

FDI and Export-oriented Growth in Myanmar

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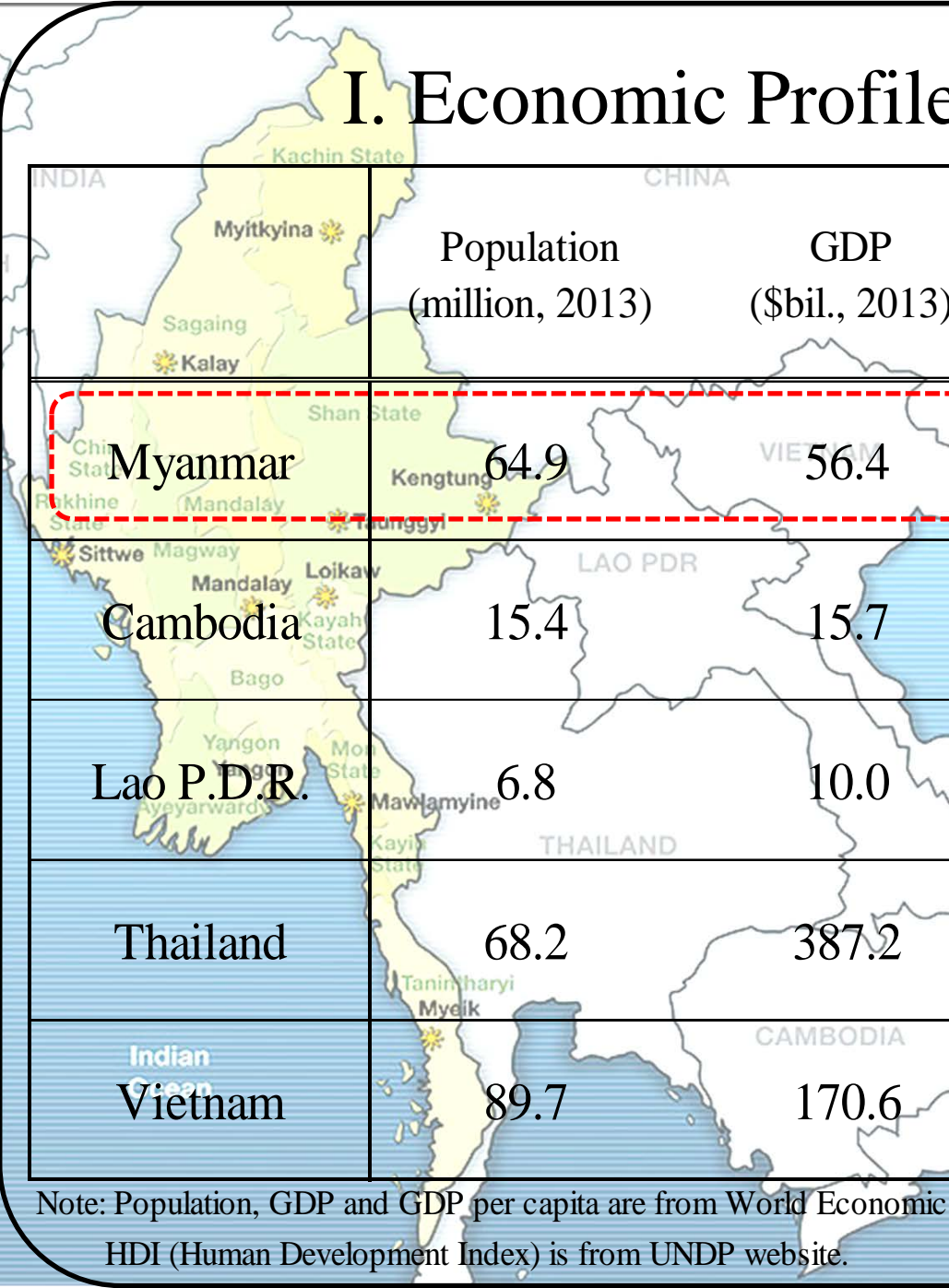
H. Taguchi, Saitama University

At the ESRI International Conference

On September 26, 2014

- I. Economic Profile of Myanmar
- II. Conventional Scenario for Export-oriented Growth
- III. Observations on Myanmar Economy
- IV. Strategic Issues for Myanmar Economy
- V. Long-term Prospects on Myanmar Economy

I. Economic Profile of Myanmar



	Population (million, 2013)	GDP (\$bil., 2013)	GDP per capita (\$, 2013)	HDI Index (Ranking/187, 2012)
Myanmar	64.9	56.4	869	149
Cambodia	15.4	15.7	1,016	138
Lao P.D.R.	6.8	10.0	1,477	138
Thailand	68.2	387.2	5,674	103
Vietnam	89.7	170.6	1,902	127

Note: Population, GDP and GDP per capita are from World Economic Outlook Database April 2014 (Estimates in 2013).

HDI (Human Development Index) is from UNDP website.

A Brief History of Myanmar

- Socialism period (1962 – 1988): Controlled, centralized and self-sufficiency economy → SLORC/SPDC (1988 – 2011): Transition towards market-oriented economy and open-door policies

❑ Economic & Social Reforms (March 2011–)

➤ Four Reform Strategies

- Development of agriculture and all round development
- Balanced and proportionate growth among regions and states
- Inclusive growth for entire population
- Emergence of reliable statistics and improvement of statistical system.

➤ Reformation in Economic Policies

- Ten areas for reformations: 1) fiscal & tax reform, 2) monetary & financial sector reform, 3) trade & investment liberalization, 4) private sector development, 5) improvements in health & education, 6) food security & agricultural growth 7) governance & transparency, 8) mobile telephony & internet, 9) infrastructure investment, 10) efficient & effective government
- Ease of international sanctions such as GSP adaptation by EU since 2013
- Currency regime reformation since April 2012

II. Conventional Scenario for Export-oriented Growth

Intensive Investment

Inward FDI in Manufacturing



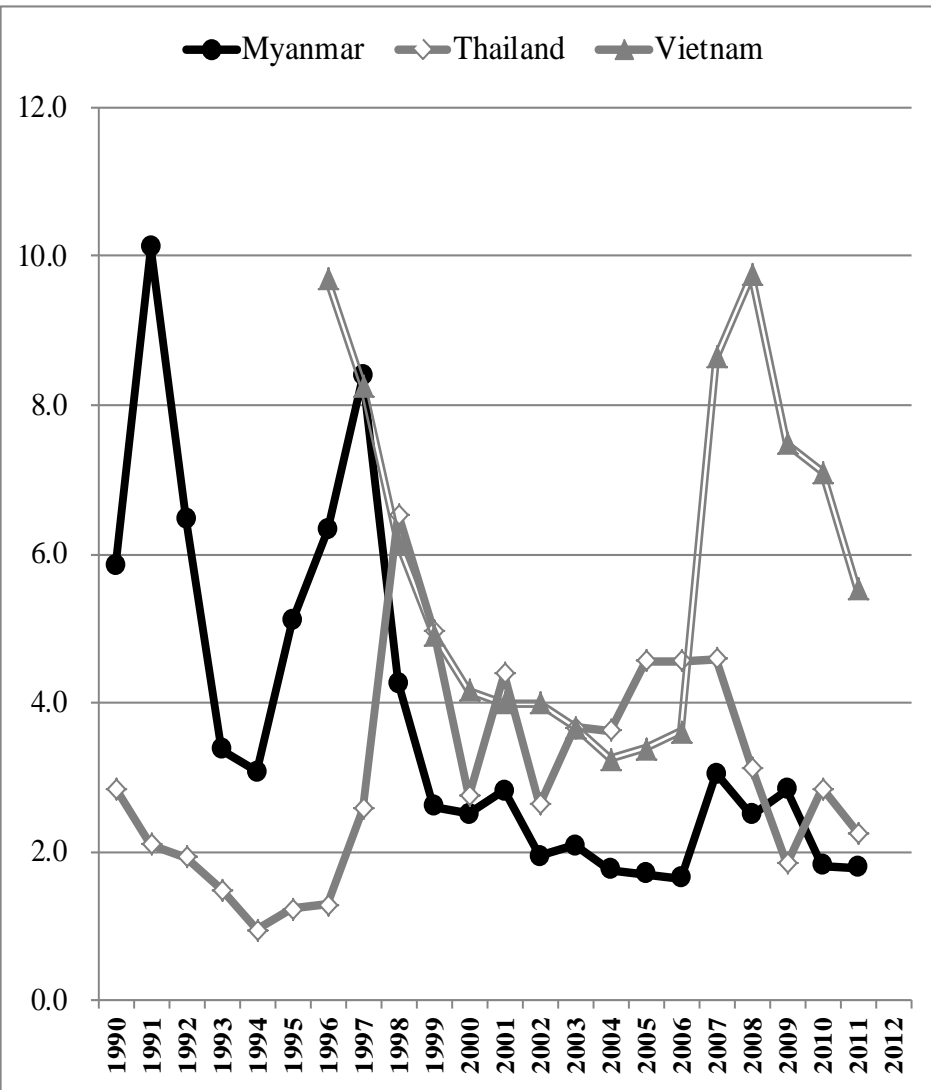
**Capital Stock Expansion, Job Creation
TFP Improvements by Technology Transfer**



