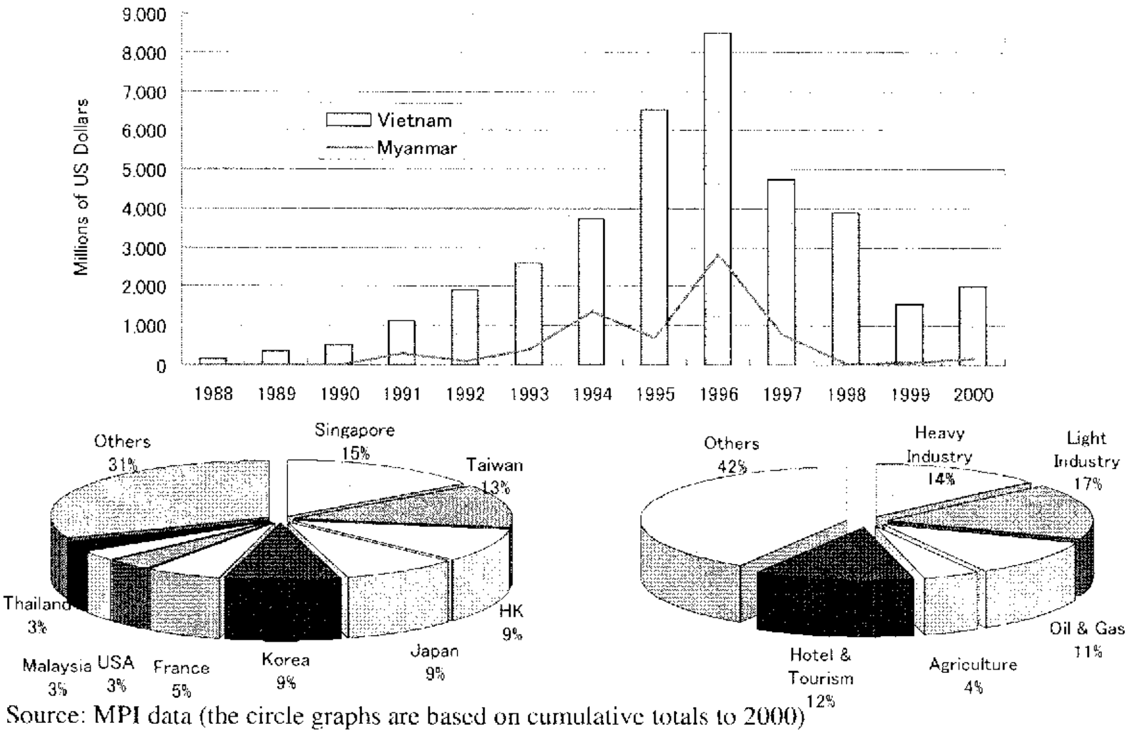
(2) History (actual trend) of FDI attraction* FDI directed to Vietnam rapidly expanded into the mid 1990s as expectations of the country's latent growth capacity rose to remarkably high levels among foreign firms. In the late 1990s, however, it plunged under the influence of the Asian currency crisis as well as the drawbacks in the aspect of FDI policy operation. Since 2000, it has gradually been recovering the tone of increase, thanks partly to the improvement of FDI policy. As of 2000, Vietnam had attracted a cumulative total of 38 billion dollars in FDI. This is nearly six times as much as in Myanmar.

* On the cumulative basis, Japan ranks fourth as a source of this FDI, which is led by the neighboring economies of Singapore, Taiwan, and Hong Kong. FDI in the manufacturing sector accounts for just over 30 percent of the total. Although the general pattern was

formation of joint ventures with government-run enterprises formerly, many of the export processing FDI projects more recently have been wholly foreign-owned. A trade agreement has been concluded with the United States, and the future holds the prospect of increasing siting by U.S. firms.

* Although it was caused largely by the Asian currency crisis, the drop in the late 1990s came as a recoil from the investment boom in the mid 1990s and was also greatly influenced by a host of internal factors, including procedural complexity, the long time required to obtain approval/licensing, the underconditioned state of and frequent changes in legislation, the underdeveloped infrastructure, and the two-tiered price system for electricity, telephone service, air transport, etc. As described above, these drawbacks are gradually heading toward correction.
* Up to the mid 1990s, most FDI was made in the areas of import-replacing industry, development of the domestic infrastructure, and resource development. Along with the improvement of the investment climate as exemplified by the advancement of EPZ (and EPE) capabilities and reduction of requisite export rates, there has been an increase in projects by export processing firms such as Canon (for printers), Sumitomo Bakelight (for flexible circuits), Nichias (for seal materials), and Denso (for automotive components). In addition, the trade agreement concluded with the United States in 2000 (and ratified in the same year) is expected to encourage future investment.

Figure 3-35 FDI Attraction in Vietnam (Approval Basis)



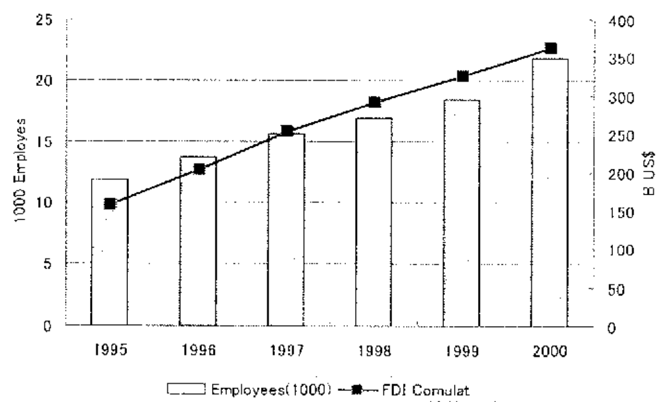
Source: MPI data (the circle graphs are based on cumulative totals to 2000)

(3) Extended effects of FDI

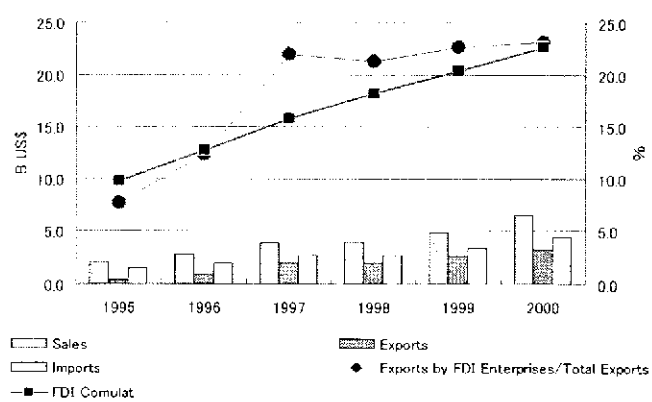
* The number of people employed by FDI firms has increased along with the cumulative amount of investment, and stood at some 350,000 as of the end of 2000. In addition, export by FDI firms has also been steadily increasing. In 2000, it reached 3.3 billion dollars, or almost 25 percent of Vietnam's total export. Naturally, FDI is also stimulating the production activities of domestic firms that are doing business with FDI firms. Considering such factors, it is thought to have even greater extended effects as regards contribution to employment and export.
* Its macroeconomic indicators show that Vietnam registered a strong economic performance during the 1990s, with growth rates averaging 8 percent for gross domestic product (GDP), 13 percent for industrial production, and 22 percent for export. These economic achievements rested partially on the activities of FDI firms. As noted above, export by those in the manufacturing sector came to account for nearly 25 percent of the country's total export, and helped to push the share of all production occupied by that sector to over 10 percent.

Figure 3-36 Extended Effects of FDI (Employment/Export)

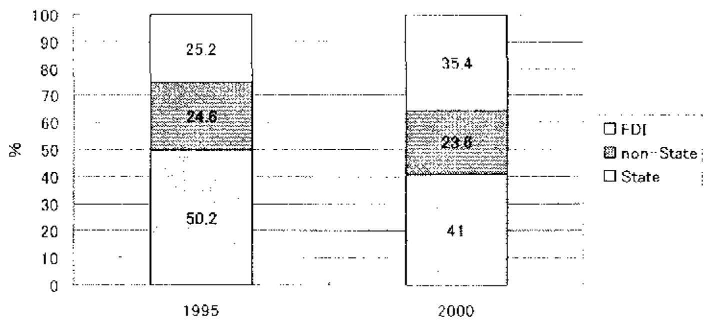
- Cumulative investment and number of people employed at FDI firms



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



Composition of industrial production by sector (type of enterprise)



Source: MPI Material

(4) Organization and capabilities for execution of FDI policy

* Up until the mid 1990s, the State Committee & Cooperation of Investment (SCCI) was in charge of executing FDI policy. With the amendment of law governing foreign investment in 1996, the SCCI was consolidated with the State Planning Committee (SPC) and elevated to the ministerial level as the MPI. At the same time, authority for approval of FDI projects was divided between the MPI and the people's committees based on distinctions regarding type of industry and scale of investment. This made for a more effective organizational setup.

MPI

* The MPI is composed of the national planning division, which was its major component before the consolidation; a division for FDI and other investment; and several research departments (see the attached data). Although there is not a perfect policy coordination between the two divisions, the policy for attraction of FDI in the investment division is (as far as the organizational arrangement is concerned) to be drafted and executed on the basis of the activities of the national planning division, which coordinates the administrative plans and budgets of each agency in accordance with the national medium- and long-term plans.
* The MPI investment division is empowered to approve Group A projects and large-scale Group B projects (for investment of at least 40 million dollars in industrial estates and 5 - 10 million dollars outside such estates). Essentially, it is assigned to projects anticipated to have a great impact (see the attached data).
  - Group A projects: infrastructure development, resource development, posts and telecommunications, financial services, etc.
  - Group B projects: projects of other types; manufacturing belongs in this group
* The investment division is organized into offices for specific tasks, including comprehensive window services for FDI attraction, application and license issuance for big projects, revision of legislation to encourage investment, revision of legislation related to IZ/EPZ operation, and promotion of FDI attraction.
* The investment-related divisions of the MPI have a staff of about 80 on the national level.

People's committees

* The departments of planning & investment (DPIs) and boards of management (BOMs) attached to the people's committees in areas such as Hanoi and Ho Chi Minh have been endowed with authority delegated from the MPI for examination and approval of FDI

projects (the BOMs have also been delegated related authority from the DPIs).

* The DPIs perform examinations and approvals for those Group B projects that concern siting outside IZs or EPZs at a total investment in the range of 5 - 10 million dollars. The BOMs perform examination and approval for those Group B projects that concern siting in IZs or EPZs at a total investment of no more than 40 million dollars. Whereas it takes no more than 30 days to obtain approval upon application to DPIs, BOMs have taken steps to shorten the corresponding term no more than 15 days (see the attached data).
* The major BOMs are the HCMC Export Processing & Industrial Zone Authority (HEPZA) in Ho Chi Minh and the Danan Export Processing and Industrial Zone Authority (DIZA).

(5) Conditioning of IZs and EPZs

* In Vietnam, most industrial estates were originally developed to function as EPZs. However, they failed to attract tenants in significant numbers, and so were basically used as IZs until the early 1990s. At present, there are about 60 IZs/EPZs. Of this total, the estates referred to as EPZs number only three, consisting of two in Ho Chi Minh and one in Danan. However, firms exporting to IZs can make application for designation as EPEs to receive the same incentives as firms sited in EPZs.

