FOREIGN DIRECT INVESTMENT THEORY AND PRACTICE IN MYANMAR

By

Ni Lar

THESIS

Submitted to

KDI School of Public Policy and Management

in partial fulfillment of The requirements

for the degree of

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ABSTRACT

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During the past two decades, there has been a change of opinion in the attitudes of developing country government towards FDI. Almost all developing countries now welcome FDI and have liberalized significantly their rules and regulations. FDI regimes of countries were in the direction of a more favorable environment from TNCs (UNCTAD).[1] As an engine of development, foreign direct investment (FDI) has for many years attracted enormous attention from policy planners in less developed countries (LDCs). Governments have been eager to maximize the benefits from FDI and minimize harmful side effects.

Foreign Direct Investment is an important vehicle for obtaining technology, management skills, and capital; for improving the international competitiveness of firms and the economic performance of countries; and ultimately for improving world's welfare. According to the World Investment Report 2001, private capital flows (only FDI) to developing countries quadrupled from 1989 to 1994, and reached 240167 million of dollars in 2000 (just for that year) that is around 20 per cent of world FDI inflows.

[1] . UN (1999), " Foreign Direct Investment and development ", UNCTAD series on issues in international investment agreements. Pg.9

Myanmar is a one of the Least Developed Countries in the world. Myanmar does not have sufficient technology and facilities to construct capital goods for development in the various sectors. Domestic capital accumulation is so low and also a trade balance is unfavorable in the country. Development of various sectors will require the large amount of importing capital goods especially foreign direct investment.

Myanmar the largest country on the main land of Southeast Asia, with a population of 49 million and a total land area of over 676,000 sq kilometers, is rich in natural and human resources and in cultural and national heritage. When the State Law and Order Restoration Council assumed State power in the late 1988, Myanmar's economy had been on the decline for three years. GDP in real terms declined by 15.2 per cent and per capita income 20.5 per cent as compared to 1985/86. So did exports, imports and investments. Thus, in September 1988 the State law and Order Restoration Council announced a completely different political and economic system and its intention to adopt and move towards a more open market oriented economic system. Then followed a series of measures designed to restructure the economy, to open up the country to Foreign Investment, to increase International Trade, and to encourage the development of private sector. Appropriate laws to strengthen the institutional framework for building up the market economic system were promulgated, including most significantly the Union of Myanmar Foreign Investment Law and the State-owned Economic Enterprises Law.

Firstly this paper will be a literature survey on the theoretical considerations of foreign investment policies based on the definitions, objectives, and impacts of FDI. According to the data availabilities of Myanmar FDI condition, we make a comparative study with neighboring countries- Thailand and Vietnam so that we can point the strengths and weaknesses of attracting FDI . Based on research, Myanmar has been relatively weak in obtaining amount of FDI compared with her neighbours. Nowadays, Myanmar has received just over 7 millions dollars amount of FDI within 16 years of renovation while other especially Vietnam has reached over 9.7 billions up to 2000 April. The next to literature survey, the paper concentrated on the possible environment for raising FDI flows into Myanmar at competitive world such as political condition, exchange rate system, banking system, and infrastructure condition as well.

The prospects for FDI in Myanmar are not quite favorable. There are no sound economic stability, political stability, a well developed and highly industrialized local economy even the proximity of major Asian Markets such as Japan and China. There is an important role for government policies of Myanmar’s long-term growth prospects depend on the extent to which is succeeded in introducing greater openness and competitiveness, improving infrastructure, accelerating market reforms, liberalizing trade and increasing its capacity to attract FDI. Myanmar must encourage FDI as a way to obtain foreign technology like a development tool, but this will be difficult as long as current distortions.

Dedicated to the beloved of my parents

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ABBREVIATIONS

ADB-ASIA DEVELOPMENT BANK

ADO-ASIA DEVELOPMENT OUTLOOK

FDI-FOREIGN DIRECT INVESTMENT

MNEs-MULTINATIONAL ECONOMY

MNCs-MULTINATIONAL CORPORATIONS

TNCs-TRANSIONAL CORPORATIONS

HDI-HUMAN DEVELOPMENT INDEX

Introduction

The world has witnessed many dramatic changes taking place in political, social, economic and technological spheres. It is unprecedented in political-economic history that the nations of the world have began to pursue economic growth through opening up their economic to outside world .To achieve economic development has become the primary goal of the nations around the world. The nations had taken different approaches towards development. Nowadays trade consists of not only goods and services, but also technological skills, entrepreneurship and direct investment abroad or capital formation. Of the factors affecting economic growth, the availability of capital is the most important. Economic development is achieved through the improvement in efficiency of labor and the full utilization of natural resources. Capital is needed for the realization of both these events. The productive employment of labor presupposes a rising of the general level of education and the acquisition of technical skills, the formation of capable administrators and entrepreneurs, and provision of adequate tools and machineries, as well as the rising of the standard of living of the whole population.

After the Second World War, the relations among countries become more evident__ economically, politically, socially and so on. Because of this, the countries inevitably face the challenges of globalization. For developing countries, the challenge is not only to expand and diversify their exports but also to make them more competitive. ***Globalization means competition. Competition means survival of fittest. This would call for our fully exploiting the advantages that we have. It is by making full use of the comparative advantages that nations have prospered.*** And so, the countries need to have the ability to exploit the maximum benefits and to reduce the cost to the minimum which are resulted from globalization. The world economy cannot be healthy if the majority of nations are ill. This is because of global interdependence. In today's globalizing economy, no country can get sustainable growth or development without active participation in world trade. All countries need exports to help them raise standards of living and escape poverty.