Export-Oriented Growth

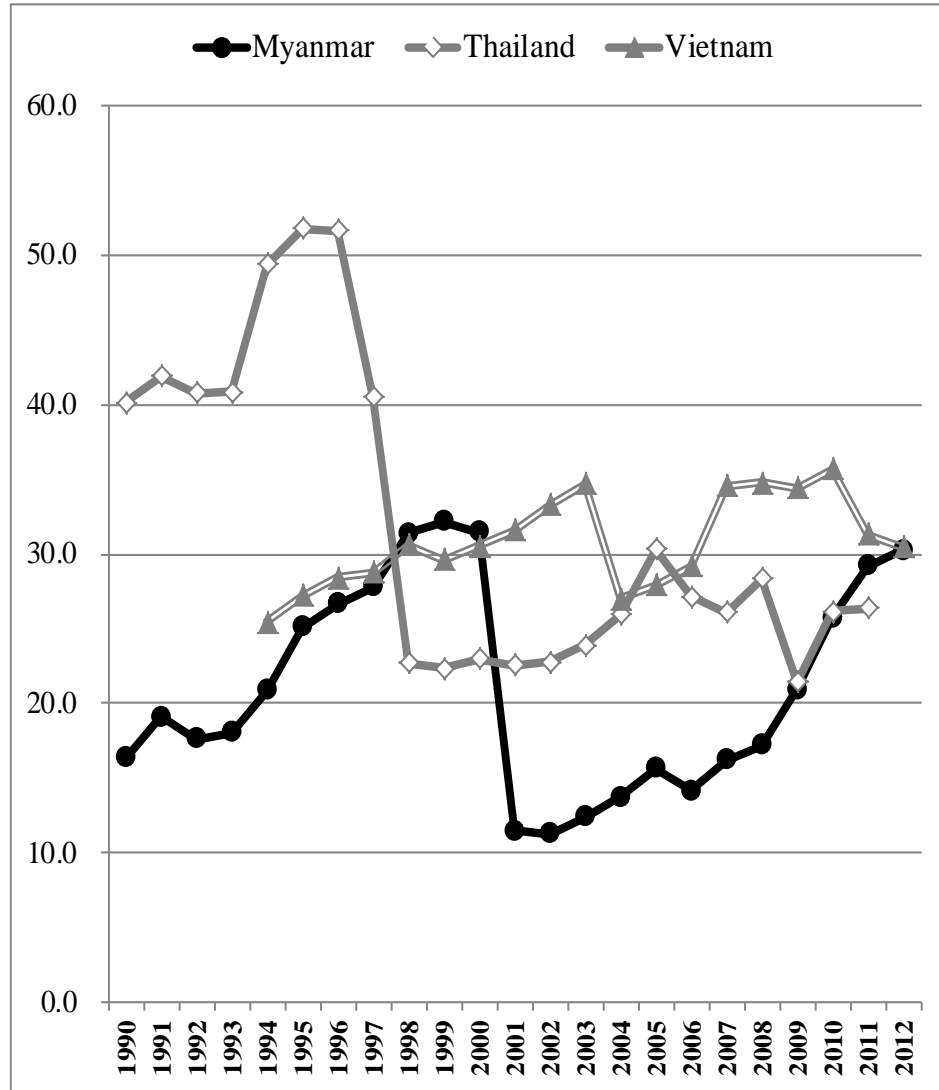
III. Observation: FDI and Investment

Inward FDI Share to GDP (%)



Source: Inward FDI: International Financial Statistics, IMF
GDP: World Economic Outlook, IMF

Investment Share to GDP (%)



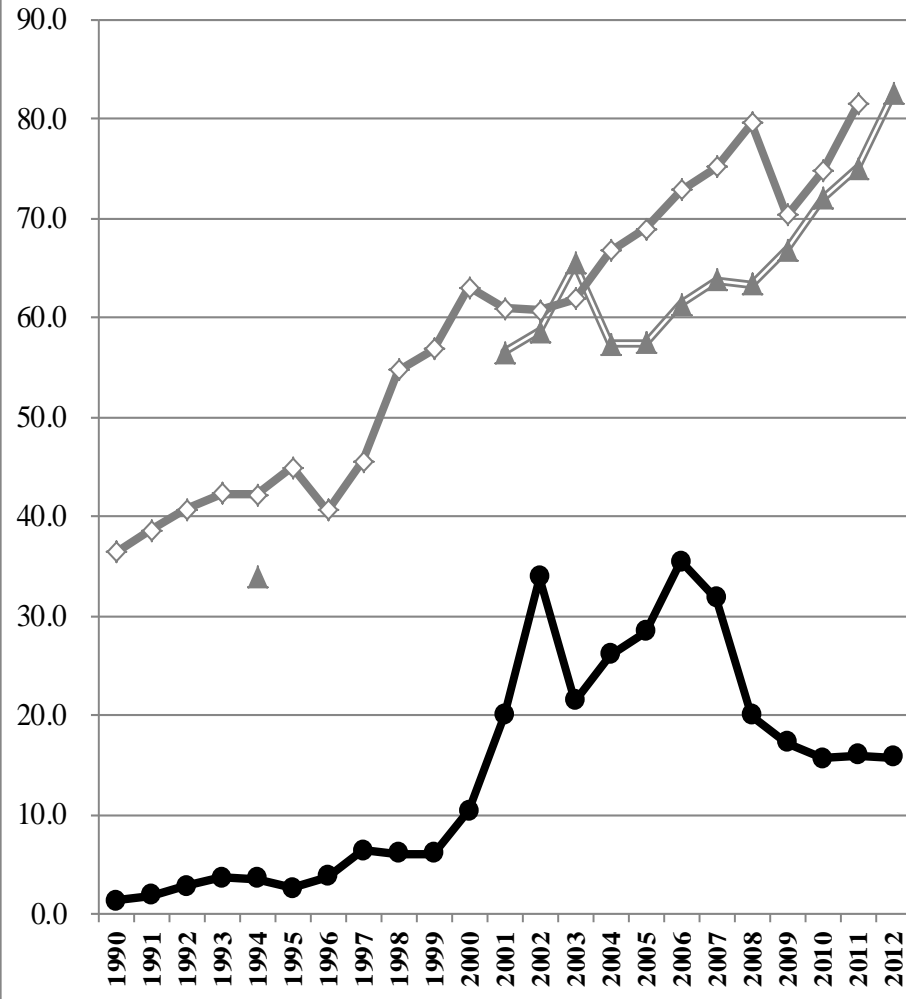
Source: ADB Key Indicators

III. Observation: Export and Growth

Export Share to GDP (%)

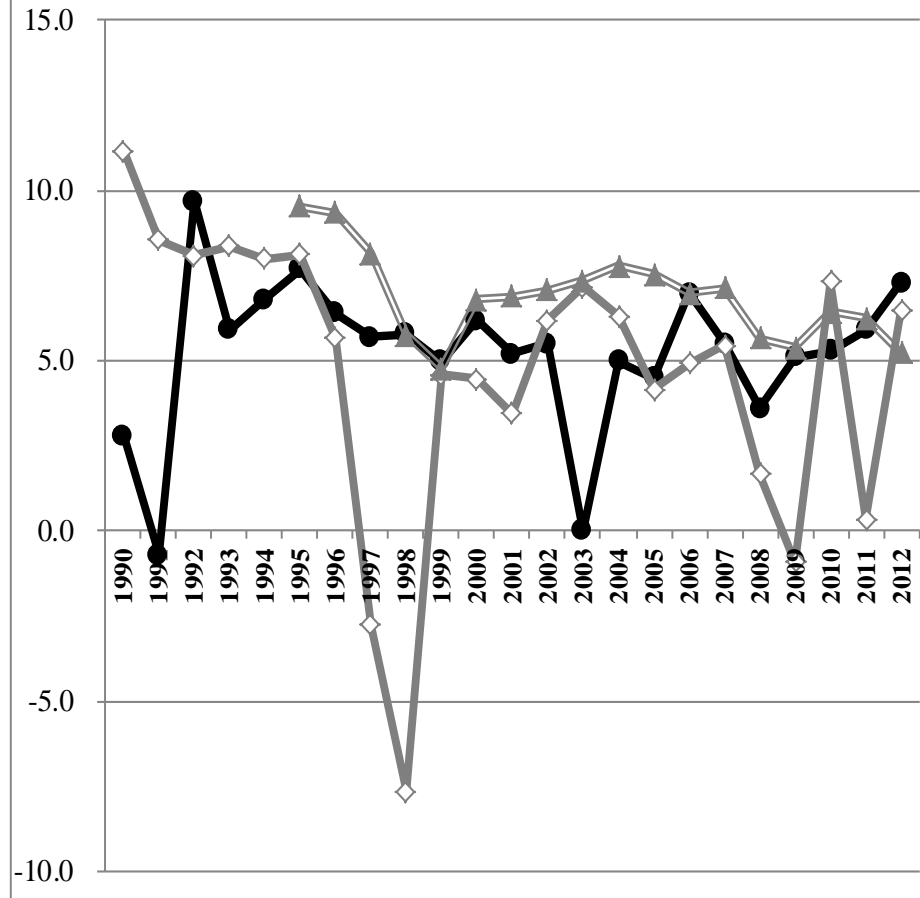
Growth Rate (%)