HEPZA

* HEPZA is under the direct jurisdiction of the Ho Chi Minh people's committee. It operates 12 major IZs/EPZs in locations such as Tan Thuan. It is also deploying an aggressive campaign for FDI attraction featuring complete one-stop services. Within the organization, it is planning to set up a technical training school in addition to a junior college, and is directing its energies to support for the development of human resources and engineering skills as opposed to the mere supply of kits.

VSIP

* This is a governmental project for which an agreement was concluded with Singapore on the occasion of Prime Minister Goh Chok Tong's 1994 visit to Vietnam. It went into operation in 1997, and attracted siting by more than 50 firms owing to the well-outfitted infrastructure. It is directly responsible to the Vietnamese government (the Prime Minister's Office) and receives crucial support from the Singapore side.

(6) Promotional organization and activities for FDI attraction

* In a centrally planned economy under a communistic system, there is little appreciation of the worth of promotional activities. Until recent years, promotion was not a subject of any

extensive activities or budgeting even within the MPI. However, the sharp drop in FDI in the late 1990s underscored the importance of promotional campaigns to the government, which has begun to build up such capabilities with the help of specialists sent from JICA. It also appears that promotion will finally be earmarked for budget allocations beginning in fiscal 2002.

* In this connection, it must be noted that the DPIs and BOMs under the people's committees are actively conducting promotional campaigns to attract tenants for the IZs and EPZs which have been operated under their jurisdiction since the delegation of authority from the MPI. More specifically, their activities on this front include the preparation of pamphlets emphasizing the condition of the IZ/EPZ infrastructure, one-stop services, and supply of human resources; provision of information through websites and domestic investment seminars; and the sending of personnel to other countries to stage seminars and visit firms in them.

3.4 Masterplan for FDI in Myanmar

3.4.1 Extended Effects of FDI and Prerequisites for Success

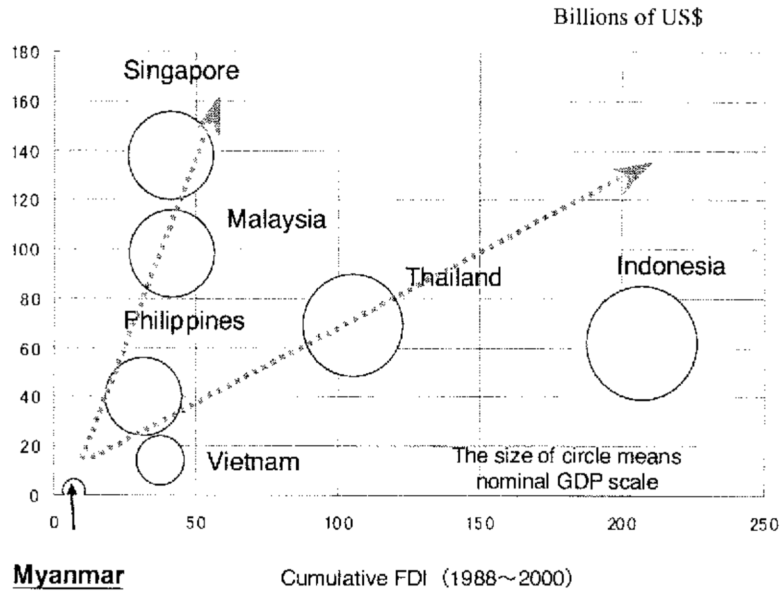
(1) Extended effects of FDI in major ASEAN countries

Preceding sections noted that, while taking the form of CMP, FDI in Myanmar is making a vital contribution to export and employment, particularly in the garment industry. 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.

1) A. Earning of foreign exchange through promotion of export

Although it is difficult furnish conclusive statistical proof of FDI contribution to export based on macroscopic data, the figure below shows that there is a very strong correlation between FDI and total export in countries with a large FDI-dependent export of manufactured goods, such as Singapore, Malaysia, and the Philippines. It is therefore clear that FDI makes an important contribution to export.

Figure 3-37 Correlation between Cumulative FDI and Export/GDP in ASEAN Countries



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

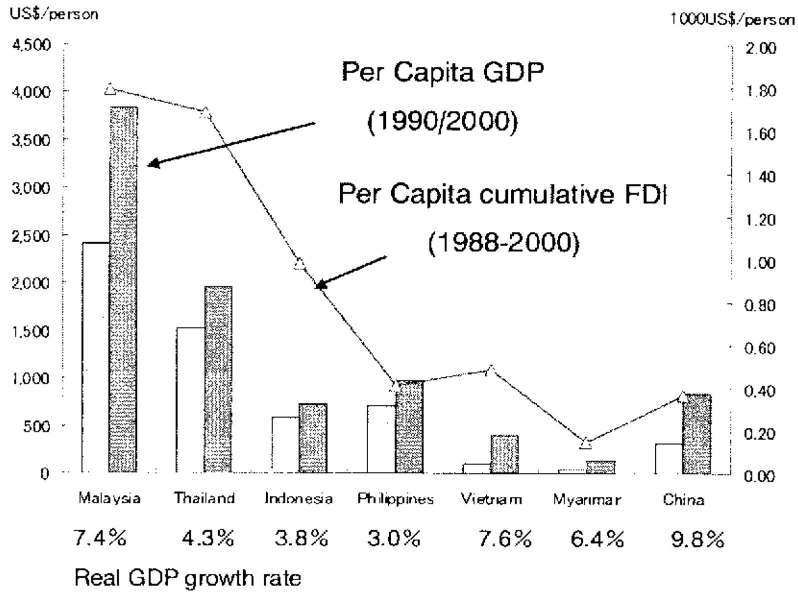
In contrast, the correlation between FDI and total export is not as strong in Thailand and Indonesia, where much FDI is in the fields of resource development, infrastructural improvement, and import replacement, and where domestic (indigenous) capital, too, makes a considerable contribution to export. However, the data for Thailand and Vietnam (whose export of manufactured goods has been expanding in recent years) exhibit an FDI-export correlation approaching that in the aforementioned three countries. This points to a high export contribution by FDI, including that outside the manufacturing sector.

2) Increase in income accompanying economic growth

During the 1990s, the key ASEAN countries achieved economic growth at annual rates averaging in the range of 3 - 10 percent. The rates would presumably have been even higher in each country if the currency and financial crisis of 1997 - 1998 had not occurred. Export plays a major role in economic growth (the amount of export as percentage of the gross domestic product was more than 100 percent in Singapore and Malaysia and in the range of 40-60 percent in the others). It follows that the economic growth in these countries relies heavily on FDI.

The figure below shows the trend of the real GDP and cumulative FDI per capita of population in key ASEAN countries and China. It can be seen that there is a very close correlation between the two. FDI is obviously making a big contribution to economic growth and the resulting rise in income levels.

Figure 3-38 Correlation between Per Capita Cumulative FDI and Per Capita GDP(2000)



Source: Macroeconomic statistical data for each country.

3) Creation of employment (direct/indirect)

Although fully sufficient data are not available for the employment-creating effect of FDI, estimates based on various documentation and the findings of interviews put the number of persons employed directly by the manufacturing sector in 2000 at about one million in Malaysia, two million in Thailand, 700,000 in the Philippines (in the export processing zones under the jurisdiction of the Philippines Economic Zone Authority, or PEZA), and 400,000 in Vietnam. The figures for people employed by foreign firms would be even higher when local reinvestment is included, particularly in Malaysia and Thailand.

Besides generating direct employment, FDI also has an indirect effect for generating employment at related businesses, including local sources of capital and production goods and firms involved in physical distribution.

4) Transfer of global-standard production technology and management know-how

FDI acts to induce the transfer of technology and management know-how up to global standards. It is true that initial production plants first sited through FDI generally had a labor-intensive operation and were criticized for a relative lack of technological ripple-effects. Today, however, it is the norm for plants to carry out sophisticated assembly processes, even if labor-intensive, with the latest automated equipment. In addition, many plants with a capital-or technology-intensive production resting on front-end processes for electronic components are also at work in ASEAN countries. Furthermore, there has been much siting by supporting industry (SI) firms responsible for all kinds of plastic and metal processing. A vast spectrum of technical know-how is consequently being transferred to and accumulated by these countries through the numerous engineers and workers employed by the foreign firms in question.

In more developed ASEAN countries such as Singapore, Malaysia, and Thailand, operations are no longer confined to processing and assembly; along with the expansion of component sourcing and rise in engineering levels within the ASEAN region, development capabilities centered around design are being extensively relocated from the home countries of the FDI firms. In other words, these countries are moving out of the phase of transfer of production (processing and assembly) technology and into that of transfer of development technology. As they do so, they are acquiring the potential for a new round of advancement.

Aside from production activities, FDI also has a great effect for transfer of all kinds of business management know-how in areas such as sales/commercial distribution, inventory/logistics, business planning, accounting/financing, and personnel affairs. In the development of their export activities in particular, not only the FDI firms but also the local firms dealing with them are inevitably being compelled to bring their business and management setups in line with global standards.

(2) Keys for FDI success based on precedents in neighboring countries

Precedent cases of successful FDI policy may be found in Singapore, Malaysia, and Thailand, and the achievements of these countries make them valuable models. Nevertheless, their current stage of development is too high for them to serve as a reference for Myanmar today; to find models relevant to present-day Myanmar requires research going back considerably into the past.

As compared to these ASEAN countries, those of the Philippines and Vietnam are less advanced and closer in population to Myanmar. More importantly, they both instated genuine policy for FDI attraction in the late 1980s, at about the same time as Myanmar. For foreign firms, both of these countries present certain risks, like Myanmar, and faced similar tasks. The track record so far, however, reveals that they have attracted much more FDI than Myanmar.

This is evidence of the fact that, over the last ten years or so, there has been a significant improvement in FDI policy and organized action to attract it in the Philippines and Vietnam, as well as in their investment regimes in the eyes of foreign firms. As such, study of the cases of the Philippines and Vietnam can yield precious hints for studies preparatory to formulation of the FDI Masterplan in Myanmar, as suggested by the following.

■Conditions

- Population (in 2000)→ Philippines: 75.30 million, Vietnam: 77.68 million, Myanmar: 47.75 million
- Per capita GDP (in 2000, US dollars)→ Philippines: 979,Vietnam: 404,Myanmar: 110
- Country risk → Philippines(political turmoil, guerrilla insurgents),Vietnam(communist government), rocky relations with the US (improvement in recent years), Myanmar(government problems with ethnic minorities)

■FDI policy

- Instatement of legislation for extensive attraction of FDI and opening of the door to foreign firms in the late 1980s
- Revision of FDI legislation, policy, and operational organization in the mid 1990s in order to accelerate siting by export-oriented firms (emphasis on development of industrial estates and conditioning of the infrastructure of electrical power and other elements to solidify the foundation for siting)

■Diversification of FDI-related entities

- Beginning in the mid 1990s, part of the authority for FDI policy was transferred to diversify the entities involved in attraction; efforts were made to improve organizational setups, activities, and service capabilities with a focus on attraction of more export-oriented firms.
  - Philippines: diversification from the Board of Investments (BOI) to PEZA, Subic Bay Management Authority (SBMA), etc.
  - Vietnam: diversification from the Ministry of Planning and Investment (MPI) to the departments of planning and investment (DPI) and boards of management (BOM) in the provincial people's committees
- Although the diversification of the FDI organization has had the drawback of inviting a lack of unity in policy, the competition among the different entities to attract FDI has resulted in the provision of more powerful incentives and improvement of one-stop services linked to a shortening of the time required for approval and simplification of the related procedures.