To enter a foreign market and to become a successful exporter, a company or a firm in a country must not only be a competent manufacturer, but it will also need the ability to manage the international marketing, distribution, and servicing of its products. So only few local firms, particularly those in developing countries, have these skills and resources to take on all these challenges on their own. In such cases, MNCs (Multinational Corporations) or TNCs (Transnational Corporations) or MNEs (Multinational Enterprises) are likely to be in a better position to establish export operations since they can benefit from the existing international network of the entire corporation. The contacts with other parts of the corporation provide both knowledge of international market conditions and access to foreign marketing and distribution networks. Besides, export oriented MNCs provide knowledge about product and process technologies (management) and foreign market conditions such as foreign preferences regarding design, packing and product quality. To the extent that foreign investors directly or indirectly provide information and distribution on services, their activities enhance the export prospects of local firms. Moreover, MNCs are often larger than local firms and may be able to afford the high fixed costs for the development of infrastructure that are needed to support export activities. Therefore, foreign-owned enterprises are a natural conduit for information about foreign market and technology, and a natural channel through which domestic firms can contribute their goods in world market. So, **Foreign Direct Investment** (FDI) through MNCs may bring substantial benefits to the host country.

FDI has emerged as the most important source of external resource flows and has become a significant part of capital formation in the country. FDI usually flows as a bundle of resources including production technology, organizational and managerial skills, marketing know-how and even market access. These skills tend to spill over to domestic enterprises in the host countries. In addition, FDI through TNCs can contribute to the upgrading of a country's competitiveness either by investing in higher-value-added activities in industries in which they have not been invested before or by shifting within an industry, from low-productivity, low-technology, labour-intensive activities to high productivity, high technology, knowledge-based ones. Competitive markets can provide the answer for the development. But they cannot function in a vacuum. They have necessarily to be governed by non-discriminatory and transparent rules and regulations, without unduly violating the propelling blades of supply, demand and prices. Although the globe is divided into nation- states, the market forces, willy-nilly, scale national boundaries in an interdependent world, knit together by science and technology through instruments of communications, information and the like.

Whatever the market structure that results from the influence of direct investment, it can be argued that entry by a foreign subsidiary is likely to promote more active rivalries behaviour and improvement in market performance than would a domestic entry at the same initial scale. FDI may promote economic development by contributing to productivity growth and exports in their host countries. However, the exact nature of the relation between foreign MNCs and the host countries seems to vary between industries and countries. It is reasonable to assume that the characteristics of host country's industry and policy environment are important determinants of the net benefits of FDI. However, the higher the rate of investment, most countries believe, the higher the rate of economic growth. But, there is a flood of recorded opinions of religious leaders, political philosophers, economic pundits and many others on economic matters.

The aim of this paper is to analyze the following conditions;

(a) whether FDI gives the net positive benefit to our country or not
(b) whether the Myanmar FDI policies are successful or not
(c) whether FDI plays in the development process of Myanmar as the most vital role or not.

The structure of this paper is as follows;

The very first chapter presents the theory of Foreign Direct Investment in different definitions, the benefits and costs of FDI to host countries, and the impact of FDI on developing countries.

The next chapter (Chap. II) looks the role of FDI in Myanmar, composing of Myanmar's FDI policy and present situation of FDI in Myanmar and the Comparative Study of FDI in some ASEAN countries: Thailand and Vietnam.

Chapter III states the outcomes of FDI in Myanmar and its prospects for foreign direct investment.

In the last chapter, it is concluded with some findings and some possible comments.

Chapter - I

Foreign Direct Investment in Theory

After realizing the nature of FDI, there has been a perceptible change of opinion, during the past two decades, in the attitudes of developing country government towards FDI. Almost all the developing countries welcome FDI. And they have liberalized significantly their rules and regulations.

(1.1) **Definitions of Foreign Direct Investment**

Foreign investment generally involves the ownership of some of the equity in a foreign business. It may also involve control. Ownership and control issues are often complex, especially in cross- border situations, as for example, when a corporation registered in one nation has its center of management in a second nation and its owner [2]

According to ***Gilpin R.***, FDI means nationals from one country establishing economic enterprises within the jurisdiction of other countries and/ or an expansion of the existing business in the jurisdiction of another nation.

According to ***Lindert and Kindleberger,*** balance of payment accountants define foreign direct investment as any flow of lending to, or purchases of ownership in, a foreign enterprise that is largely owned by residents of the investing countries. The proportions of ownership that define 'largely' vary from country to country.

To ***the U.S Department of Commerce,*** FDI is defined as the movement of the long-term capital to finance business activities abroad, whereby investors control at least 10% of the enterprises.

In ***international economics***, it is defined as an investment outside the investor's country in which the investor exerts a degree of control over the company. Normally, the investor in such case is not an individual but a foreign corporation (whose ownership in turn maybe widespread). In a significant minority of cases, the foreign investment is a joint venture paired with a domestic company, is made up of two or more foreign companies, or is just the foreign company with domestic investors holding portfolio interests.

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[2] . Ralph H.Folsom, Michael Wallace Gordon and John A.Spanogle,Jr (1996) , “International Trade and Investment in a nutshell” , St.Paul, Minn , West Publishing Co. 1996 . pg 167

According to ***UNCTAD (United Nations Conference on Trade & Development)*** definition, it is defined as an investment involving management control of a resident entity in one economy by an enterprise resident in another country. It is also defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy.

(1.2) Objectives of Foreign Direct Investment

The objectives of FDI can be summarized as follows: Businesses and governments are motivated to engage in FDI in order to

(i) expand markets through TNCs
(ii) acquire foreign resources (eg. production efficiency, technical know-how)
(iii) exploit the comparative advantage in resource endowments and the like
(iv) attain some political advantage

(1.3) Incentives and Determinants of FDI

Home country can adopt policies designed to encourage and restrict FDI. Host country tries to attract FDI by offering incentives and to restrict FDI by dictating ownership restraints. The inflow of FDI in Developing Countries depends on various factors in both host and home countries, especially, investment climate and political environment of both. Present and expected conditions of those countries are the determinants of FDI.

The key factors determining FDI are host country's market size, input costs, notably of natural resources and labour, and the riskiness of investment, both in terms of economic and political environment. Market size typically measures by host country's **gross domestic product** (GDP). Expected profitability will also be higher in host economies if input costs, particularly, labour, energy and raw material costs, are lower than in the home economy where the key factor is labour.