Myanmar Thailand Vietnam



Source: ADB Key Indicators and author's estimate for Myanmar's Export

Myanmar Thailand Vietnam

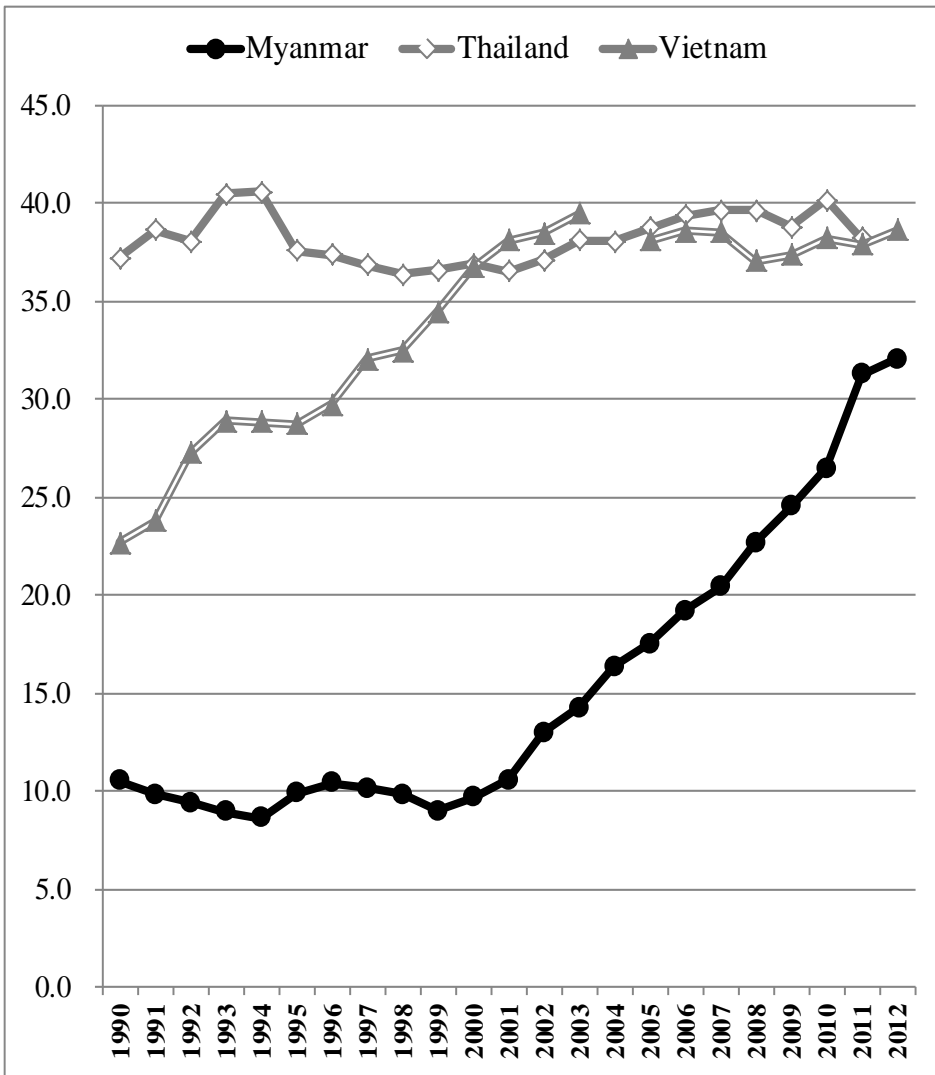


Source: ADB Key Indicators and UNDP and IMF estimate for Myanmar's Growth Rate

III. Observation: Industrial Structure

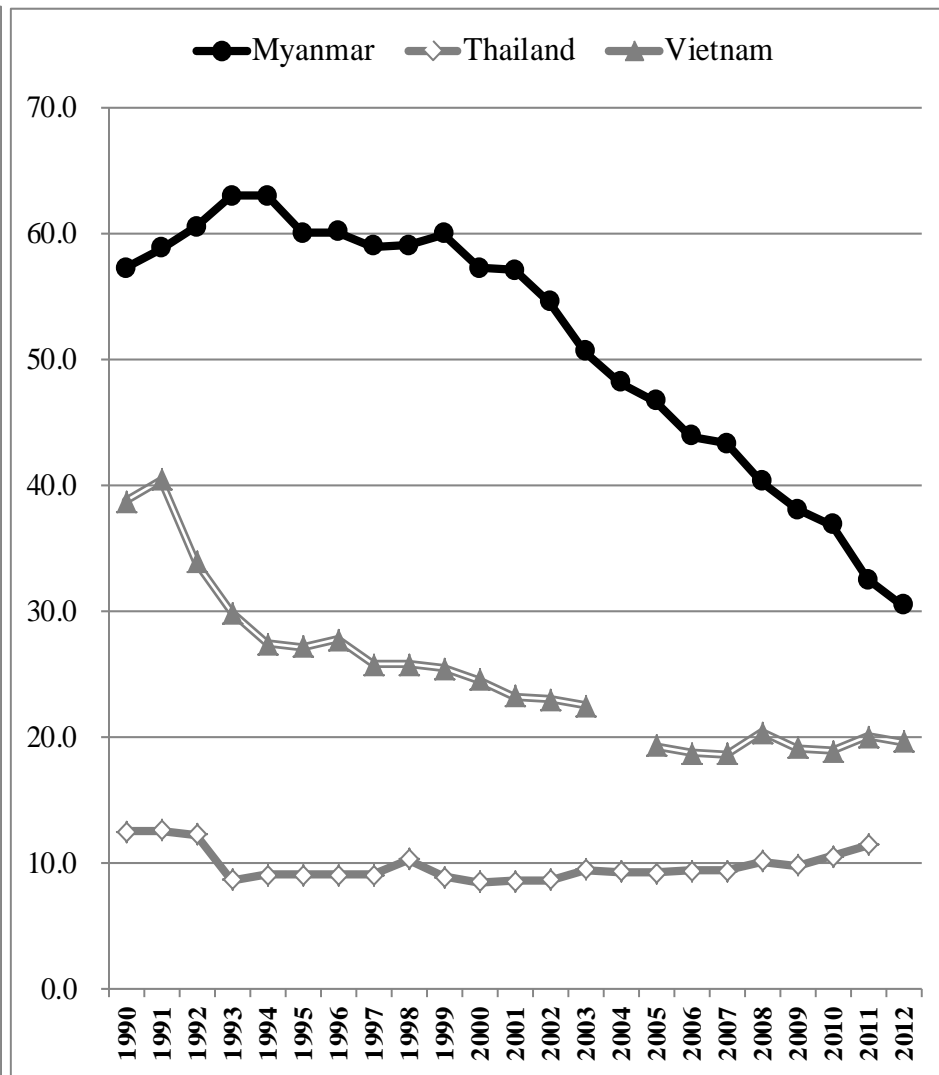
"Industry" Share to GDP (%)

"Agriculture" Share to GDP (%)



Source: ADB Key Indicators

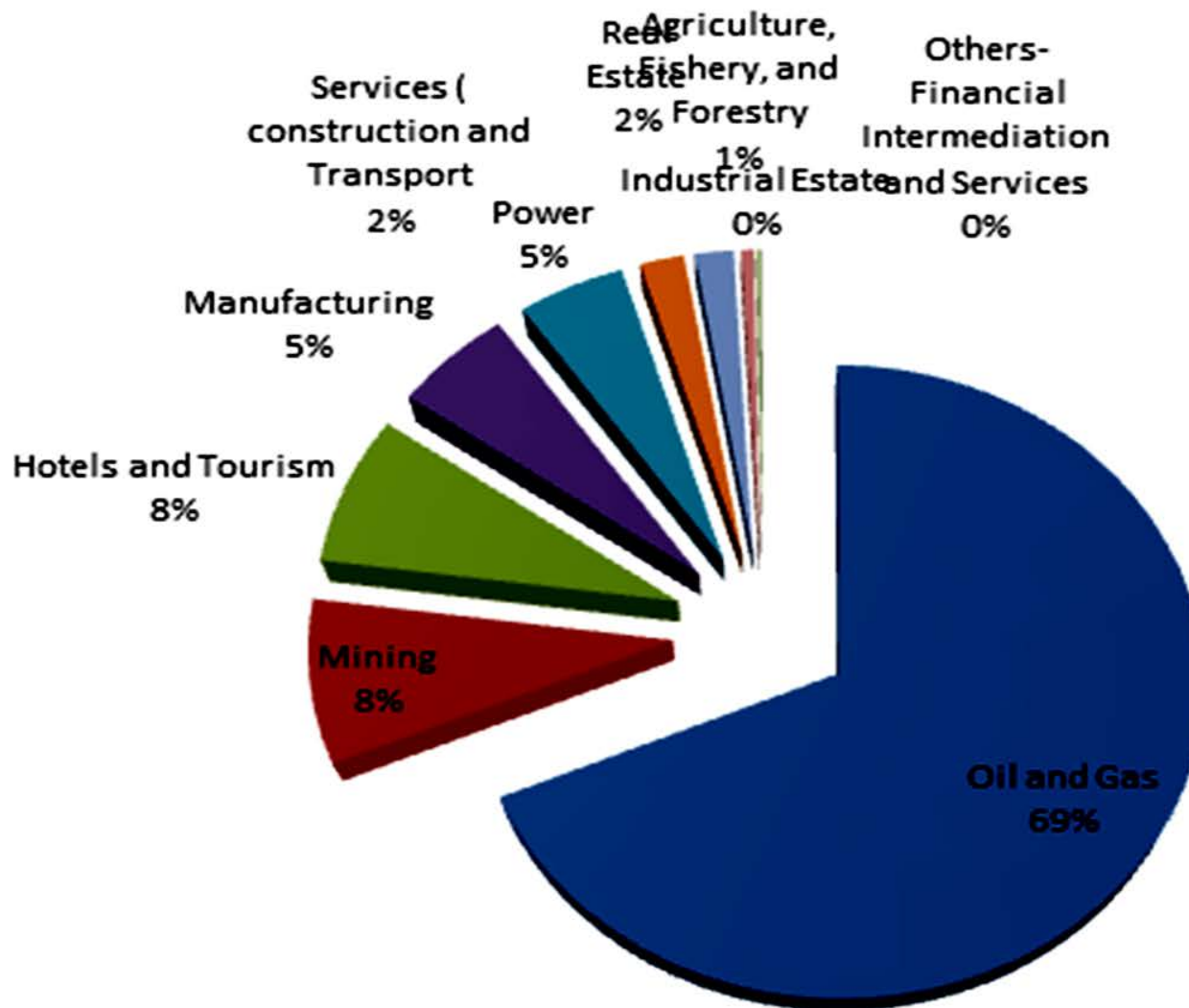
Note: "Industry" is composed of Mining, Manufacturing, Construction and Electricity-Gas-Water.