■Conditioning of industrial estates (IZs and EPZs)

- Up to the early 1990s, both countries continued to suffer from a short supply of electrical power and underequipped industrial estates. Even if they were inclined to do so, foreign firms could not site in them owing to the lack of fully provisioned estates.

- Beginning in the mid 1990s, they overcame the power shortage by promoting private-sector participation in power sector development based on build-operate-transfer (BOT) schemes and the like. This not only improved the socioeconomic infrastructure but also assured a stable supply of power in EPZs.
- The entities promoting the development of industrial estates with private-sector capital and campaigns to attract FDI (PEZA in the Philippines and the people's committees in Vietnam) directly manage and operate these estates and integrate them with the campaigns. They also get funds for their own operation from income earned through their estate management and operation.
- While the initial targets of FDI attraction were import-replacing firms, once such siting ran its course, the focus shifted to export-oriented firms beginning in the mid 1990s. As a result, priority was accorded to development of EPZs with a full line of one-stop services. Vietnam, however, took the more realistic approach of encouraging the growth of export processing enterprises (EPEs) in industrial zones (IZs) (by improving conditions in them along with entry by FDI firms) instead of attempting to expand the number of EPZs right from the start.

■Organizational capabilities for FDI attraction

- Empowerment of the FDI-attracting entity/board with sufficient authority (placement directly under the prime minister's office or a key ministry, and appointment of the prime minister or other key minister as the head)
- Instatement of FDI policy that is correlated with the governmental agency engaged in sector-specific industrial analysis and policy formulation (i.e., policy, planning, and sector-specific analysis capabilities of the BOI in the Philippines and the MPI in Vietnam)
- Endowment of the FDI-attracting entity (PEZA in the Philippines and the people's committee BOM in Vietnam) with the power to operate and manage industrial estates (IZ/EPZ) and a self-funding capability resting on income from this operation and management (little burden on the national treasury).
- Possession (by the BOI and PEZA in the Philippines and the MPI and people's committee DPI/BOM in Vietnam) of organized capabilities for FDI promotion and pursuit of campaigns including diplomacy on the highest levels (President Ramos actively provided siting information in contact with officials of other countries).
- Attachment of importance to after-siting and follow-up services for existing FDI firms in addition to attraction of more FDI (PEZA listens to them and reflects their views in efforts

to adjust related legislation, policy, infrastructure, and other circumstances of investment).

- Presence of capabilities in the policy and planning unit for coordination with other agencies in matters related to FDI attraction (authoritative board, acceptance of visiting employees from other agencies, and delegation of authority for improvement of service capabilities in the climate of competition -- provision of one-stop services)

(3) Keys for successful attraction of FDI from the standpoint of foreign firms

The keys for successful attraction of FDI as viewed from the standpoint of foreign firms may be summarized as follows, based on the findings of the interview surveys with Japanese firms sited in Malaysia and Thailand as well as the results of the case study of FDI in the Philippines and Vietnam.

- Basically, the authorities must draw up industrial visions and industrialization plans containing clear objectives, and define the role and status of FDI in their context. A neglect to do so could have a very adverse effect on efforts to attract FDI. This is because, even if legislation favoring it is enacted, FDI will not have a clear priority in the context of the mass of other economic policies. Similarly, the lack of explicit positioning is liable to lead to a lack of transparency, fairness, and consistency in FDI policy.
- Besides enactment of legislation for it, FDI attraction demands conditioning of the infrastructure of industrial estates as the physical sites. In addition to the ordinary public infrastructure of electrical power, communications, and roads, estates must be outfitted to allow production activities up to international standards, at least in certain districts. It is also indispensable to prepare EPZs with one-stop services. In addition, lead (delivery) time has come to be emphasized over cost in international business in recent years, meaning that it is also important to construct logistics systems up to international standards.
- The single most important factor in the siting of production activities by FDI firms in ASEAN countries is, of course, labor. Firms look for sites with an abundant supply of quality yet low-cost labor. With the rise in the stage of advancement, it is becoming increasingly necessary for sites to offer a supply of first-rate engineers and middle managers as well as personnel on the worker and operator level.
- FDI firms also naturally require stability as regards exchange systems and political situations. This is a minimum prerequisite for siting in the manufacturing sector, where investments are generally on a large scale. Although owner-operated small and medium enterprises (SMEs) do not always shun high risks, big businesses that are globally active take a close look at the degree of political and economic stability.
- In light of the competition with China, ASEAN countries will have to mount an even

bigger effort to attract FDI in order to achieve sustained economic growth into the future. FDI attraction is a scene of fierce intercountry competition requiring the preparation of an investment climate with appeal to FDI firms and vigorous deployment of campaigns to attract them.

- The figure below presents basic ratings of Thailand, Malaysia, the Philippines, and Vietnam in respect of the FDI key factors. Their ratings are rising for each item. In contrast, Myanmar has low ratings for all items except labor supply. These findings are corroborated by the low level of FDI in Myanmar so far.

Figure 3-39 Keys for Successful Attraction of FDI from the Standpoint of Foreign Firms

	Thailand/Malaysia	Phillipines/Vietnam	Myanmar
(1) National plans, effective FDI provisions, and their appropriate operation	○/◎	○/○	×
(2) Conditioning of the infrastructure (hard and soft) to enable production up to international standards	◎/◎	○/○	×
(3) Abundant supply of quality yet low-cost labor	○/×	◎/◎	◎
(4) Exchange normalcy and stability (resolution of multi-tiered exchange rates)	○/○	○/○	×
(5) Political stability (recognition in the international community)	○/○	△/○	×
(6) Effective promotional activities (promotion on top diplomatic levels and use of export support entities from other countries)	◎/◎	○/○	×

Source: JICA Study Team

3.4.2 Changes in the ASEAN Investment Climate

(1) FDI policy and actual trend

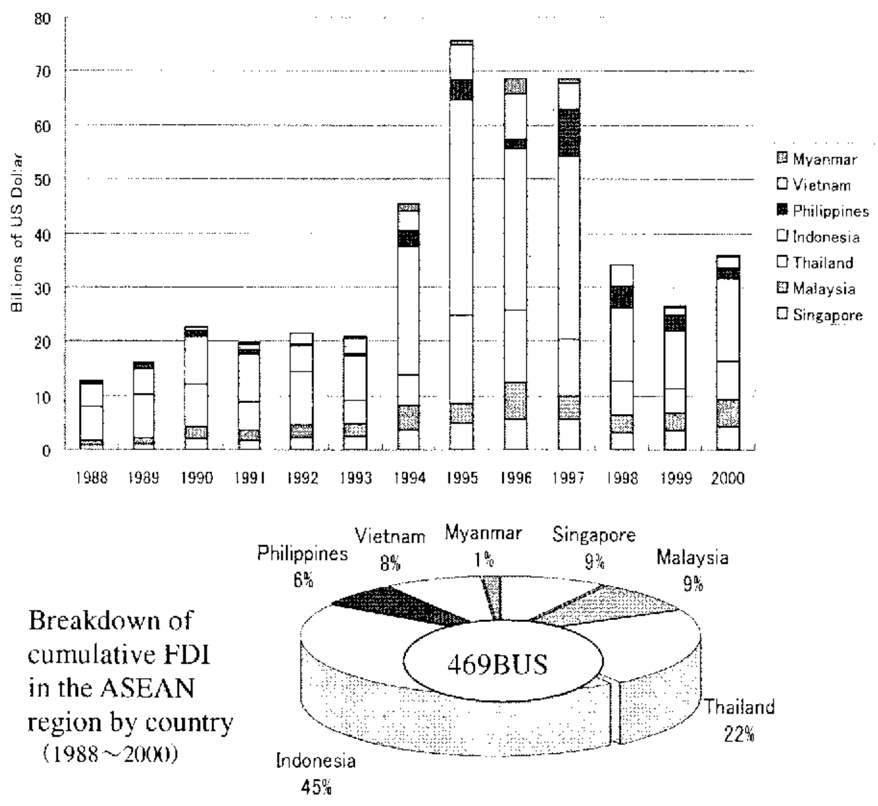
The figure below shows the FDI policies taken by the key ASEAN countries in the 1990s. In Indonesia, FDI has mainly been made in connection with oil refining and other resource development. In Singapore, Malaysia, and Thailand, FDI plays a great role in the manufacturing sector (especially in export-oriented light industries such as electronics), and is contributing to economic growth and the increase in income levels through industrial advancement. FDI in ASEAN countries rose steeply in the mid 1990s against the background of the strong yen and expansion of the IT market, but has since been on a low level due to the after-effects of the 1997 Asian currency and financial crisis.

Table 3-17 FDI Policy in Key ASEAN Countries

	Up to the early 1990s	Since the mid 1990s
Singapore	Export industries (emphasis on the electronics)	Selective attraction targeting high-VA industries (emphasis on IT, high-tech firms, and R&D)
Malaysia	Export industries (emphasis on electronics)	Selective attraction targeting high-VA industries (emphasis on IT)
Thailand	Import-replacing industries (home appliances, automobiles, etc.) and export industries (electronics)	Export industries (electronics and automobiles) and SI firms * Biggest build-up of foreign-affiliated automotive production in the ASEAN region
Indonesia	Resource development industries (petrochemicals, etc.)	Resource development industries (petrochemicals, etc.) and export industries (emphasis on electronics)
Philippines	Resource development industries and import-replacing industries (light industries)	Export industries (emphasis on IT)
Vietnam	Import-replacing industries (home appliances and infrastructure-related)	Import-replacing industries (home appliances and infrastructure-related) and export industries (emphasis on electronics)

Source: Prepared by the JICA Study Team from various data.

Figure 3-40 Actual Trend of FDI in Key ASEAN Countries



Source: Data from the Japan ASEAN Center and other sources.