The indicators of economic and political risk comprises three main elements:

(a) macro-economic stability (e.g., growth, inflation, exchange rate)

(b) institutional stability such as policies towards FDI, tax regimes, the transparency of legal regulations, and the scale of corruption; and

(c) political stability, ranging from indicators of political freedom to measures of surveillance and renovations.

(i) ***Size and growth of host country's market*** ~ It is the most popular variable of determinants of FDI, to empirical research done.

(ii) ***Trade relations and FDI*** ~ The relationship between trade and direct investment is one of the main features of globalization. International trade generated direct investment. After this period, the cause-and effects relationship seems to have been reversed, with direct investment heavily influencing trade.

(iii) ***Import Protection*** ~ Policy-induced import substitution implies protection of local markets against foreign goods. If this protection is prohibited, foreign firms may be compelled to invest in that country in order to keep that market, depending on the size and growth prospect of that economy.

(iv) ***Currency valuation*** ~ Exchange rate effect is another factor that may influence the relation between trade and FDI. Firms from countries with harder currencies are able to borrow at lower rates of interest than firms harder currencies are able to borrow at lower rates of interest than firms from countries with weak currencies. As a result, FDI is likely to flow from the former into the latter depending on currency valuation.

(v) ***Labour costs*** ~ Exchange rate movements may affect FDI flows through their effect on production costs. Relatively lower wage costs had been one of the major causes of the export-oriented FDI in that country.

(vi) ***Political and Economic Instability*** ~ Third World economies offering markets and cost advantages may, nevertheless, be often unattractive for foreign investors. The aforementioned economic determinants of FDI may be overvalued if host countries are found politically and economically unstable. Political instability discourages to foreign investors.

(vii) ***Investment Climate*** ~ The investment climate needs to be improved in order to attract a great inflow of FDI. This would be achieved by unifying the dual exchange rate, formulating and spelling out long-term industrial policies and reviewing and revising some of the tax and telecommunication policies.

(viii) ***Infrastructure and FDI*** ~ The excellent infrastructure influence the inflow of FDI such as the excellence in port, transportation, communication, power supply and the like.

According to ***UNCTAD***, the host country's determinants of FDI are as follow:

Figure 1-1

Host Country Determinants of FDI

Policy Framework for FDI

- Economic , political and social stability
- Rules regarding entry and operations
- Standard of treatment of affiliates
- Policies on functioning and structure of markets(especially competition and M&A policies)
- International agreements on FDI
- Privatization policy
- Trade policy(tariffs &NTBs) and coherence of FDI and trade

Business Facilitation

- Investment promotion (including image building and investment –generating activities and investment –facilities services)
- Investment incentives
- hassle costs(related to corruption, administrative efficiency , etc) and social amenities (bilingual schools, quality of life , etc.,)

	Economic Determinants	
Marking –seeking FDI ⇒ market size and per capita income ⇒ market growth ⇒ access to regional and global markets ⇒ country-specific consumer preferences ⇒ structure of markets	Resource-seeking FDI ⇒ raw materials ⇒ low-cost unskilled labour ⇒ skilled labour ⇒ technological, innovatory and other created assets , including as embodied in individuals, firms and clusters ⇒ physical infrastructure(ports, roads, power telecommunication)	Efficiency –seeking FDI ⇒ costs of resources and assets listed under resource/ asset-seeking FDI, adjusted for productivity of labour resources ⇒ others inputs costs, e.g transport and communication costs to /from and within host economy and cost of other intermediate products ⇒ membership of a regional integration agreement conductive to the establishment of regional corporate networks

(1.4) **Types of Foreign Direct Investment**

FDI may be classified, according to ***Reuber,*** on the basis of perspective of a MNE's relationship with host nation and its regional economic development potential. To him, there are three categories:

(a) export-oriented FDI;

(b) market development-induced FDI; and

(c) government-initiated FDI.

(1.5) **The Impact of FDI on Host Countries**

FDI gives multiple effects to host countries in terms of employment, production, GDP, exports, imports, and economic growth. These effects may be positive or negative.

(1.5-1) **The Benefits of FDI to Host Countries**

FDI via TNCs offers host countries some opportunities to expand exports and move into higher value-added activities. There are three main sources of benefits resulting from FDI. They are

(i) resource-transfer effects,

(ii) employment effects, and

(iii) balance of payment effects.

(i) Resource-Transfer Effects

FDI flows as a positive contribution to a host economy by providing capital, technology, or management resource that would, otherwise, not be available. If these resources are scarce in the host country, the provision of these by FDI (through MNCs) may boost the economic growth rate of that country. Moreover, FDI is typically seen as a way of filling in gaps between the domestically available supplies of savings, foreign exchange, government revenue, and human capital skills and the desired level of these resources necessary to achieve growth and development targets.

Capital ~ Capital accumulation is a vital role in the process of economic growth. Inadequate investment (saving) is one of the barriers for a country's economic growth. This saving-investment gap can be filled by FDI. Therefore, the first and most often cited contribution of private foreign investment to national development (i.e, when this development is defined as in terms of GDP growth rates) is its role in filling the resource gap between targeted or desired investment and locally mobilized savings.

Moreover, the gap between targeted governmental tax revenue and locally raised taxes may be filled by FDI. By imposing tax on MNCs' profits and participating financially in their local operations, LDC's governments will be better able to mobilize public financial resources for development projects.

Technology ~ Technological progress plays a crucial role in economic growth. Technology is a catalyst that can stimulate economic development and industrialization. Technology can take two forms-one is in production process (e.g, the technology for discovering, extracting, and refining oil) and another one is in a product (e.g, personal computers, e-mail, fax,..). However, many countries are lack of research and development resources, and skills required to develop their own indigenous products and process technology.

This is particularly true to the world's less developed nations. Such countries extremely rely on advanced industrialized nations for much of the technology required to stimulate economic growth. It can be provided by FDI through MNCs. Therefore; foreign presence seems to have a significant positive impact on the rates of growth of local productivity. For example, U.S direct investment in plant and equipment on the manufacturing sectors in France, Germany, Japan and the U.K between 1968 and 1988, offers a positive effect on the growth of total factor productivity in host countries' manufacturing sectors. So technological gap can be filled by FDI.