Source: ADB Key Indicators

III. Observation: FDI Structure

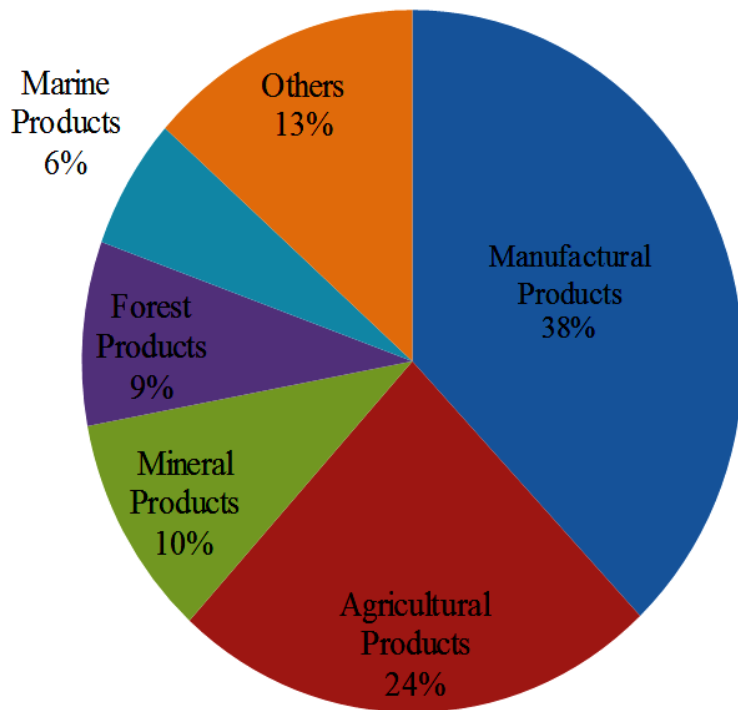
Actual Amount of FDI inflows during 1989-90/2010-2011 (USDMM)



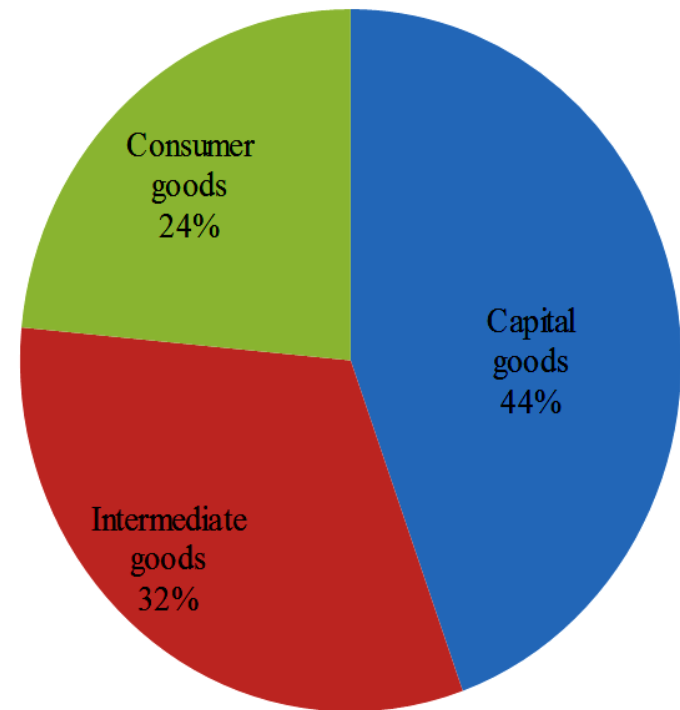
III. Observation: Trade Structure

Type of Commodities of Trade in Myanmar 2013/14

Export (total 11.2 bil. \$)



Import (total 13.8 bil. \$)



Source: https://www.mnped.gov.mm/html_file/foreign_trade/s07MA0201.htm.

III. Granger Causality Tests on FDI, Export, and GDP

	FDI \Rightarrow Export	FDI \Rightarrow GDP
Brunei		
Cambodia		* * *
Indonesia		
Lao PDR		* *
Malaysia		
Myanmar		
Philippines	* * *	
Singapore	* *	* * *
Thailand	* * *	* * *
Vietnam		
Panel	* * *	* * *

Note: *, **, *** denote the significant level at 90, 95 and 99 percent respectively.

“Panel in 8” means the economies excluding Brunei and Vietnam.

Source: Taguchi & Ni Lar & estimation

IV. Strategic Issues for Myanmar Economy

Urgent Issues

- ❑ FDI acceptance in manufacturing
- ❑ Participation in production networks
- ❑ Spot-area development (SEZ, borders, etc.)

Long-term Issues

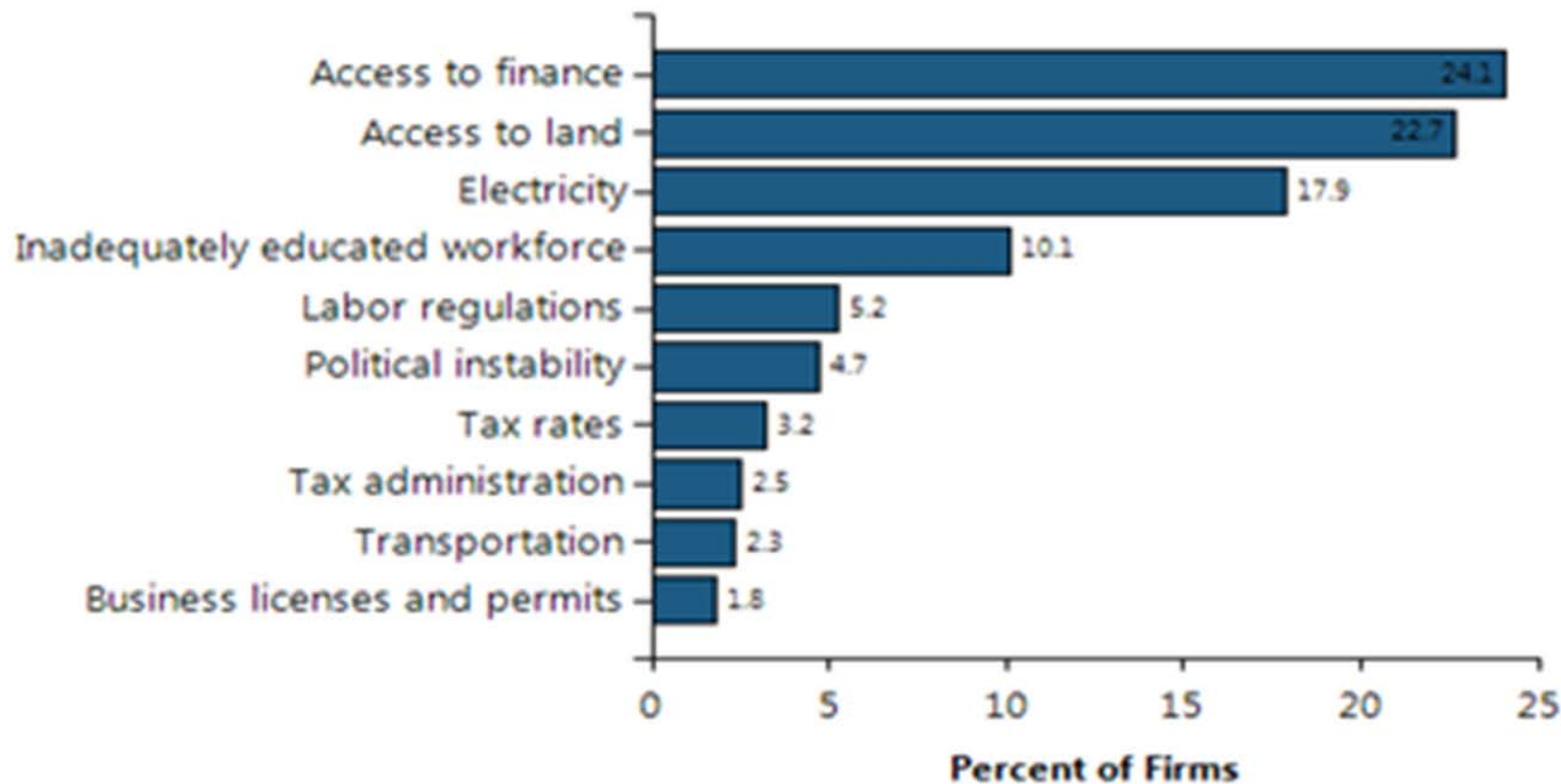
- ❑ **Industrial upgrading** = technological sophistication, localization,
- ❑ **Geographical linkage** = Corridor Approach