(2) The AFTA plan and wide-area divisions of labor

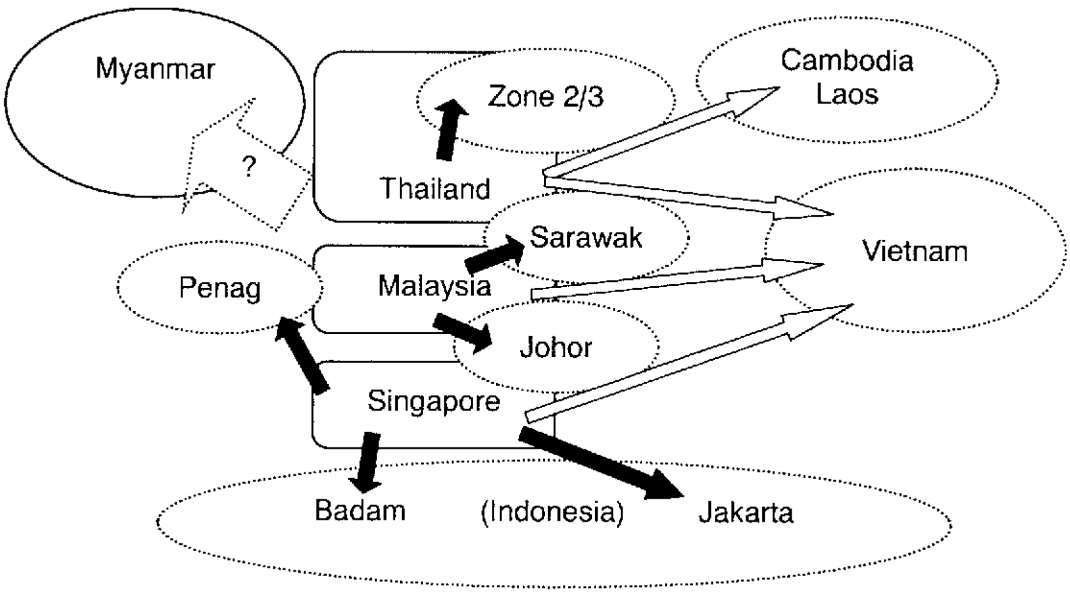
In January 2003, the ASEAN countries intend to enter into the ASEAN Free Trade Area (AFTA) framework, which has been in planning for so many years. The schedule envisions the gradual lifting of tariffs on and non-tariff barriers to intraregional trade, for the formation of a common ASEAN market. The achievement of a genuine common market will require the coordination of interests both among the more developed countries and between them and the less developed ones, through measures such as provisions for exceptions to tariff abolition and establishment of grace periods for the less developed countries. If it materializes, AFTA will herald the birth of an immense market of more than 500 million consumers.

Aside from the scale of the market, the enormous stock of capital and technology built up mainly through FDI would furnish full potential for competing with China and its rapid growth. Nevertheless, part of the existing industrial stock in the more developed countries of Singapore, Malaysia, and Thailand is in the process of losing its competitiveness in the aspects of labor supply and costs. Industries in these countries are reaching the stage for earnest studies of constructing wide-area divisions of labor extending to the less developed ASEAN countries if they want to meet the Chinese challenge.

A case in point is the electric/electronics industry. As shown in the figure below, FDI firms in Singapore are already fashioning divisions of labor with the neighboring Malaysia (Penang and Johor), Indonesia (Badam and Jakarta), and Vietnam (Ho Chi Minh City). For FDI firms in Thailand, the local (domestic) operation is still fully viable as far as the labor aspect is concerned, and some are fashioning wider divisions of labor with Cambodia, Laos, and Vietnam. In contrast, in Malaysia, which now has the biggest build-up of FDI firms, siting remains concentrated in the vicinity of Kuala Lumpur, though there has been some spread to areas such as Penang, Johor, and Sarawak (in East Malaysia). Considering the country's FDI policy (which emphasizes attraction of FDI in knowledge-intensive industries marked by higher VA levels) and its labor circumstances, FDI firms engaged in processing and assembly in Malaysia will probably have to broaden their divisions of production to include other ASEAN countries such as Vietnam and Myanmar.

The trend toward division of production is also taking hold in industries outside that of electric/electronics, such as garment-making and food processing. About 150 Korean garment-making firms are sited in Indonesia, and many have begun to study the prospect of relocating to Myanmar or other countries owing to the unstable political situation and cost increases there. Similarly, some of the many food processing firms affiliated with Thai conglomerates and sited in the Bangkok area are moving into Myanmar in search of low-cost labor and new foodstuffs.

Figure 3-41 Widening of Divisions of ASEAN Production in the Electric/Electronics Industry



Source: JICA Study Team

Some take the extreme view that, with China's economic rise, many FDI firms will simply move their ASEAN productions there. Although there is a movement in this direction, there is also one toward restructuring ASEAN production to make it more competitive by building on the base of investment in the region thus far.

(3) China's transition to a market economy and FDI

In the late 1970s, China began to deploy measures for vigorous attraction of FDI in line with policy for transition to a market economy. More specifically, it established special economic zones in various parts of the country and instated incentives for FDI. As a result, it succeeded in triggering a substantial inflow of investment, especially by Taiwanese, Western, and Japanese firms intending to take full advantage of its vast supply of low-cost labor and the immense potential of its market.

At first, FDI firms sited mainly in the Huanan (South China) region, and particularly in the Zhujiang (Pearl River) delta. This area attracted much siting by Taiwanese, Japanese, and Korean firms in the electronics industry for labor-intensive, export-oriented productions. More recently, new attention is focused on the Huadong (East China) region, and especially the Changjiang (Yangtse River) delta area revolving around Shanghai, where there is a mass of FDI firms with high ratios of tangible fixed assets producing mainly for the domestic demand in fields such as notebook-size computers and semiconductors. Also coming to the fore is the Zhongguancun complex of R&D sites in the software and IT fields centered around Qinghua University in Beijing. It also has lured siting by many Japanese, Western, and Taiwanese firms doing business in information and telecommunications.

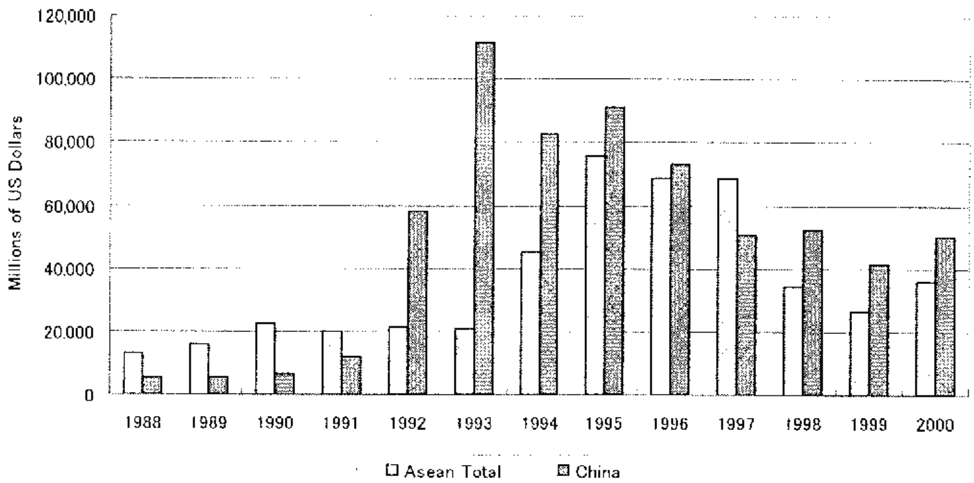
These three centers of FDI-led industry in China may be expected to become organically interlinked and even more competitive internationally. In addition, levels of activity are rising among Chinese firms (whether state-run, locally-run, or private enterprises) assisted by capital or technology transfer from FDI firms. They are building up their international competitiveness especially for commodity goods, where cost competitiveness carries great weight.

The future holds the prospect of economic reform in the wake of admission into the World Trade Organization (WTO), an increase in competitive strength through the weeding out of weaker firms, and an expansion of investment inside and outside the country in production both for export and for sales in the Chinese market. There can be little doubt about a further enlargement of supply capacities. As described above, however, it would not be realistic for FDI firms to abandon all of their sites in the ASEAN region and make an across-the-board shift to China. They are instead anticipated to step up studies with a view to reorganizing their ASEAN production through extension to countries such as Vietnam and Myanmar, partly in order to disperse risks.

China and the ASEAN countries will presumably continue to compete with each other for FDI, which could become even harder to attract. Nevertheless, with the emergence of AFTA, the ASEAN region could form a huge market (of about 500 million) in its own right. This suggests that it, too, could offer adequate advantage in the aspect of international competitiveness, considering the margin for fashioning wider divisions of production. It could also be noted that the population of roughly 400 million in China's coastal zone (mainly the Huanan and Huadong regions) are expected to attain an income level characterizing countries with a semi-developed status.

China's economic growth and potential for advancement are likely to lead to the construction of various relationships with ASEAN countries. A free trade agreement that is to link the two and go into effect in 2010 is already under study. In regard to Myanmar in particular, the Chinese influence on the Myanmar market is deepening along with the development of trade across the border with Yunnan province.

Figure 3-42 Trend of FDI in ASEAN Countries and China

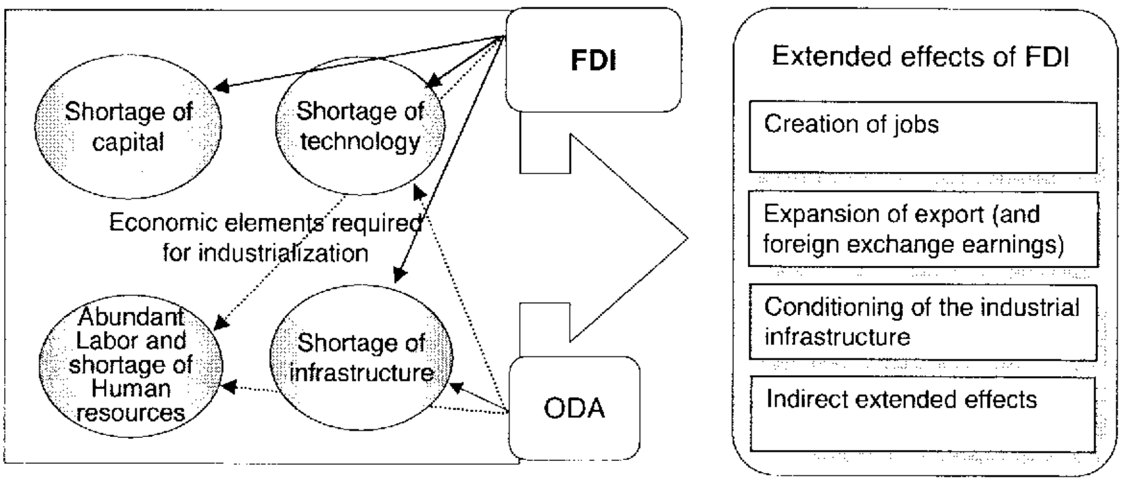


Source: FDI statistics of China and ASEAN countries

3.4.3 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). Myanmar has a shortage of all of these elements except labor (workers). 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.

Figure 3-43 FDI Need and Extended Effects



Source: JICA Study Team

There are various fields of FDI. This study focuses on export-oriented manufacturing fields presenting prospects for earning foreign currency (specifically, garment-making, wood processing, food processing, and electronic component assembly). Over the longer term, Myanmar should consider the attraction of FDI in various fields for the purpose of promoting domestic industry, for the reasons outlined below.

High degree of FDI contribution to export

The shortage of foreign currency is an urgent problem for Myanmar, which consequently must attract siting by export-oriented firms as far as possible. To this end, it must identify the kinds of industry which are most promising and ought to be accorded priority in attraction activities, and then deploy effective campaigns to attract siting by them. Firms in the fields of garment-making, wood processing, food processing, and electronic component assembly could by attracted by Myanmar's strengths, i.e., its natural resources and quality labor. They could draw on these strengths in performing processing and assembly, and exporting the output to earn foreign currency. Of these fields, that where investment has the biggest effect (as viewed from the aspect of scale of export) is thought to be electronic component assembly, to judge from the cases of more developed ASEAN countries.