Human Capital Skill ~ The gap in management, entrepreneurship, and skill can be partly or wholly filled by the local operations of private foreign firms. Not only do MNCs provide financial resources and new factories to poor countries, but they also supply a 'package' of needed resources including managerial experience, entrepreneurial abilities, and technological skills that can then be transferred to their local counterparts by means of training programmes and the process of learning and doing.

Moreover, MNCs can educate local managers about how to establish contact with overseas banks, locate alternative sources of supply, diversify market outlets, and become better acquainted with international marketing practices. In such case, FDI may be assumed that it offers particularly the spin-off effects. Beneficial spin-off effects arise when local personal who are trained to occupy managerial, financial, and technical posts in the subsidiary of a foreign MNE, subsequently leave the firm and help to establish indigenous firms.

To the extent of these, FDI may produce positive externalities. Knowledge spillovers for domestic enterprises in one of the positive externalities. The knowledge spillovers associated with FDI could be classified into two broad categories via intra-industry spillovers and inter-industry spillovers.

Intra-industry spillovers are absorbed by competitors of foreign entrants who are prompted to respond to new improved process or product technology, introduced by technology importing firms, by upgrading their technology. Another source of spillovers could be through the increased competition from foreign entry which forces local firms to become more efficient users of existing technologies or explore new technologies.

The another mechanism of diffusion of technology imported within the recipient economy is through generation of vertical inter-firm linkages. The vendors and customers of foreign firms may benefit from the knowledge brought in the course of their dealings with it. MNEs may demand higher specification, retooling and technological updating from their component vendors. In quite a few cases, they may actually be passing on new designs, drawings and specifications which may be significant sources of technology diffusion. The diffusion of knowledge through this channel could be particularly significant in the case of equipment manufacturers.

(ii) Employment Effects

The beneficial employment effects claimed for FDI is that FDI brings jobs to a host country which would otherwise not be created there. Employment effects are both direct effects as well as indirect effects. Direct effects arise when a foreign MNE directly employs a number of host country citizens. Indirect effects arise when jobs are created in local suppliers as a result of the investment and when jobs are created because of the increased spending in the local economy resulting from employees of MNE.

(iii) Balance of Payments Effects

The effect of FDI on a country's balance of payment accounts is an important policy issue for most host countries' governments. The contribution of FDI can fill the gap between targeted foreign-exchange requirements and these derived from net export earnings plus net public foreign aid. This is the so-called foreign-exchange or trade gap. An inflow of private foreign capital can not only alleviate part or all of the deficit on the balance of payments current account but can also function to remove that deficit over time if the foreign-owned enterprise can generate a net positive flow of export earnings. Such deficits usually result both from the importation of capital equipment and intermediate products (normally from an overseas affiliate and often at inflated prices) and the outflow of foreign exchange in the form of repatriated profits, management fees, royalty payments and interest on private loans.

(1.5-2) **The Costs of FDI to Host Countries**

Foreign direct investment (FDI) brings not only benefits but also costs to the host country. They may be summarized as follows:

(a) The most immediate externality of MNE entry on domestic enterprises in the industry, is negative as foreign entry erodes their market shares (their competitiveness). And foreign entry could affect domestic investment in the industry adversely. Besides, these MNCs may damage host economies by suppressing domestic entrepreneurship and using their superior knowledge, worldwide contacts, advertising skills, and range of essential support services to drive out local competitors.

MNE affiliates with their dowry of intangible assets such as internationally known as brand names, captive access to technology and reservoirs of technical, managerial and organizational skills, are likely to pursure non-price modes of rivalry to maximize the revenue productivity of these assets: With higher emphasis on product differentiation and other modes of non-price rivalry, their entry inhibits the emergence of small-scale local enterprises. MNCs are in a unique position to acquire some of the best and potentially most lucrative local businesses. They, thereby, can 'crowd out' local investors and appropriate the profits themselves.

(b) Although MNCs provide capital, they may lower domestic savings and investment rates by stifling competition through exclusive production agreements with host governments, failing to reinvest much of their profits, generating domestic incomes for groups with lower savings propensities, inhibiting the expansion of indigenous firms that might supply them with intermediate products by instead importing these goods from overseas affiliates, and imposing high interest costs on capital borrowed by host governments.

Although the initial impact of MNC investment is to improve the foreign-exchange position of the recipient nation, its long-run impact may be to reduce foreign-exchange earnings on both current and capital accounts. The current account may deteriorate as a result of substantial importation of intermediate products and capital goods, and the capital account may worsen because of the overseas repatriation of the profits, interest, royalties, management fees, and other funds.

(d) Although MNCs do contribute to public revenue in the form of corporate taxes, their contribution is considerably less than it should be as a result of liberal tax concessions, the practice of transfer pricing, excessive investment allowances, disguised public subsidies, and tariff protection provided by the host government.

(e) The management, entrepreneurial skills, ideas, technology, and overseas contacts provided by MNCs may have little impact on developing local sources of these scarce skills and resources and may in fact inhibit their development by stiffling the growth of indigenous entrepreneurship as a result of the MNCs' dominance of local markets.

(f) The impact of MNCs on development is uneven, and in many situations MNC activities reinforce dualistic economic structures and exacerbate income inequalities. They tend to promote the interests of a small number of local factory managers and relatively well-paid modern-sector workers against the interests of the rest by widening wage differentials. And they also tend to worsen the imbalance between rural and urban economic opportunities by locating primarily in urban export enclaves and contributing to the flow of rural-urban migration.

(g) Multinationals typically produce inappropriate products (those demanded by a small, rich minority of the local population), stimulate inappropriate consumption patterns through advertising and their monopolistic market power, and do this all with inappropriate (capital-intensive) technologies of production.

(h) As a result of No. (f & g), local resources are in misallocation. This in turn tends to aggravate the already sizeable inequality between rich and poor and the serious imbalance between urban and rural economic opportunities.