Prerequisites

- Infrastructure development
- Institutional arrangement
- Human resource development

Business Environment for FDI Acceptance

Top 10 Business Constraints in Myanmar: The survey results by International Finance Corporation (Feb.- Apr. 2014)



Source: <http://www.enterprisesurveys.org/Data/ExploreEconomies/2014/myanmar#firm-characteristics--ownership-type>.

Infrastructure & Logistics for Production Networks

Global Ranking in Logistics Performance Index 2014 by the World Bank

(Total: 160 countries)

	Overall LPI	Customs	Infrastructure	International shipments	Logistics competence	Tracking & tracing	Timeliness
Singapore	5	3	2	6	8	11	9
Malaysia	25	27	26	10	32	23	31
Thailand	35	36	30	39	38	33	29
Indonesia	53	55	56	74	41	58	50
Philippines	57	47	75	35	61	64	90
Vietnam	48	61	44	42	49	48	56
Lao PDR	131	100	128	120	129	146	137
Cambodia	83	71	79	78	89	71	129
Myanmar	145	150	137	151	156	130	117

Sources:

Logistics Performance Index 2014: The World Bank, (<http://lpisurvey.worldbank.org/international/global>)

How to Implement & Adapt SEZ & FDI Law

Myanmar Special Economic Zone Law

Management Committee

Management, administration and supervision in Special Economic Zone (SEZ)

Developer

Constructing infrastructure in SEZ

Investor

Found joint venture business making investment in SEZ

Tax

Corporate income tax:

Developer

- Tax holiday – 8 years
- Tax reduction – 50% (next 5 years)
- Tax reduction – 50% (following 5 years) (for reinvestment)

Investor

- Tax holidays for Free Zone industries – 7 year
- Tax holidays for Promotion Zone industries – 5 year
- Tax reduction for 50% (for next 5 years)
- Tax reduction for 50% (for the following 5 years) (for reinvestment)

Custom duty: Exemption of custom duty on construction materials and machineries

Right to Use Land

Developer and investor can lease land up to 75 years

Myanmar Foreign Investment Law (FIL)

Myanmar Investment Commission (MIC)

Considering proposal from promoters

Corporate

Wholly foreign businesses are allowed

Foreign Capital

No minimum limit for foreign capital

Tax

Corporate income tax: 5-year tax holiday

Right to Use Land

Investor can lease land up to 70 years

Remittance of Profit

Foreign investor will be able to remit profit or capital

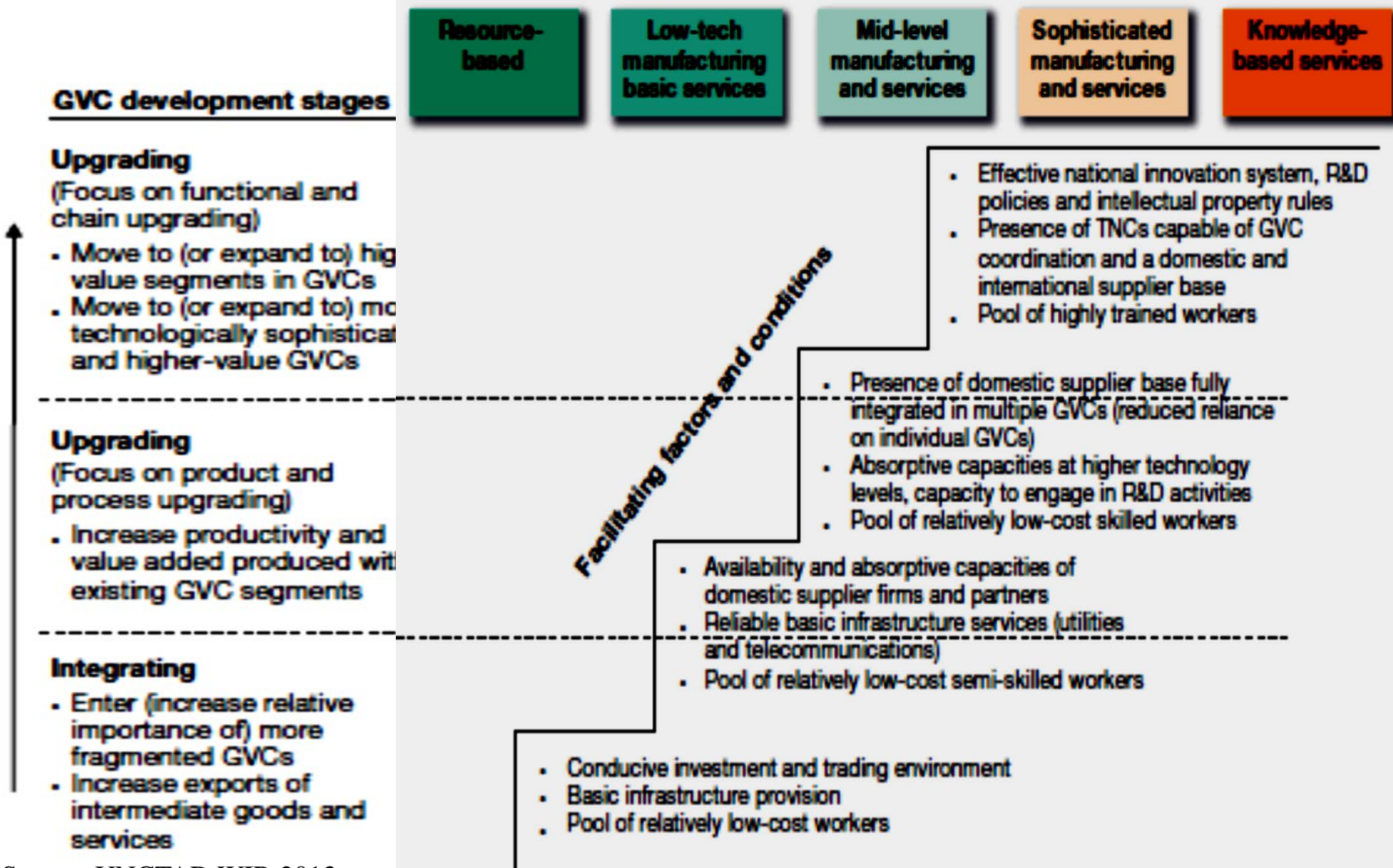
Employee

Skilled citizen workers shall have been appointed

- at least 25 percent within first 2 years;
 - 50 percent within second 2 years;
 - 75 percent within third 2 years;
- Can appoint only citizen for works that do not require skills