FDI for supply of materials for the socioindustrial infrastructure

Myanmar should attempt to attract FDI (through joint ventures, etc.) by firms engaged in supply of basic materials needed for improvement of the socioeconomic infrastructure (e.g., power, telecommunications, industrial estates, transport routes, and seaports) that is necessary for the aforementioned construction of plants in export-oriented industries and premised on ODA resumption. These include structural (metal) materials, plastic for pipes and other members, construction materials such as cement, and the packing materials needed by export-oriented industries. Import-replacing firms in such fields would naturally enter with a quickening of export-oriented FDI and resumption of ODA.

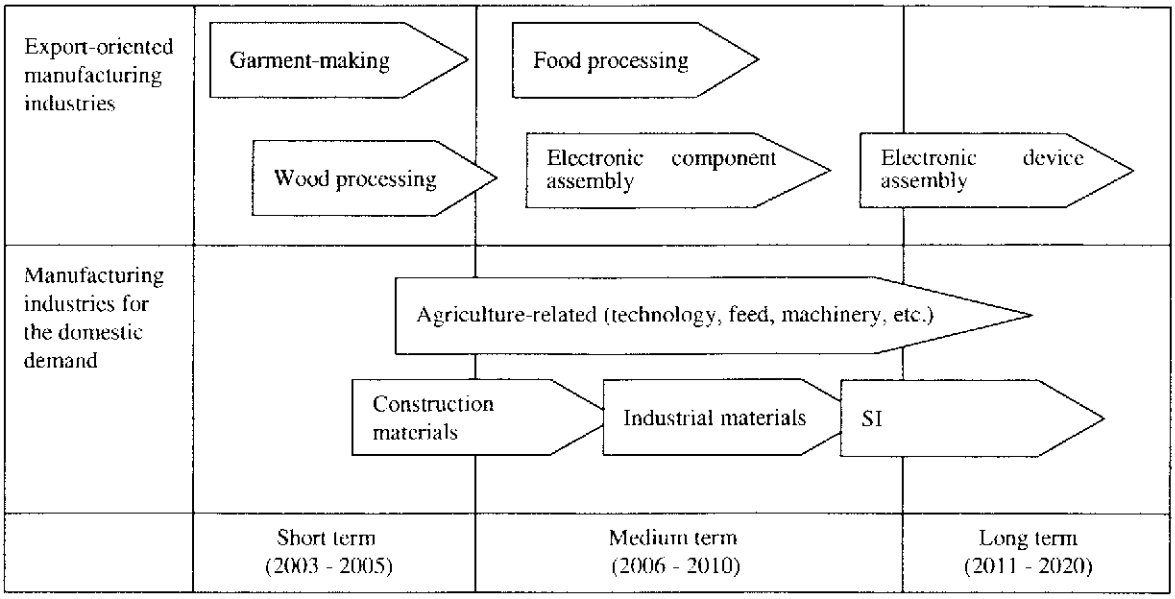
Attraction of FDI in the SI field

For the time being, export-oriented processing and assembly firms would rely on import for all of their materials. Over the longer term, however, Myanmar SMEs should supply much of the materials needed for electronic components (in areas such as metal/plastic processing, surface processing, molds/dies, and tools). It takes a lot of time to acquire technology up to international standards, and attraction of supporting industry (SI) firms from Japan and other developed countries is important to this end. In the long run, it is indispensable to develop local sources for components and materials to support export, so that foreign firms will be able to conduct business that is rooted in Myanmar and globally competitive. Much FDI also comes from SMEs, which should be given some special consideration (e.g., preferential treatment) in attraction efforts.

FDI to assist promotion of agriculture

Promotion of agriculture ranks alongside industrialization as a major priority. Development of food processing industry, too, requires FDI participation in plans, prepared from a long-term perspective, for export-oriented agricultural products, chemicals/feed, farming machinery, and related distribution (in this case as well, FDI involvement would probably take the form of mainly joint ventures). Naturally, Myanmar should also work to attract FDI to support the growth of the forestry and fishery industries as well as agriculture.

Figure 3-44 FDI Schedule and Emphasis Based on the ASEAN Investment Climate and Myanmar's Stage of Advancement



Source: JICA Study Team

3.4.4 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.

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 (especially under the economic sanctions), 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.

■Cumulative FDI

- As of the end of 2000, Myanmar had attracted a cumulative total of about 7 billion dollars in FDI.
- The higher targets are about 30 billion dollars (about the same as the figure for the Philippines as of 2000) by 2010 and about 60 billion dollars (about 50 percent as much as in Thailand) by 2020. In this case, Myanmar would rank intermediate to the Philippines and Thailand in respect of cumulative FDI as of 2020.
- The lower targets are about 20 billion dollars (about 50 percent as much as in Vietnam as of 2000) by 2010 and about 40 billion dollars (about the same as in Vietnam as of 2000) by 2020. In this case, Myanmar would rank on a par with Vietnam or the Philippines today in respect of cumulative FDI as of 2020.

■Number of FDI firms and employees

- The targets for the number of FDI firms and employees in Myanmar were set on the basis of the findings of the cases study regarding the cumulative FDI, number of siting firms, and number of employees in other ASEAN countries, and especially the Philippines and Vietnam.
- At present, FDI firms in the manufacturing sector number about 400 and employ about 150,000. The higher targets are 1,900 firms and 550,000 employees in 2010, and 4,000 firms and 1 million employees in 2020. The corresponding lower targets are 1,200 firms and 400,000 employees in 2010, and 2,700 firms and 700,000 employees in 2020.

Figure 3-45 Long-term Targets for FDI Attraction in the Myanmar Manufacturing Sector

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

Source: JICA Study Team

■Export

- The targets for FDI export were set on the basis of the correlation between cumulative FDI and export in other ASEAN countries.
- The higher targets are 38 billion dollars in 2010 and 80 billion dollars in 2020. The lower targets are 23 billion dollars in 2010 and 50 billion dollars in 2020.
- If it attained the higher targets, Myanmar's export as percentage of the total 2000 ASEAN export would be about 10 percent in 2010 and 20 percent (on a par with Thailand) in 2020.
- If it attained the lower targets, Myanmar's export as percentage of the total 2000 ASEAN export would be about 5 percent in 2010 and about 12 percent (on a par with the Philippines) in 2020.

3.4.5 Measures for improvement of FDI policy in Myanmar

The following items are indispensable for FDI attraction in Myanmar: 1) preparation of a long-term national plan for industrial advancement, 2) rationalization of financial policy (in respect of exchange and foreign currency), 3) conditioning of the industrial infrastructure, and 4) 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.

In promoting FDI, entities must not only emphasize the circumstances and needs on the Myanmar side but also see that there are sufficient advantages for the investing side. In other words, it is imperative for not only the FDI policymakers but also the leaders of government to realize that investment must be a win-win game. The chief benefits for FDI firms are the supply of low-cost yet quality labor and natural resources, and those for Myanmar are creation of employment, generation of tax revenues, and technology transfer. There must be a shared realization that investment only succeeds when it holds benefits for both sides.

■The policy Issue to be handled immediately

(1) 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.

Figure 3-46 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

- Although the FIL ought to be amended as circumstances demand, the coordination of interests is anticipated to take considerable time. Therefore, priority should be accorded to preparation of the climate for FDI through the enactment of ad-hoc legislation as proposed below.
- Points of other related laws (governing labor, settlement of disputes, tariffs, intellectual property rights, etc.) that significantly constrain the business and production activities of FDI firms in Myanmar must be steadily resolved in line with international standards. In this connection as well, many difficulties could be solved with enactment of the Special

Economic Zone Act.

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

- Under the FIL, it would be difficult to offer incentives for foreign capital even out of political considerations. Nevertheless, although such a stance may work in countries that already have a lot of FDI, countries where extensive FDI still lies in the future must prepare an investment climate with an appeal for foreign firms that cannot be matched by others. Incentives also must be operated in a flexible manner so that they offer sufficient benefit for foreign firms.
- 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.
- The basic features of the ad-hoc law to be enacted in Myanmar are outlined below based on the corresponding law in the Philippines, which can serve as a model. 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.

■ <u>Purposes and objectives</u>

- Legislation goals and policy targets

- Establishment of special economic zones
- Scope of special economic zones

■Governing structures

- Establishment of the Myanmar Economic Zone Authority (MEZA) and MEZA board
- MEZA (board) organization, capabilities, and authority
- Foundation of MEZA finances

■Operations within EPZs

- EPZ development strategy
- Incentives (tax privileges)
- Leasing of lots and buildings
- Shipping and shipping register
- Environmental preservation
- Registration of enterprises
- One-stop service center

■Industrial harmony in EPZs

■National government and other entities

■Miscellaneous provisions

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

- Excessive procedural complexity involved in FDI application and acquisition of export-import licenses
- Excessive time required to obtain approval for FDI and export-import licenses
- Frequent changes in policy (especially on export and import) and unclear promulgation

schedule and contents of circulars

- Excessive time required for handling because all decisions require the approval of ministers or other heads and authority is not properly delegated

Regulations related to establishment of enterprises

- Minimum requirement for capital and application of the official exchange rate
- Regulation regarding remission of capital and deposit with a foreign exchange bank at the time of siting
- Restrictions governing the foreign interest in joint ventures and restrictions on MIC approval for capital increase to raise operating funds
- Controls on remittances to other countries (effective prohibition at present due to the dollar shortage)

Regulations impeding business activities

- Regulations on import of all kinds of capital and production goods
- Need to raise extra dollars for import of materials, etc.
- Unreasonable taxation (export taxes evidence a priority on tax revenues and hurt export competitiveness)
- Labor regulations (no more than 8 working hours per day and 44 per week, and overtime pay at double the standard uniform wage)
- Defects in the customs system, and operation acting to curtail import of production goods

CMP regulations

- Positioning as merely a service industry earning processing wages (should be regarded as a manufacturing industry)
- Requirement to bring in new machinery and submit complicated regular reports
- Kyat exchange rate (450 kyat to the dollar) for personnel expenses (application of the official exchange house rate, which is much lower than the market rate)
- Tightening of MIC control over CMP firms (stipulation of the foreign exchange rate, issuance of export-import licenses, requirement of reports on business, etc.)
- Shift from CMP to the FOB base (need for privileges to encourage local sourcing)

(2) Reconstruction of the FDI 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.