(i) Multinationals use their economic power to influence government policies in directions unfavorable to development. They are able to extract sizeable economic and political concessions in the form of excessive protection, tax rebates, investment allowances, and the cheap provision of factory sites and essential social services. As a result, the private profits of MNCs may exceed social benefits. Moreover, the government of host economy may face transfer pricing problem because a MNC can avoid much local taxation through transfer pricing. And host country also suffers from the harmful effect resulting from the siphoning off the R & D funds to the home country.

(j) At the political level, the fear is that powerful multinational corporations can gain control over the local assets and jobs and can then considerable influence on political decisions at all levels. In extreme cases, they may even, either directly or indirectly by contributions to 'friendly' political parties, subvert the very political process of host nations.

(1.6). FDI and the Environment

The most important one we must consider something about FDI is related to sustainable development .In recent debates on the environmental implication of FDI have often been highly polarized and polemical. "FDI and the environment"--- a phrase that has traditionally evoked one of two, opposite reaction: FDI is a *bane* of environmental protection given its direct uses of land and other natural resources, as well as the increased consumption it encourages; or FDI is a *boon* for environmental protection given the new resources it brings for improving efficiency, transferring knowledge and addressing existing pollution.[3]

Environmental degradation in host countries is a consequence of both production and consumption patterns within countries and of its export markets. Apart from regulations and corporate strategies, the environmental effect of FDI depends on a combination of macro and micro issues. At the macro level, the issues is the profile of FDI, i.e. the type of industry in which FDI takes place and, especially, the extent to which it involves pollution-intensive activities. At the macro level it is the specific decisions that TNCs make with regard to their management of production activities and the application and diffusion of environmentally sound technologies.

Even though FDI may confer benefits or costs, the governments of the LDCs try to attract FDI because FDI is a win-win situation. It benefits both the home country of the parent firm and the country receiving the investment. Exports from the home country to the receiving country increase as the foreign affiliate imports products and parts and components for further processing; trade follows investment, increasing the home country' balance of trade and, trade-related jobs. In addition, royalties, dividends, profits,

[3] . OECD (1999), " Foreign Direct Investment and the Environment", OECD proceedings, 1999, Paris, pg.21

and other payments flow from the foreign affiliate to the home country, benefiting the overall balance of payments. The host country receives capital and, often, technology transfer. The host country often exports finished or customized products, both goods and services, to third countries, increasing the balance of trade and trade –related jobs.[4]

Empirical studies shows that FDI has positive effects on economic growth when the education is higher than a given threshold. The contribution of FDI to economic growth comprises two effects. First, FDI increases the overall level of investment, attracting higher levels of domestic investment. This effect is not enhanced by the interaction with human capital. And second, FDI is more productive than domestic, a result that does depend on the interaction with human capital**.**[5] According to the research of Eduardo Borensztein, Jose De Gregorio, and Jong-Wha Lee (1995) that was the effect of FDI and domestic investment, namely, whether there is evidence that the inflow of foreign capital " crowds out"[6] domestic investment. In principle, this effect could have either sign: by competing in product and financial markets MNCs may displace domestic firms; in contrast, FDI may favor the expansion of domestic firms by complementarily in production or by increasing their productivity through advanced technology spillover effects. Indeed, This result show a crowding-in effect, that is, a one dollar increase in the net inflow of FDI is associated with an increase in total investment in the host economy of more than one dollar. The value of the point estimates place the total increase in investment at between 1.5 and 2.3 times the increase in the flow of FDI. Thus, in addition to its effect on technological progress, it appears that FDI contributes to economic growth by increasing total capital accumulation in the host country.

That is why almost all LDCs try to invite foreign capital and to import foreign technology, at the same time they are concerned about MNE domination of their

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[4] . Carl J. Green and Thomas L. Brewer (1995) , ed," Investment Issues in Asia and the Pacific Rim", Douglas C. Worth, " Market Access in the Asia Pacifica Region", Oceana publications Inc(1995) , pg.96

[5] . Eduardo Borensztein, Jose De Gregorio, and Jong-Wha Lee(1995), "How Does Foreign Direct Investment Affect Economic Growth?", NBER Working Paper No.5057, March 1995 , pg.19

[27]. crowding-out- a decrease in investment that results from government borrowing.

domestic industries. They aim to achieve more employment and high growth on one hand, but they also target autonomy of their industries and economy.

(1.7) The Impact of FDI on Developing Countries

FDI has emerged as the most important source of external resources inflows of developing countries over the 1990s and has become a significant part of capital formation in the country. FDI in developing countries has a long history. It has fluctuated over time as investors has responded to change in their environment for investment, including policies towards FDI and broader economic policy framework. FDI in developing countries has flowed mainly into manufacturing and processing industries. In the past, attractiveness has been closely linked to possession of natural resources or a large domestic market. With the shift toward globalized production and trade, competitiveness as a determinant of location for investment and export

production and trade, competitiveness as a determinant of location for investment and exporting has become important.

Recently the sources of FDI in developing countries have widened, and many developing countries have emerged as sources in their own right, particularly for their own regions. So, recent trend toward globalization of production and consumption patterns have led to a sharp increase in global FDI. At the same time, trade and investment liberalization has brought more developing country into the globalized economy. With the increasing interest in TNCs evident, wooing FDI has become a highly competitive game among developing countries because they accept that FDI did contribute to the process of growth and development. So many of the Third World nations have come to view the TNCs as means of production to speed up technological progress.

Incentives have been an important element in the FDI strategies of some developing countries as well, especially, those are successful in attracting export-oriented FDI. These countries often adopted a targeted approach in attracting FDI. Some developing countries offer incentives only for the production and export of non-traditional goods, to encourage a shift towards new industrial activities. The challenge for developing countries wishing to use incentives, as part of their strategies to promote FDI is to weigh carefully the benefits and costs involved. Subsidies should not be used as an isolated measure to attract export-oriented FDI. To compensate for major deficiencies, offering incentives may not always be a wise strategy as it increases the risk of public funds being spent on projects that do not offer the externalities needed to warrant the incentives in the first place. Without efforts to improve the business environment, to make it more conducive to invest and to upgrade the production of existing foreign affiliates as well as to embed FDI into the local economy through linkages, the risk increases that investors will leave as soon as the incentives expire. Furthermore, it should be noticed that the openness of the economy is important as well.