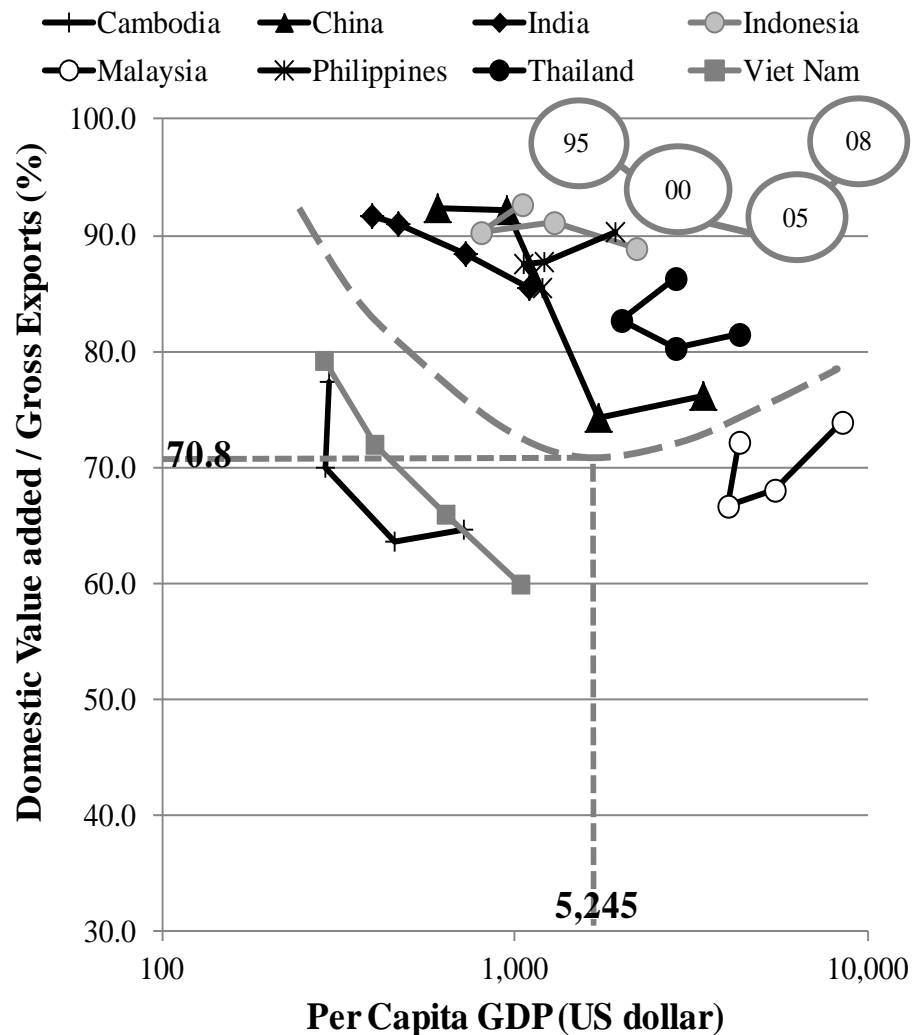
Industrial Upgrading

(ii) Share of exports by level of technological sophistication

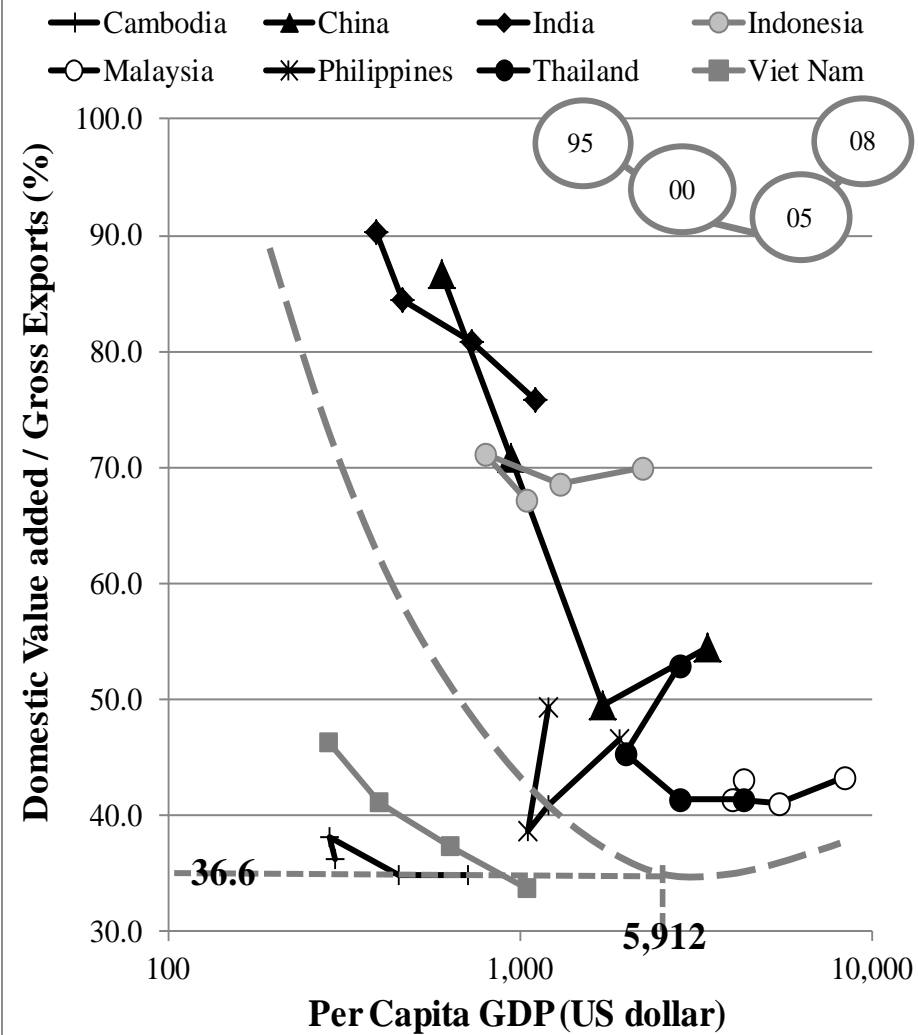


Industrial Upgrading: Localization

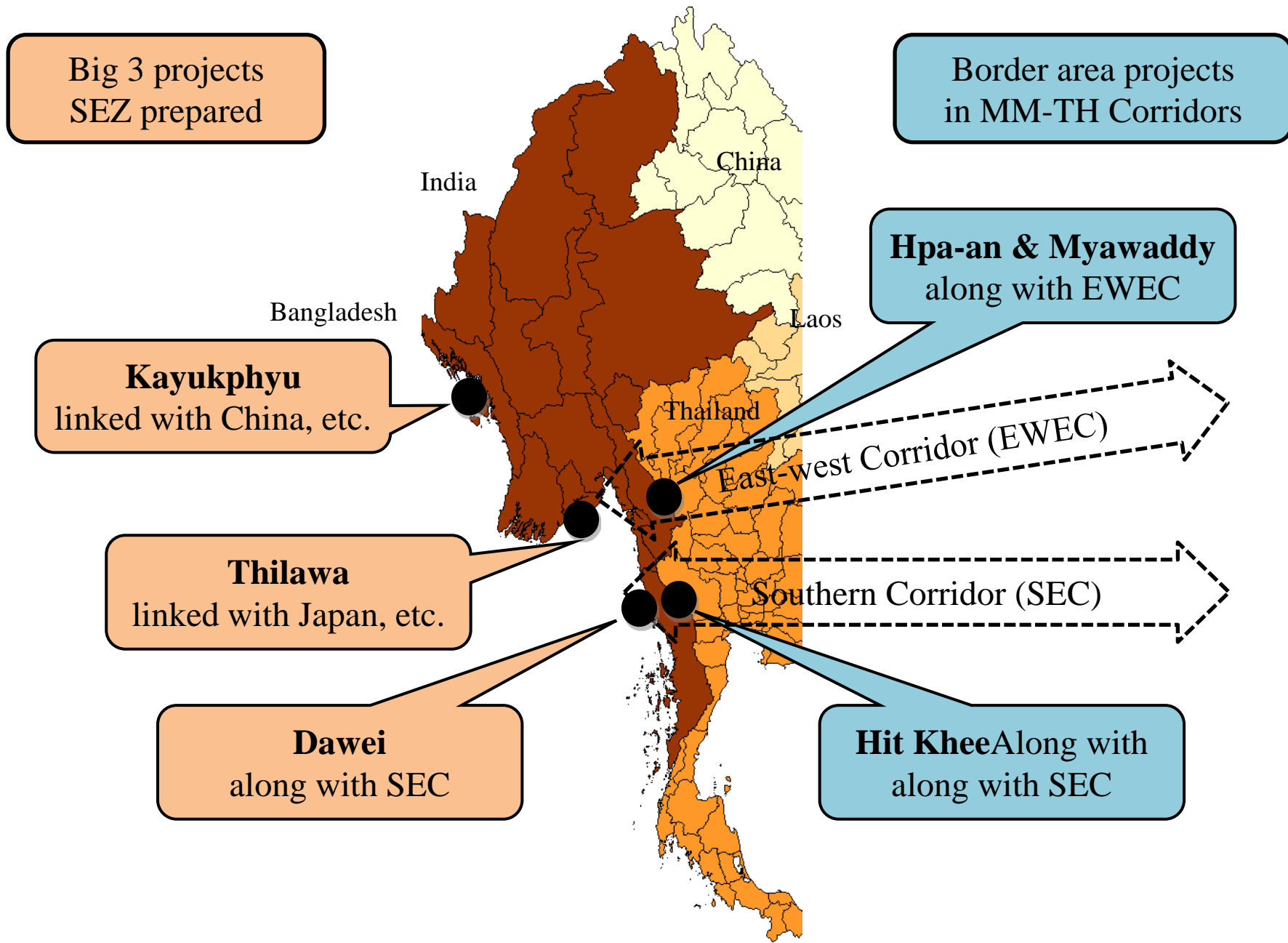
Food Products



Electrical Equipment



Geographical Linkage = Corridor Approach



Urgent Needs for Human Resource Development

← FDI & Production networks require skill labors

[Example] JICA Research Project: Job Creation by Border Area Development between Thailand & Myanmar in 2012-13

Thai-Myanmar TVET Collaboration

- Exchange trainers and trainees, and common curriculum among Thai and Myanmar institutes
- Targeting Myanmar workers including migrants and refugees
- Training basic & technical-skills (garment, food-processing)

Extension of Dual System

- Expanding companies' partners for training institutes to ask on-the-job-trainings to meet need from supply-chain manufacturing

Community Development

- Sharing Thai OTOP experiences by exhibition, road-show, etc.