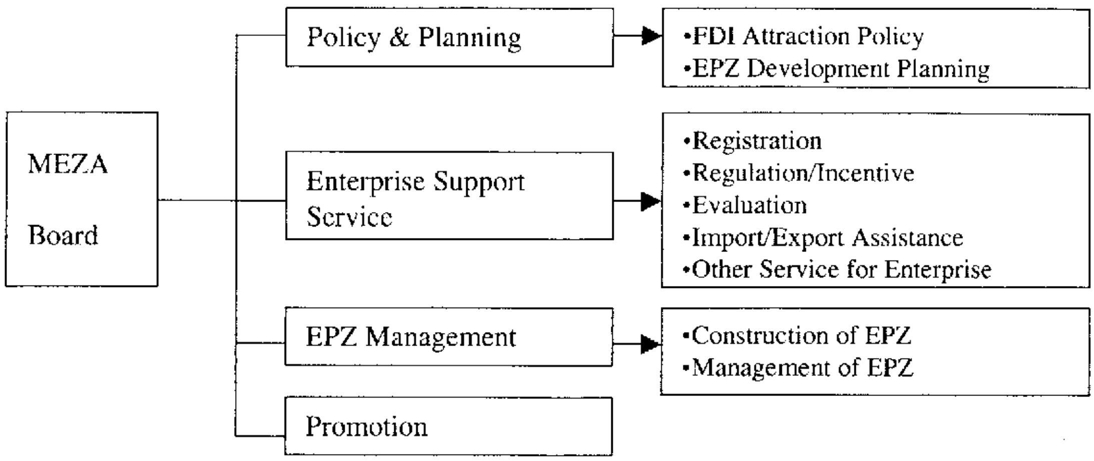
Whereas the MIC would have to offer the same incentives for both domestic and foreign investment, MEZA could devote itself exclusively to attracting the latter. To this end, its organization should include separate departments for revising related legislation and drafting policy; accepting applications,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

Figure 3-47 Diversification of Entities Executing FDI Policy (Establishment of MEZA)

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 3-48 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.

As for the division of roles between MEZA and the MIC in respect of FDI attraction, projects that are in key industrial fields (resource development, etc.) or on a large scale should be under MIC jurisdiction, and all other types of (FDI) project (e.g., general manufacturing), under MEZA jurisdiction. However, care must be taken to exclude unconstructive rivalry or butting between the MIC and MEZA in campaigns to attract FDI, to provide for collaboration between them as necessary, and to see that there is a unity and consistency in their respective measures for foreign firms.

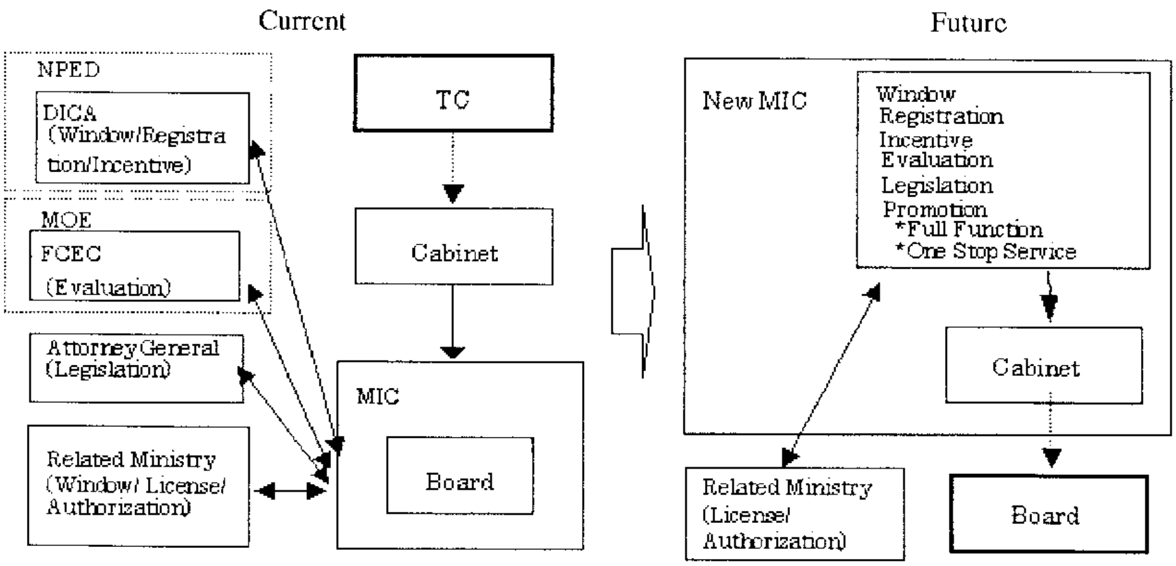
2) MIC reorganization and reinforcement

At present, the entities directly involved in FDI policy in Myanmar are the MIC, the Directorate of Investment & Administration (DICA; which is under the Ministry of National Planning and Economic Development, or NPED), the Foreign Capital Evaluation Committee (FCEC) under the Ministry of Energy (MOE), and the Trade Council (TC).

The MIC is a decision-making institution for approval of the investment projects of foreign and domestic firms, amendment of legislation, and revision of policy. It is currently supported by other entities, and particularly the DICA and FCEC. Specifically, the DICA is in charge of performance of the actual work of accepting investment applications from domestic and foreign firms and registering projects. The FCEC investigates the contents of projects on application, furnishes the MIC with documents for deliberation, and inspects applications for export-import licenses. However, the power of the MIC as a decision-making organ has greatly weakened in recent years, and many FDI matters are in effect handled by the TC, which is a superior decision-making organ. It has been observed that this is linked to the determination of FDI policy in accordance with the inclinations of the TC and to a considerable lengthening of the process from application to authorization.

Attraction of foreign investment is definitely a major aim of national policy, but requires the backing of and coordination among more specialized capabilities. It also demands a shortening, as much as possible, of the time required from the filing of applications to their approval (from over 90 days at present to no more than 30 days at the least and 15 days ideally). Steps therefore should be taken to restore the power of the MIC.

Figure 3-49 Proposed Reorganization of the MIC in FDI Policy in Myanmar



Source: JICA Study Team

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.

There is a division of opinion as to whether the DICA should continue to be subordinate to the NPED or reinaugurated as an independent entity on the ministerial level. In the Philippines, the BOI and PEZA are separate organizations under the Department of Trade & Industry (DTI). In Vietnam, there is a unit related to FDI policy in the Ministry of Planning & Investment (MPI), and the provincial people's committees likewise contain units with authority for such policy (i.e., DPIs and BOMs).

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.

3) Strengthening of capabilities for coordination in FDI policy

The MIC (as well as the DICA and FCEC), which is now the window for acceptance of applications for foreign investment projects in Myanmar, currently cannot offer one-stop services. After filing their applications, foreign firms consequently must go to various other agencies and perform their respective procedures for obtaining various licenses. The process of obtaining licenses is extremely complicated and takes a lot of time. In not only the Philippines and Vietnam but also most of the other neighboring countries, there is a full assortment of one-stop services in the machinery for FDI attraction. Myanmar, too, must adopt this approach at an early date.

In the revision of legislation and drafting of policy related to FDI as well, there must be capabilities for coordination with the wide range of concerned agencies, including the ministries of industry, commerce, and transport, and the customs authority. Better coordination should lead to a simplification of the aforementioned procedures involved in siting by foreign firms and help to preclude all kinds of difficulties that are otherwise liable to confront them. To build up such coordinating capabilities, it would be effective for the MIC (as well as the DICA and FCEC) to accept transferees (visiting officials) from the concerned agencies and open up channels for coordination with them.

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

1) Development of 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.

One candidate site for trial establishment of a bonded processing zone is the Mandalay area, which is remote from Yangon. The site could offer greater benefit to FDI firms if it were to go beyond bonding and approach one-stop services through proxy performance of procedures for things such as issuance of export-import licenses.

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.

The details of EPZs are to be presented in the report on the parallel study of industrial infrastructure and sites, and will not be treated here. Nevertheless, 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, as noted below.

One stop service in the following areas of investor's business start-up

- Business license application
- MEZA registration application
- Environmental clearance certificate
- Manpower recruitment
- Expatriate housing needs
- Banking, legal, tax and customs matters
- Design and construction of factory
- Factory renovation
- Warehousing and distribution

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.

In the fields of timber processing and food processing, firms would not have to depend entirely on foreign sources for materials or foodstuffs, and bonding functions would not be required in many cases. The encouragement of siting by FDI firms premised on export would nevertheless require the availability of industrial estates on a par with EPZs as regards the supply of power and other infrastructure as well as one-stop services. In the food processing field, precedence would likewise have to be accorded to preparation of EPZ functions, in light of the strong dependence on import for items such as spices and the increase in import of foodstuffs proper over the longer term.

For garment makers and electronic component assemblers, the sites would have to be in the Yangon area due to their deep need for an abundant supply of labor. Eventually, however, estates would have to be established in other (provincial) areas for considerations of labor supply and cost. In the timber and food processing fields, which are highly dependent on natural resources, there would be good prospects for establishment in provincial areas. For timber processing, the list of candidate sites would be headed by the Mandalay area. For food processing, the Mandalay area would also be a prime candidate in the case of agricultural foodstuffs, but in that of marine foodstuffs, the southeastern region including the port town of Dawei would make a good potential site (alongside the Yangon area), considering the prospects for distribution with Thailand (an expressway linking Dawei with Bangkok is to be completed within a few years).

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. The Malaysian government could very well promote the development of EPZs jointly with the Myanmar government as a means of encouraging wide-area divisions of production labor by resident FDI and domestic firms. 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.

EPZ management may be exemplified by the case of HCMC Export Processing & Industrial Zone Authority (HEPZA) in Vietnam. HEPZA, which is profiled in the attached materials, basically retrieves investment by leasing plant lots to siting firms. To the ends of providing more sophisticated services, shortening the time required for retrieval, and increasing profitability, it is also installing a scheme designed to recover investment in EPZs through a diverse business development including programs at adjacent technical schools and establishment of technical centers (now at the idea stage) for promotion of SMEs.

(4) 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).

The following may be cited as effective marketing (promotional) means.

- Use of media in other countries
- Use of websites
- Information center for investment missions

- Campaigns for promotion of FDI
- Establishment of promotional offices in other countries
- Activities to follow up on promotional campaigns
- Ongoing communication with potential investors

Besides being reinforced as the key function of FDI-related entities, promotional activities should also be pursued even apart from them, in the context of top-level diplomacy. There should be many opportunities to promote investment in Myanmar, on visits not only to developed countries but also to other ASEAN countries. It is important for ranking government officials to adopt a stance of taking full advantage of each of these opportunities to underscore Myanmar's investment conditions and benefits.

In addition to conducting promotional campaigns, Myanmar must construct a setup (with the assistance of industrial groups and other such entities) for obtaining a solid grasp of the problems and needs of siting foreign firms. In addition, it must work to make the desired improvements and prepare circumstances enabling foreign firms to continue to operate with confidence. The bolstering of post-siting follow-up work is a shortcut to improvement of FDI-related legislation and policy, and will help to bring additional FDI.

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.

For its activities, the Center spends about 1 billion yen per year. These funds are directed to promotion of FDI, export, and tourism. The focus of its support for ASEAN countries is shifting toward the less developed ones, and Myanmar could conceivably receive more than the one-tenth (100 million yen) share premised on equal division among the members. The Center's support delivers an extremely great effect for its cost, because it is confined to the aforementioned three areas. The JICA Study Team recommends immediate application for membership.