Nevertheless, there are many advantages and disadvantages following the flow of FDI. Foreign entrant may generate demand for intermediate goods and may crowd-in domestic investment to deliver it. It may also help to diffuse new skills and knowledge brought in the host economy. As observed earlier, FDI inflows are generally accompanied by a bunch of valuable resources such as technology, organizational capability, managerial skills, and marketing know-how. One of the contributions TNCs can make host economies in developing world is to enhance their export competitiveness. TNCs play an important role in the export operations of many developing countries and economies in transition. In deed, for the most dynamic products in world trade, TNCs are central for enabling these countries to reach world markets and they provide some of the missing elements that developing countries need to upgrade their competitiveness in export markets.

On the other hand, depending on TNCs for all improvements in export competitiveness brings its own risks for host countries. In the developing countries, in particular the more populous ones, unemployment continues to be a serious problem. Yet FDI through TNCs cannot give an absolute satisfactory solution for this employment problem because their technology followed by FDI is so high and cannot be absorbed by local employees of recipient country. This crowding out effect may be sharper when the technology gap between foreign and domestic firms is very wide to be bridged. So it should not be ignored that over-dependence on TNCs for export competitiveness has its own drawback.

The nature of the relationship between FDI and domestic investment is an important factor on growth. The poorest countries need to pursue alternative strategies for getting the process of their development going rather than waiting for MNE investment. In order to stimulate the process of their industrialization and development, incentives and policy liberalization should be used. However, it would be better by focusing on improving infrastructure, human resources, developing local entrepreneurship, creating a stable macroeconomic framework and conducive conditions for productive investments to kick-start the process development.

The effects of FDI on development often depend on the initial conditions prevailing in the recipient countries, on the investment strategies of TNCs and on host government policies. Governments, therefore, should not be passive. The contribution that FDI makes development can be enhanced by policies that do not remain confined to the mere liberalization of FDI regimes and the granting of local protection and guarantees to foreign investors. There exists a wide array of policies that can be used to stimulate greater learning, innovation and the linkage effects as well as to promote trade and employment gains. Government action needs to aim at fostering, channeling and complementing FDI.

It is clear that the effect of FDI on domestic investments and growth depends on the nature or quality of FDI. Certain types of FDI tend to have more favorable developmental externalities than others. Host countries need to pay attention to the quality FDI inflows besides attracting greater magnitudes of FDI. Governments have employed various measures to improve the overall quality of FDI inflows. These include selective policies to target more desirable FDI inflows. The effectiveness of any given policy depends on the specific economic, historical, geographical, cultural and political context.

The continuous need for countries to move up the value-added ladder and improve the attractiveness of their locational advantages is a challenging task for policy-makers in developing countries. It calls for more sophisticated and comprehensive policy approaches that take into account changes in corporate strategies and international rule-making. It is important to know the human factors (particularly behind the success stories, the mental attitudes in the farming of policies and their implementation), the approaches of domestic and foreign investors, the human skills at the floor-level and the like. History is made by men in given social conditions. Nevertheless, the rhythm is not always the same.

No general assessment can be made regarding whether the benefits outweigh the costs. Each country's situation and each firm's investment must be examined in light of these various considerations __ a judgment about the desirability of the investment can be clearly positive in some instances and negative in others. Although there are costs of FDI on host countries such as adverse effects on competition, balance of payment, and national sovereignty; transfer pricing problem; and deterioration in terms of trade, the developing countries are still trying to attract more FDI and instituting policies that will improve the ratio of benefits to cost connected with a foreign capital flow.

Chapter - II

Foreign Direct Investment in Myanmar

In this present global economy, interdependence among nations has increased and inevitably foreign direct investment has become a driving force of the economic globalization process. However, in the 1960s and 1970s, most of the developing countries (including Myanmar) had been reluctant to accept the foreign direct investment (FDI) and adopted a self reliant and self-oriented policy. But since early 1970s, the ASEAN countries have created favorable economic environment so as to welcome FDI and ***official development assistance*** (ODA). With the success of ASEAN economies, many third World Countries including Myanmar, have come to view FDI as the main source of capital and modern technology. Governments also expect that FDI will provide skills, organizational and management practices and access to foreign market.

Myanmar with a population of about 50 millions and a total land area of over 676,000 sq kilometers, is the largest country on the main land of Southeast Asia. She is rich in natural and human resources as well as in cultural and natural heritage. On the historical background, economic performance just prior to 1988 was poor. In the early 1980s, GDP growth was markedly slow while external and internal imbalances worsened. As a share of GDP, the GDP deficit between 1981-82 and 1985-86 averaged over 8%, while the current account deficit rose to over three quarters of export earnings, and was financed primarily through public sectors borrowings. These imbalances forced the government of that time to take actions aimed at stabilizing the economy. However, the stabilization efforts did not succeed, and during 1987/88 and 1988/89 annual inflation averaged almost 20% compared to 4% in 1981/82_1985/86. Moreover, both the budget deficit and the current account gap widened while export earnings fell sharply.

The former government of Myanmar tried to get economic development in its own way. The government removed restrictions on trade in major crops in 1987. More substantial reforms followed. After the ***State Law and Order Restoration Council*** (SLORC) had taken over in September 1988 as a self-declared caretaker government. In November, the ***Foreign Direct Investment Law*** was introduced together with the removal of restrictions on private sector participation in domestic and foreign trade. However, a market-oriented economic policy was officially adopted only in March 1989 when the 1965 law of Establishment of Socialist Economic System was revoked.