V. Long-term Prospects on Myanmar Economy

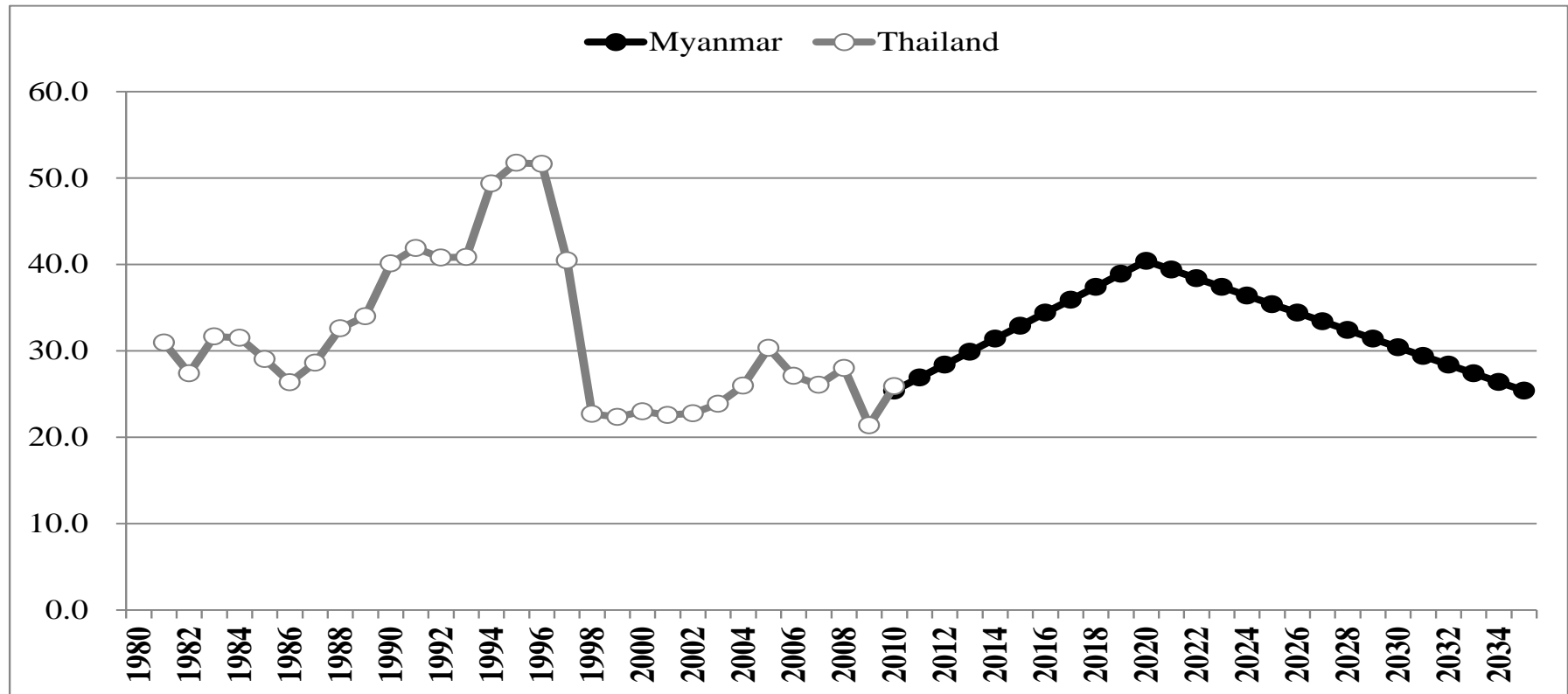
	Baseline in 2035 (Business as usual)	Projection in 2035
Assumption		
Investment Ratio	Constant at 25% (2011-35)	40% in 2020 at its peak
Labor	Annual Growth: 2.3% (2011-20); 1.3% (2021-35)	
TFP Growth	1.7	1.7 + 2.0
Estimation Results		
GDP per capita (real \$, 2035)	1,533	3,037
Annual Growth (% , 2011-35)	4.7	7.6
Capital Contribution	1.8	2.8
Labor Contribution	1.2	1.2
TFP	1.7	3.7
ICOR	3.3	3.2

Source: The estimation outcome was submitted in Myanmar Comprehensive Development Vision (MCDV) Economic Research Institute for ASEAN and East Asia (ERIA) in collaboration with Respective Ministries of the Republic of the Union of Myanmar on August 22, 2013.

Assumption for Intensive Investment

Assumption of Investment (exogenous as a policy target)
= follow Thai investment path in the 1980-90s

Investment Ratio to GDP for Projection



Scenario for TFP Improvement

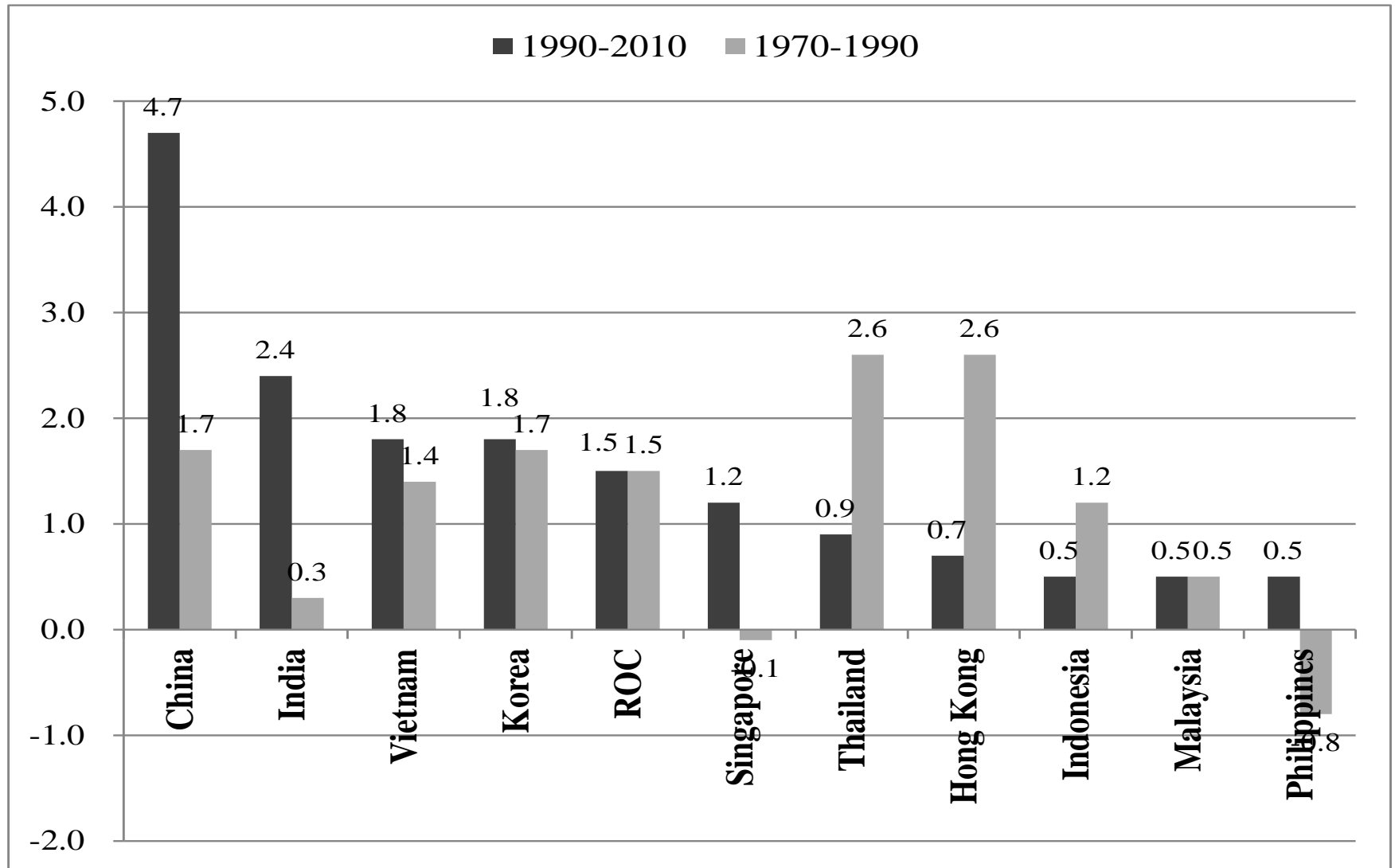
TFP Improvement is linked with any development strategies to enhance the efficiency of the economy:

- Innovation of technologies
- Infrastructure development
- Human resource development
- Industrial restructuring
- Institutional reformation, etc.