Scheme for ASEAN support at the Japan ASEAN Center

- Officially entitled the ASEAN Promotion Centre on Trade, Investment, and Tourism, the Center is an international institution that was founded through collaboration between Japan (i.e., Ministry of Foreign Affairs) and the ASEAN in 1981. Its mission is to engage in activities to support the promotion of trade, investment, and tourism between the two sides.
- The directors on the member-country side are ordinarily officials on the order of director of a bureau attached to the ministry of foreign affairs or commerce. The Center holds board meetings once a year, steering committee meetings three or four times a year, and planning conferences in the chair country once a year.
- Admission requires an outlay for the Center's operation (of about 100 million yen), but the Japanese government furnishes assistance for up to about 90 percent of it. As such, the members are able to receive highly effective support for their efforts to promote tourism, trade, and FDI at a relatively low cost. (Application for membership is made to the Center via the foreign ministry in the country in question.)
- As for recent admissions, the Center accepted Vietnam in 1998, Cambodia in 2001, and Laos in (March) 2002. In each of these countries, effects have reportedly begun to surface through effective use of the Center's scheme. Myanmar appears to be in contact with the Center and gathering information on it through means including its embassy in Japan, but has not yet applied for membership.
- Cambodia and Laos pay annual dues of about 6 million yen each. Myanmar would probably be asked to pay about the same amount if it becomes a member. The Center's expenditures come to about 1 billion yen per year, and Myanmar, as one of the ten ASEAN members, would receive promotional aid worth about 100 million yen for dues of about 6 million yen, assuming an equal division of the budget among the members.
- The Center's support spans the three fields of tourism, trade, and investment. Over the medium and long terms, the members may expect this support to hold considerable benefit as compared to the cost burden. Furthermore, the less developed ASEAN countries tend to receive more attention in the Center, and Myanmar could therefore anticipate an even higher benefit (although this will depend partly on its own efforts to improve all types of infrastructure). Developing countries would find it difficult to pay the cost of maintaining an office in Tokyo for promotion of tourism, trade, and investment, and membership in the Center would have tremendous value in this respect.

The major investment-related activities are listed below. There is not a great difference depending on the country. The member intentions vary with the stage of advancement. In the case of less developed countries such as Vietnam and Myanmar, there is a limit to promotional campaigns to attract FDI on their own resources, and it is extremely useful for them to obtain the Center's support.

1) Investment missions (dispatch of investment missions, consisting mainly of representatives of SMEs, to each member country once or twice a year)
2) Investment seminars (held for each member country once or twice a year; officials in charge of investment are invited to Japan for participation also in group seminars hosted by embassies and other locations outside the Center) (yokakunin)
3) Programs for industrial fact-finding (inspection tours and instruction for competent officials invited from the member countries)
4) Provision of investment information (information related to investment in the member countries and ASEAN region, supplied in the form of printed and electronic media)

- Analogous support is also furnished by the Japan External Trade Organization (JETRO), but there is a difference between the two entities. Whereas JETRO represents the Japanese government and supports all types of firms, from large ones to SMEs, the Center is strictly an international institution and emphasizes support for SMEs.

(5) FDI-related human resource development

The execution of FDI policy requires development of diverse human resources. The first task is refinement of skills for efficient execution of FDI policy. It is essential to groom specialists capable of drafting legislation such as the FIL, Special Economic Zone Act, and BOT law. Myanmar also needs personnel skilled in promotional work and industrial analysis by sector. Personnel will also have to be developed in connection with EPZs, which will be established in Myanmar for the first time ever. Specifically, there must be personnel capable of providing one-stop services for customer clearance and other procedures, and people with the engineering skills required for design of industrial estates and maintenance of their facilities. An increase in siting by FDI firms will also create stronger needs for the cultivation of middle managers, accountants, and other administrative personnel, engineers to build and maintain production systems, and operators to support production activities.

A variety of means are available for development of these human resources. They include programs in universities, study abroad, overseas training, and UMFCCI programs. The most effective approach would be to make use of JICA and other schemes for support of developing countries, with provisions for dispatch of experts, institution of special technical centers, acceptance of trainees, etc.

(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. The sooner the Myanmar Government proceeds to the policy menu, the more desirable it is, accordingly.

Figure 3-50 FDI-related Human Resource Development

Requisite human resources

FDI policy personnel
- Drafting of FIL and other legislation
- Work related to registration, assessment, incentives, etc.
- Promotion
- Industrial analysis by sector

EPZ-related personnel
- Customs clearance system
- Plant design and construction
- Facility maintenance (power, water treatment, etc.)
- Logistics system
- Environmental preservation
- Human resource development/mediation

Corporate personnel
- Managers (executives)
- Administrative personnel (finances, accounting, personnel affairs, etc.)
- Engineers
- Operators
- Skilled SI technicians

Means of human resource development

Human resource development programs offered by the UMFCCI
- Certification of qualifications
- Dispatch of experts from developed countries for short-terms stays
- Dispatch of experts from developed countries for long-term stays
- Special technical support center
- Consignment of human resource development work to the private sector

Public-sector overseas training programs
- Short-term training in neighboring and developed countries
- Long-term training in neighboring and developed countries
- Use of schemes for overseas support

Programs at universities
- Preparation of curricula
- Open lectures
- Dispatch of instructors from developed countries

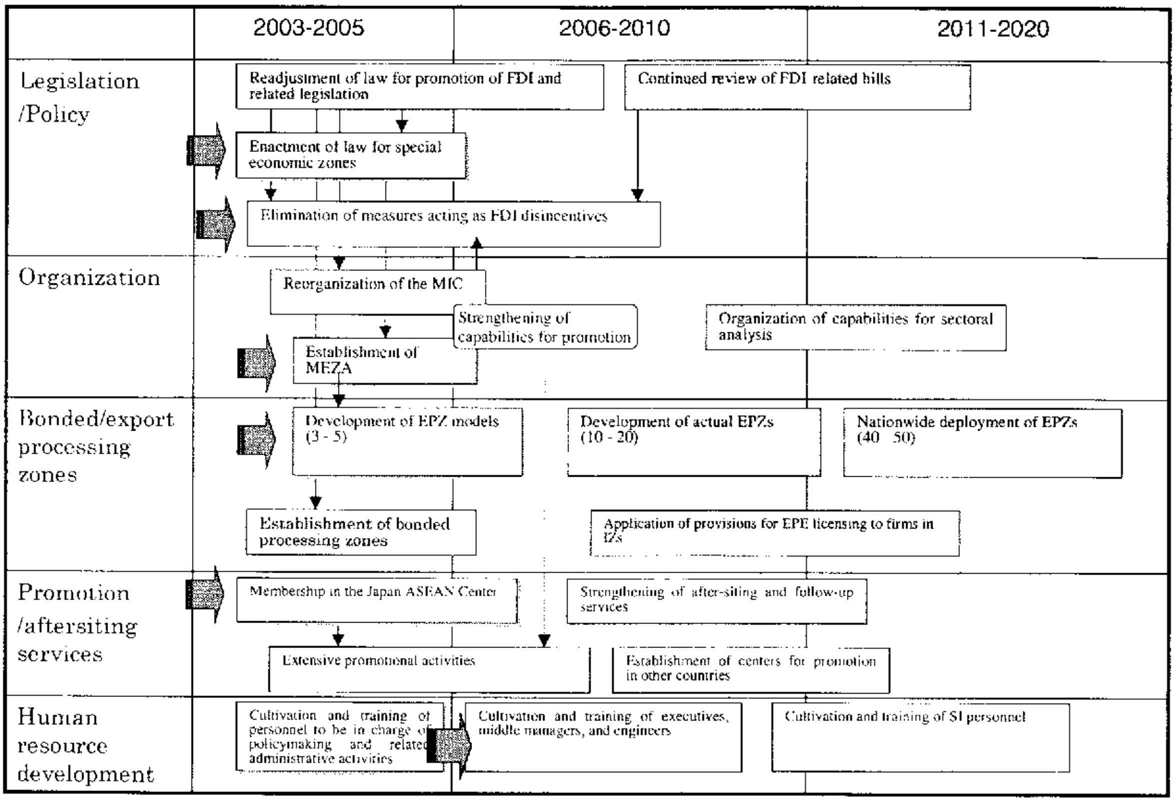
Study abroad in public-sector and university programs
- Acquisition of MBAs
- Acquisition of degrees from technical colleges
- Acquisition of degrees in management and administrative science

Other means
- Consideration of establishment of a technical college system
- System for human resource development in MEZA

Source: JICA Study Team

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 3-51 Medium/Long-term Schedule for Deployment of FDI Policy



Source: JICA Study Team   This mark indicates high-priority measures

(7) Strategy for FDI attraction in each target field

The most promising fields for attraction of FDI to promote export are garment-making, timber processing, food processing, and simple electronic component assembly. The following is an outline of total strategy for attraction of specific targets over the short, medium, and long terms.

Table 3-18 Strategy for FDI Attraction in Myanmar in the Target Fields

	Target FDI	Short-term tasks	Medium/long-term tasks
Garment-making	◎Korean firms ○Japanese firms ・Chinese (HK) firms	・EPZ development and conditioning ・Improvement of the CMP system ・Rationalization of conversion rates for income from processing fees ・Cultivation of the Japanese market (tariff-free export) ・Diversification of business (textile products plus footwear) ・Establishment of a garment-making technology center with support from developed countries (raising of the level of technical capabilities among Myanmar firms)	・Long-term stays by developed-country experts ・Refinement of processing technology ・Nurturing of design capabilities ・Development of local sources for materials (spinning and other upstream industries)
Timber processing	◎Firms from other ASEAN countries such as Thailand and Singapore * Developed-country firms (SMEs and trading firms)	・Improvement of timber distribution (material sourcing quotas for FDI firms) ・Establishment of a timber processing center with developed-country assistance (increase in the technical capabilities of Myanmar firms) ・Import of used equipment (for Myanmar firms) ・Preparation of wood processing estates	・Long-term stays by experts from developed countries ・Training of skilled processing technicians ・Cultivation of design capabilities ・Reinforcement of the production and export of finished products
Food processing	◎Firms from Thailand and other ASEAN countries ○Japanese firms	・Improvement of the foodstuff distribution system ・Preparation of a foodstuff logistics scheme (storage, transport, etc.) ・Relaxation of regulations on JVs (concerning foreign interest in JVs, improvement of the management disposition of state enterprises, etc.)	・Stable supply of agricultural and marine foodstuffs (incorporation of technical know-how from other countries) ・Construction of a scheme for distribution and sourcing of diverse foodstuffs (domestic and foreign) ・Construction of a distribution network linked to neighboring countries such as Thailand, China, and India
Simple electronic component assembly	◎Japanese firms (especially those sited in Singapore, Malaysia, and Thailand) ・Japanese SI firms	・Prompt resolution of the problem of economic sanctions ・Thorough correction of exchange-rate policy (unification in a rational rate) ・EPZ development and conditioning ・Construction of routes for distribution linked to Thailand	・Cultivation of SI firms (in areas such as plastic molding, metalworking, molds/dies, and tools) ・Attraction of siting by electronic product (set) firms ・Attraction of siting by capital- and knowledge-intensive component firms

Source: JICA Study Team

(1) Garment-making field

Korean and Japanese firms ought to be targeted in the campaign to attract FDI in the garment-making field. As a result of the recent worsening of the circumstances surrounding export, the FDI CMP firms are all struggling, and some have no choice but to withdraw. However, the Korean firms already in Myanmar have high opinions of its supply of labor and cost levels, and believe that, with the accumulation of experience and training, productivity will rise as high as in Indonesia and Vietnam. There are already many Korean firms (about 150) with sites in Indonesia, and some are considering a relocation because of the downturn in the investment climate there. Their interest in Myanmar is thought to be rising, and this represents a big opportunity for Myanmar. Japanese garment-making firms are skeptical about the climate of investment in Myanmar under the economic sanctions, and not many have sited there. However, export of garment goods to Japan from Myanmar are exempt from tariffs (6 percent on textiles and 23 percent on footwear), as is that from Cambodia, Laos, and Bangladesh, and has an advantage over that from China and Vietnam. In response, several Japanese firms have begun to consider construction of sizable production plants and siting in Myanmar. In the future as well, there are good prospects for siting by Japanese firms, mainly for export back to Japan. It goes without saying that Korean firms, too, could embark on a new course of production for export aimed at the Japanese market.