The economic reforms which were introduced in response to deteriorating economic conditions since the mid-1980s, aimed at opening up the economy to provoke FDI and to promote exports, in other words, to increase international trade; encouraging the development of the private and co-operative sectors; and evolving a market-oriented economic structure. Hence, laws, orders, rules, regulations and notifications which have prohibited or restricted private sector participation in economic activities such as export and import business, were repeated. In addition, so as to strengthen the institutional framework for building up the market economic system, new legal measures including most significantly the ***Union of Myanmar Foreign Investment Law*** and the ***State-Owned Economic Enterprises Law,*** were promulgated and new legal instruments were instituted.

The basic economic reform undertaken by SLORC (Now called ***State Peace and Development Council-*** SPDC) had four main objectives:

(i) development of agriculture as the base and alll round development of sectors of the economy as well;

(ii) proper evolution of the market-oriented economic system;

(iii) development of economy inviting participation in terms of technical know-how and investments from sources inside the economy and abroad; and

(iv) the initiative to shape the national economy must be kept in the hands of the state and the national people.

As a result of these reform measures, participation of the private sector in the economy (in terms of value-added contribution to GDP) increased from 68.6% to 75.4% in 1997/98. Partly as a result of the reform measures and partly because of the incentives provided in the programme, the decline in the economy was arrested and it began to recover. GDP growth rebounded after the economic collapse of the pre-SLORC period.

Much attention has been paid to the increasingly substantial inflows of FDI into Myanmar since the country opened its doors to overseas investors in late 1988. In addition to bringing capital in the form of cash, such FDI has also introduced new technology, training and skills, business and management acumen, as well as various other inputs that Myanmar undoubtedly requires to be developed. However, as a result of the regional financial crisis, the inflow of FDI has slowed down since 1997. To the extent that, to date both domestic savings and investment levels in Myanmar have been far lower that what the government would wish.

(2.1) Salient Features of the Reforms in Myanmar

As mentioned earlier, before the assumption of the state power by SLORC in the late 1988, the economy was in an extreme bad shape. And then SLORC initiated the open-door programme of economic reforms in the late 1988. The reform programme was intended to transform the economy from one managed along socialist lines and dominated by the state sector to a market-oriented system. The initial measures focused on liberalizing regulations and enacting fiscal incentives for foreign investment. Therefore, a series of structural and institutional reforms, facilitating laws and regulations as well as notifications and guidelines that would help materialize the above main objectives were set up. Designed to effect smooth transition to the market-oriented system within a legal framework, annual and four year plans were drawn and implemented. The salient reform measures taken are:

1. decentralizing central control,
2. encouraging private sector development,
3. abolishing price controls and reducing subsidies,
4. allowing foreign direct investment,
5. initiating institutional changes,
6. initiating the new financial management system,
7. streamlining taxes and duties,
8. export promotion through overhaul of export and import procedures,
9. export diversification and export expansion in especially semi-processed and processed or manufactured goods,
10. improving the infrastructure,
11. restructuring wages and prices,
12. allowing farmers to cultivate crops of their choice and to process, transport and trade freely.
13. allowing state enterprises, co-operative societies, joint ventures and private entrepreneurs to claim and utilize fallow and wasteland which are able to cultivate up to 5,000 acres for the enhancement of agriculture, livestock and fishery production.

(2.2) Foreign Direct Investment Law in Myanmar

Prior to 1988, our country, Myanmar adopted closed door policy and she had so poor performance with regard to domestic resource mobilization. Because of these, Myanmar lagged behind the more successful Asian countries. In order to get the desirable economic development in our country, it is necessary to change the system in so many fields. Resulting from the necessities, the ***State Law and Order Restoration Council*** (SLORC) strived to transform the economy from one managed along socialist lines and dominated by the state sector to a market-oriented economic system after 26-years closed door policy.

The basic ingredient of development, or the most fundamental factor for economic growth, is investment. As for Myanmar, the domestic saving for investment is not adequate. That is why, the government has to try to search external factors in order to fill the investment gap. One of the factors that can fill this gap is foreign direct investment (FDI) which can introduce new technology, managerial skills, new product, etc.

The government therefore, enacted the "***Union of Myanmar Foreign Direct Investment Law***" by the late of 1988 (on 30th November, 1988). By doing so, the government hopes that it will be able to exploit the abundant resources of the country which can cater to the needs of the nation; to export whatever surplus available; to create new employment (i.e to reduce unemployment rate) as the economic activities expand so that especially young people would have great opportunities and previleges of learning on-job-training as well as technical training both inland and abroad; and to achieve economic and social development of various regions of the state along with expansion and improvement of transport and communication.

(2.2_1) The Objectives of Foreign Direct Investment Law

Foreign Direct Investment Law in Myanmar aims at-

(a) promotion and expansion of exports;

(b) exploitation of natural resources which requires heavy investment;

(c) acquisition of high technology;

(d) supporting and assisting production and services involving capital;

(e) opening up of more employment opportunities;

(f) development of works which would save energy consumption; and

(g) regional development

(2.2_2) **The Myanmar Investment Commission**

In order to oversee and administer the "***Foreign Investment Law***" (FIL), the "Myanmar Investment commission" (MIC) was formed. It is an initial approving authority for foreign investment proposal.

(2.2_3) **Duties and Powers of the Commission**

The duties and powers of the commission are as follow:

(i) to accept the proposal, promoting the interests of the state and not prejudicing to any existing law

(ii) to scrutinize a proposal under the consideration of financial credibility, economic justification of the business enterprise and appropriateness of technology

(iii) to issue a permit to a promoter on a proposal being accepted

(iv) to allow the submission of an enterprise in case an extension, relaxation or amendment of the term of the permit or agreement if it may deem appropriate

(v) to take necessary and prompt action in respect of complaints made by investors on failure to receive fully, benefits entitled to under this law

(vi) to report its performance to the Government from time to time

(vii) to recommend to the Government measures necessary to facilitate and promote foreign investment

(viii) It can form such committees and bodies for the purpose of carrying out the provisions of this law as may be necessary

(ix) It can demand such evidence or facts from a promoter or an investor at any time as it may deem necessary

(x) It can prescribe the bank which shall transact financial matters under this law.