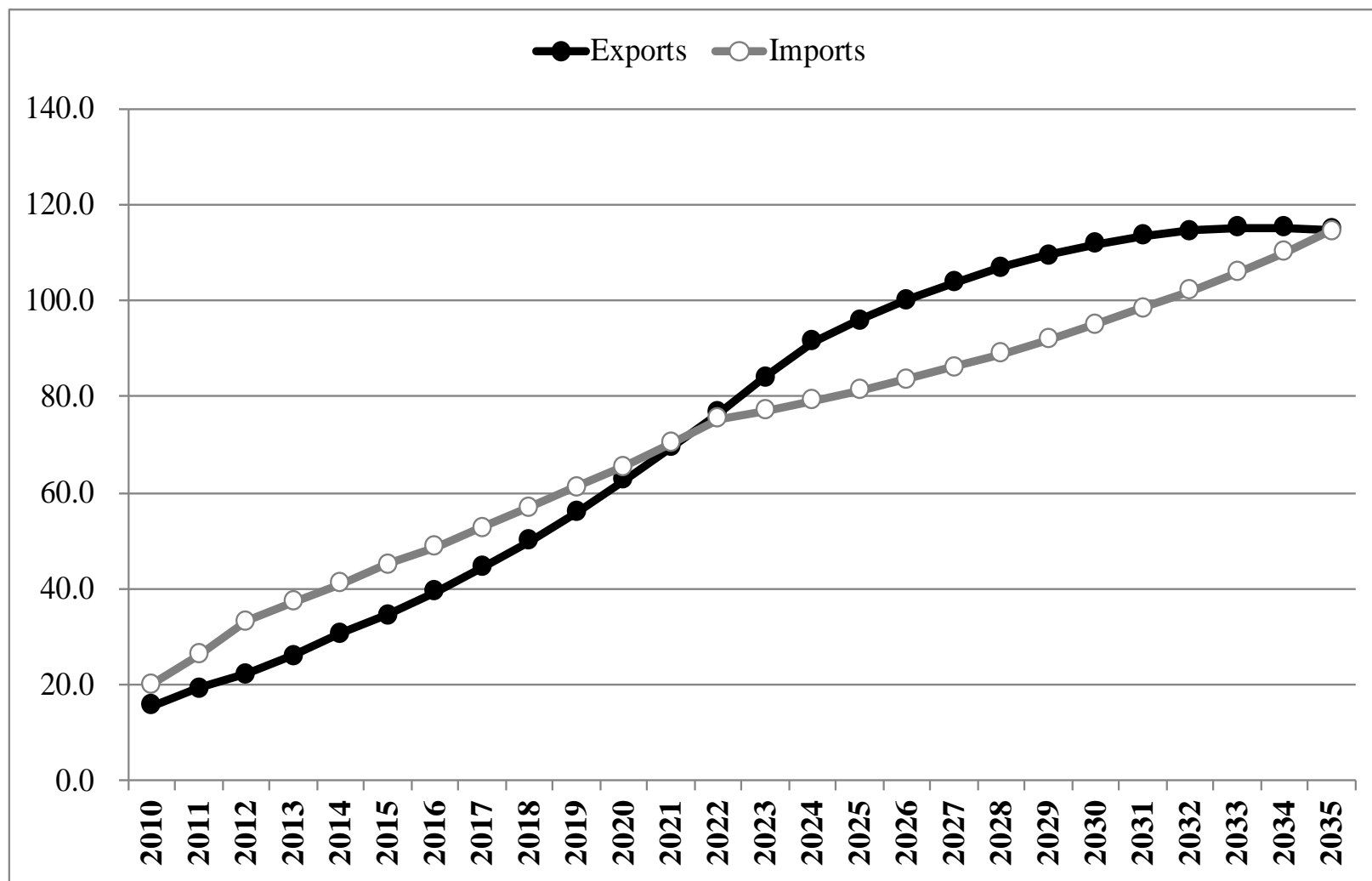
Assumption of TFP improvement = $1.7 \rightarrow 1.7 + 2.0$

TFP Growth in Asia



Source: APO Productivity Database 2012.01

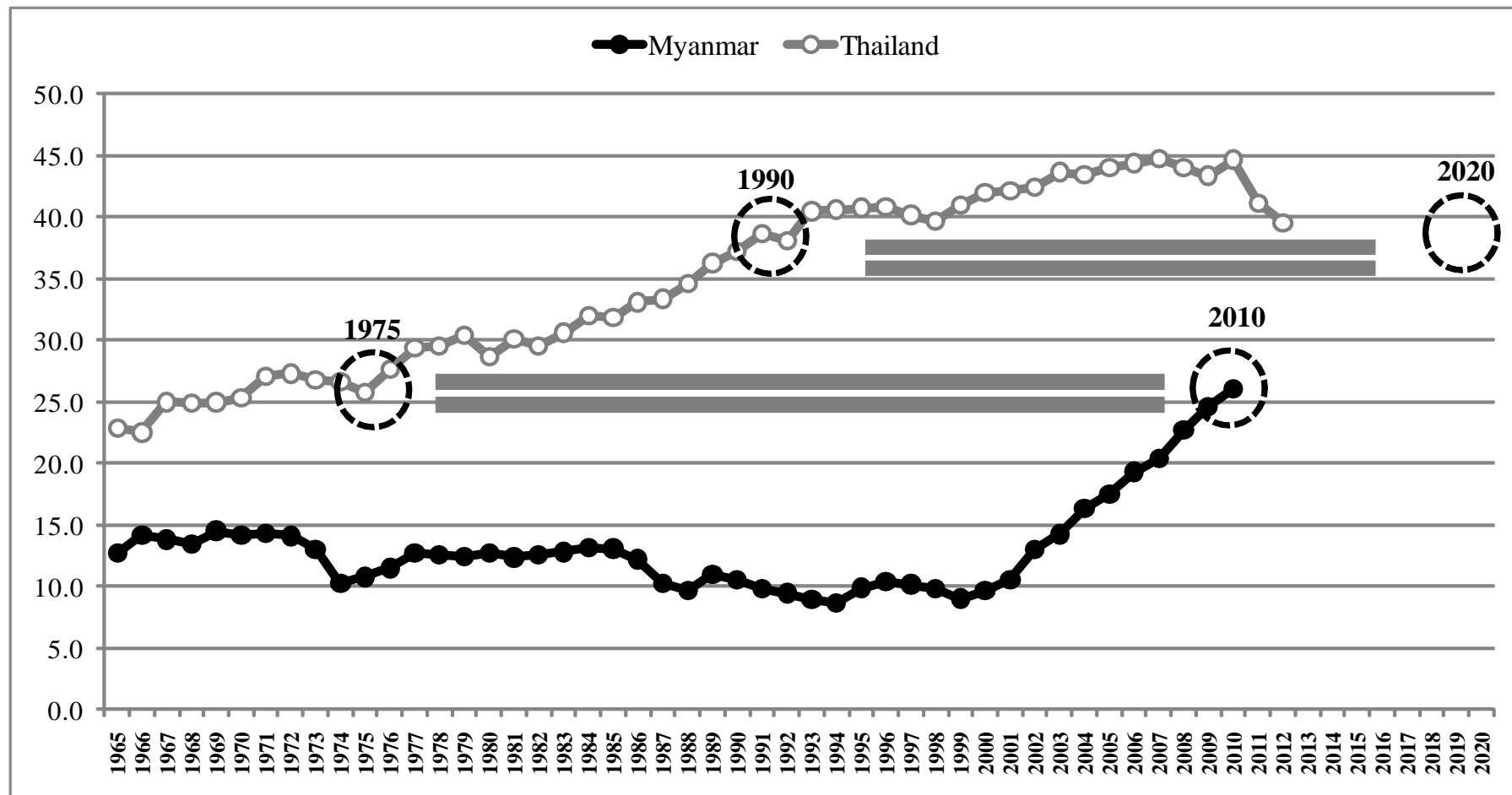
Export- & Import Ratio to GDP in Projection



Projection Industrial structure

Assumption: Myanmar in 2020 = Thailand in 1990

Industrial Share of GDP (%)



Note: "Industry" is composed of Mining, Manufacturing, Construction and Electricity-Gas-Water.

Source: World Development Indicators, World Bank

GDP Projection by Industrial Origin in 2020 in Myanmar

%	2010	2020	2020 - 2010
Agriculture, Forestry and Fishing	37.8	10.3	-27.6
Mining	0.7	1.5	0.8
Manufacturing	18.8	29.4	10.6
Food	7.7	6.9	-0.8
Textile	2.7	4.9	2.2
Paper	1.4	1.9	0.5
Chemical, Petroleum and Rubber	2.7	3.2	0.5
Non Metallic Products	0.5	1.9	1.4
Metal Products	1.1	1.4	0.3
Machinery	1.8	5.9	4.1
Other Manufacturing	0.9	3.3	2.4
Electricity, Gas and Water	0.3	2.6	2.3
Construction	4.5	7.7	3.2
Services	37.9	48.6	10.7
Total	100.0	100.0	

Source: Taguchi & Ni Lar & estimation consistent with the ERIA report above

Employment Projection by Industrial Origin in 2020 in Myanmar

million persons	2010	2020	2020 - 2010
Agriculture, Forestry and Fishing	17.48	7.67	-9.81
Mining	0.29	1.00	0.71
Manufacturing	3.52	8.83	5.31
Food	1.31	1.90	0.59
Textile	0.61	1.78	1.17
Paper	0.25	0.55	0.31
Chemical, Petroleum and Rubber	0.62	1.20	0.58
Non Metallic Products	0.09	0.52	0.43
Metal Products	0.18	0.38	0.20
Machinery	0.32	1.69	1.38
Other Manufacturing	0.13	0.79	0.65
Electricity, Gas and Water	0.06	0.93	0.87
Construction	0.82	2.25	1.44
Services	8.79	18.23	9.44
Total	30.96	38.92	7.96

Source: Taguchi & Ni Lar & estimation consistent with the ERIA report above