The action that must be taken by Myanmar to attract such FDI consists of improvement of the infrastructure at plant sites and review of the CMP system over the short term, and upgrading of the level of garment-making technology and development of local material sources over the medium term. Many garment-making firms are most looking for low-cost labor; they tend to avoid clustering in industrial estates (e.g., EPZs) where the tenancy costs are a little higher and job-hopping is more likely to occur. They are nevertheless anticipated to prefer fully outfitted EPZs owing to the infrastructure of electrical power and other elements that would be harder to find elsewhere. In other words, EPZs would be empty of the various restrictions currently imposed on CMP firms, and guarantee greater freedom in production activities to the FDI firms in them.

Over the longer term, Myanmar should work to promote industry in this field not only by attracting FDI but also by nurturing the growth of domestic firms. Levels of garment-making technology and design capabilities could be raised by programs for visits by experts from developed countries and the establishment of a technical support center. Myanmar also should work to attract FDI firms in upstream areas such as spinning in order to develop local sources for materials where possible and stimulate graduation from the CMP status of total dependence on imported materials. This will make it possible to increase cost competitiveness, shorten lead (delivery) time, and raise the VA level of the industry.

(2) Timber processing

In the field of timber processing, the best candidates for attraction would be ethnic Chinese capital in Thailand and other ASEAN countries as well as Japanese and other developed-country firms in possession of technology and markets. Timber processing has a strong dependence on resources, and the number and scale of siting firms would not necessarily be large. Myanmar is currently compelled to export its finite timber resources in unprocessed form due to a lack of technology, capital, and sales channels. To remedy this situation as soon as possible, it must attract siting by FDI firms with the requisite processing and assembly technology as well as sales channels.

While siting would presumably involve processing and assembly operations and/or provision of technology, it would probably take the form of joint ventures, considering the ends of smooth resource procurement and transfer of technology to local firms over the longer term. The main candidates would be ASEAN Chinese capital and SMEs from developed countries. The various restrictions pose a big barrier to siting, and Myanmar must relax those on matters such as joint ventures, import of processing equipment, and royalties accompanying technology transfer, as far as possible.

As for location, the Mandalay area would be the prospective center of the industry. Because of the low dependence on imported resources, there would be no need for firms to site in EPZs. Instead, Myanmar must prepare timber industry estates in this area and instate measures aimed at inducing synergistic effects, based on the mobilization of all sorts of lumber wholesaling/storage facilities and collaboration by FDI firms both with each other and with local firms that are tenants in these estates.

Besides the transmission by individual FDI firms, technology transfer could be promoted by means such as long-term stays by experts and the establishment of centers for wood processing technical assistance with support from Japan and other developed countries. This would help to improve the technical capabilities of Myanmar firms and so contribute to promotion of industry by indigenous capital in this field. Myanmar firms could raise their technical level by applying used equipment accumulated on the developed-country side, and measures should be taken to facilitate the import of such equipment.

(3) Food processing

In the field of food processing, Myanmar could expect to attract FDI first from neighboring Thai capital (conglomerates, etc.). In addition to Thailand's abundant agricultural and marine foodstuffs, these firms collect other requisite foodstuffs from other countries around the world. They have processing plants in the vicinity of Bangkok and are expanding their export to developed countries. At the same time, they are vigorously promoting a division of production labor to neighboring countries owing to rising labor costs and tighter supply of foodstuffs in Thailand. Dozens of Thai firms in the food processing field have already sited in Myanmar, but many are being compelled to withdraw owing to an inability to secure a stable supply of foodstuffs and to get joint ventures on track. Myanmar is physically close, and its low labor costs and wealth of agricultural and marine resources continue to hold great appeal for Thai capital. Once there are prospects for resolving these problems, many Thai firms could be anticipated to step up their siting in Myanmar.

Japanese food processing and trading firms are also promising candidates for FDI attraction. Many of them have sites in Thailand for export, mainly back to Japan, and have the same potential as Thai firms for siting in Myanmar. Some of the trading firms mentioned the possibility of moving into Myanmar in collaboration with Thai capital. Some Singaporean and Malaysian firms also could possibly site in Myanmar. While there would be prospects for development of export to the entire ASEAN market as well as China, India, and other populous countries over the long term, the best candidates for the time being would be Thai and Japanese firms, which already have large markets for their products.

Expanded attraction of firms in the food processing field hinges on the construction of a setup for stable supply of quality foodstuffs in the requisite quantities. To this end, Myanmar must, with the help of FDI, raise the level of its technology for agricultural and marine production as well as upgrade its storage technology and logistics (physical distribution) system. Instead attaching undue emphasis to Myanmar specialties, it should actively pursue the cultivation/raising of any products that match the needs of overseas customers as long as the conditions are right. While domestic products would be the main subjects of the processing for the foreseeable future, Myanmar should attempt to give the industry a more diverse production through import of various foodstuffs from other countries, as Thailand is now doing, over the longer term.

As for siting considerations, there would be no need for FDI firms to site in EPZs as long as their foodstuffs are domestically sourced. It would, however, be necessary to prepare industrial zones (IZs) with well-provisioned infrastructures in order to attract FDI. In the case of production premised on export, it would make sense to prepare IZs next to EPZs and equip them with the same infrastructure. Siting would probably cluster in the Yangon and Mandalay areas for processing of agricultural products, but the optimal area for marine products is thought to be along the coast of southeast Myanmar, considering the logistical links with Thailand. Furthermore, besides the domestic distribution for foodstuff sourcing, it would be essential to construct a system for international distribution, particularly with Thailand. The current distribution via Singapore entails substantial loss, and a safe transborder route must be opened to Bangkok.

(4)Simple electronic component assembly

In the field of assembly of electronic components, the main targets for attraction of FDI would be Japanese firms. Many Japanese firms in this field have already sited in Malaysia and other ASEAN countries, where they are delivering to the set assembly plants of set manufacturers there or making a great contribution of their own to earnings of foreign currency by directly exporting their components. Recent years, however, have seen a quickening of siting in China by many Japanese and other developed-country firms in the electronics industry. They are drawn by the latent market and higher cost-competitiveness based on low-cost labor. Meanwhile, the investment climate in Malaysia, which now has the biggest build-up of electronics firms in the circle of ASEAN countries, is beginning to worsen because of a shortage of labor and increase in costs.

Under these circumstances, the electronics firms from Japan and other developed countries that have sited in Singapore, Malaysia, and Thailand are being pressed to erect new production setups. It is becoming easier to source components in China, and an increasing number of firms are transplanting assembly lines for audio sets, computers/monitors, and other electronic sets to China. On the other hand, many electronic component manufacturers are drawing the line for siting in China and beginning to consider measures to build up their divisions of labor within the ASEAN region. They want to reap greater benefit from their stock of investment there to date and have high hopes for sustained development in the region.

Wider divisions of labor would revolve around the existing plants in Malaysia and other more developed ASEAN countries. The aim is to establish plants for labor-intensive assembly in less developed countries such as Vietnam and Myanmar, in an attempt to improve their cost structure while also recruiting the necessary labor in large quantities. In addition to the competition with China, the creation of a common market due to AFTA and the reinforcement of capabilities for development through an upgrading of the engineering skills in the existing plants should add impetus to this trend. In recent years, Vietnam has been taking active steps to improve its investment climate in order to attract export-oriented firms, and assembly plants for fairly labor-intensive components have begun to move into EPZs in the vicinity of Ho Chi Minh City. It should be noted, however, that this movement has just begun; extensive formation of wide-area divisions of labor encompassing Myanmar, which, like Vietnam, has a great potential, may be anticipated to arrive with AFTA.

Coils, transformers, motors, and other components in extensive use by information and communications equipment would be the primary subjects in initial divisions of labor. In fact, the component firms gathered in Vietnam are oriented toward assembly of these items on a large scale. The Myanmar firm Earth Industries carries out CMP-type assembly of such components on consignment from a Japanese site in Malaysia. Many of the FDI firms rely on import from Japan and other countries for their production materials because there are no indigenous sources for them. Production consequently takes the form of assembly of components upon in-house processing and export of the entire output of finished products. As such, it is indispensable to prepare EPZs with a fully adequate infrastructure of power and telecommunications.

Although they are exported around the world, the main destinations for these components are the plants for assembly of sets in other ASEAN countries. The key concerns in the electronic component industry are cost, quality, delivery time, and services (CQDS). Lately, users have begun to make stronger demands for a contraction of the time required for delivery in particular. As this suggests, much would depend on ability for swift shipment from Myanmar to the plants of user firms in other ASEAN countries. For this purpose, Myanmar would have to build routes for overland transport across the border with Thailand in the near future to supplement the existing component distribution by marine transport via Singapore. This could greatly bolster the competitiveness of electronic component assembly in Myanmar.

The electronics industry rests on products in fields such as home appliances, audio-visual equipment, and IT goods as well as the wide variety of components of the same, such as semiconductors, resistors, condensers, and coils. Production in it takes the form of various assembly and processing steps. Generally speaking, the kind of production sited in a given country is matched with the level of technology there, and production can move to more sophisticated steps along with technological advancement. Therefore, though FDI attraction would initially target labor-intensive component assembly, as the investment climate improves over the longer term, it could extend to siting by major firms assembling all kinds of IT sets that require a diversity of components, and assembly accompanied by front-end processing. This could very well lead to attraction of siting for capital- and technology-intensive components requiring large-scale investment.

While component firms are placing more emphasis on delivery term, cost continues to carry a lot of weight. Siting firms may rely on import for their entire supply of materials and parts initially, but are constantly looking at the prospects for finding local sources in order to reduce delivery time and cost. Even in the more developed ASEAN countries, there are deep-seated needs of this sort, but technical and management capabilities of local firms are not sufficiently high in many SI fields (such as precision metalworking, precision plastic processing, tool processing and repair, and surface processing). As a result, the component assembly in them is likewise supported by plants sited by Japanese and other developed-country SI firms. Nevertheless, procurement from local sources is necessary for achievement of substantial cost reduction, and Myanmar should take a definite line of fostering the growth of local firms through full use of Japanese and other developed-country schemes for support of SI promotion. Although it would be a fairly long time before such needs for local SI firms surfaced, cultivation of the related engineers and entrepreneurs likewise takes considerable time and requires ongoing policy measures instated at an early stage.