(2.3) Procedures Relating to Foreign Investment Law

The Government of the Union of Myanmar prescribed the following procedures:

(2.3_1) Formation of MIC

The Commission was formed with the following persons:

(a)	Deputy Prime Minister	Chairman
(b)	Deputy Prime Minister	Vice-Chairman
(c)	Minister, Ministry of Industry No.1	Member
(d)	Minister, Ministry of Forest	Member
(e)	Minister, Ministry of Agriculture	Member
(f)	Minister, Ministry of Hotels and Tourism	Member
(g)	Minister, Ministry of Trade	Member
(h)	Minister, Ministry of Mines	Member
(i)	Minister, Ministry of Transport	Member
(j)	Minister, Ministry of Livestock, Breeding and Fisheries	Member
(k)	Minister, Ministry of Energy	Member
(l)	Minister, Ministry of Industry No.2	Member
(m)	Minister, Ministry of Finance and Revenue	Member
(n)	Minister, Ministry of Co-operatives	Member
(o)	Minister, The Prime Minister's Office	Member
(p)	Minister, Ministry of National Planning and Economic	

	Development	Secretary
(q)	A person assigned responsibility by the Chairman	Joint-Secretary

The office work of the Commission is under-taken by the Ministry of National Planning and Economic Development.

(2.3_2) **Procedures Followed by a Promoter or a Foreign Enterprise**

(a) A promoter has to submit the following proposal (Form-1, shown in Appendix-A)

(b) An economic organization under a permission has to make insurance with the Myamma Corporation for machinery, fire, marine and personal accident and if so desired, it is able to make insurance for contractors' all risks, erection all risks, electronic equipment and other insurance accepted by the corporation.

Moreover, the details for insurance shall be worked out in consultation with the Myanma Insurance Corporation.

(c) The organization must allow its personnel to enjoy, at least, the workmen's rights contained in the existing laws of the state.

(d) It is able to fix the salary and wage rates, to determine the payment in kyat(Myanmar currency) or foreign currency after consultation and to terminate the services of its personnel.

(e) It has to make arrangements for local and foreign training so as to ensure its local personal proficiency in their work and promotion to higher ranks of services.

(f) It has to transfer foreign currency entitled to be transferred abroad through the Myanma Foreign Trade Bank.

(g) It has to open a foreign currency account and a kyat account in the Myanma Foreign Trade Bank for the purpose of carrying out financial transactions and so also to the foreigners servicing in any such economic organizations.

(h) Moreover, it must allow the Bank to scrutinize on the basic principles to deduct the living expenses of the foreign personnel and his family.

(2.3_3) **The Procedures Followed by MIC**

The Commission has _

(a) to publish a list for types of allowable economic activities with the prior approval of the Government and to reply the enquiries of this matter;

(b) to scrutinize the proposal in financial credibility in order to conform with all the rules and regulations in the Foreign Direct Investment law;

(c) to scrutinize the investment enterprise according to economic justification;

(d) to form necessary technical bodies in order to ensure that the proposed technology is appropriate;

(e) to scrutinize application containing the proposal and the draft contract after obtaining the opinion of departments or organizations concerned;

(f) to issue the permit in the attached Form-2, shown in Appendix-B if the proposals approved or accepted;

(g) to allow the termination of business before the expiry of its term if the submission of their inability is correct and justified under the consideration of prescribed statements;

(h) to define the type, number, and term of the required foreign experts and technicians according to the individual business organization and obtain the opinion of the Ministry of Labour if it is necessary, in the case of permitting the appointment of personnel;

(i) to evaluate and register foreign capital as in stated particulars;

(j) to register the type of re-invested foreign capital in terms of kyat and in any type of foreign currency acceptable to Myanma Foreign Trade Bank; and

(k) to hold the meetings in accordance with stated prescription.

(2.4) Types of Allowable Economic Activities

In order to provide more specific guidance to the foreign investors, a notification listing the types of economic activities allowed for foreign investment has been issued. However, if a foreign investor is interested in an activity not specified in the notification or an activity defined in the ***State Owned Enterprise Law*** (1989), he may applied to the MIC, stating his interest and reasons as to why and how the activity to be undertaken. If the commission believes his activity will be beneficial to the state's interest, it may approve the application. According to the MIC, postal and telecommunication services, broadcasting and television services, manufacturing of products relating to security and defense are not opened to foreign investors.

(2.5) Forms of Organization

According to the foreign Investment law, foreign investment activities can be undertaken either in the form of a wholly-owned or a joint-venture with any Myanmar partner, either an individual, a private company, a co-operative society or a state-owned enterprise. Under section-V of the foreign investment law, a foreign investor can organize his activity in Myanmar in the following manner.

1. Wholly-owned by the Foreign Investor

   An individual foreign investor can establish his business as a sole proprietorship by bringing in 100% foreign capital. Similarly, a partnership firm or a limited company that is incorporated outside Myanmar can do business as foreign branch by bringing in the total capital required by such a branch.

2. Joint-Venture Business

A foreign investor can enter into a partnership with his local counterpart or set up a limited liability company with shares held by local investors. He can also join with any individual firm, company, co-operative or state-owned enterprise of Myanmar to establish a joint-venture either as partnership firm or a limited company. In such of all, the foreign capital to be brought in must be at the minimum 35% of total equity capital. If the incorporation of the joint-ventures does not involve the interest of the state, it will be regulated under the ***Myanmar Companies Act*** (1914). If there is state interest in the joint ventures, then the incorporation shall have to be regulated under the ***Special Companies Act***(1950). If the company is incorporated under the Special Company Act, exemptions from compliance with some of the provisions of the ***Myanmar Companies Act*** can be requested. Corporate income taxes are levied on both foreign and local companies incorporated under ***Myanmar Companies Act*** at the rate of 30% on income.

(2.6) Evaluation and Registration in Minimum Amount of Foreign Capital

Foreign capital which can be brought into Myanmar, consists of

(a) any acceptable foreign currency to Myanma foreign trade Bank;

(b) property actually required for the enterprise and the property such as machinery, equipment, machinery components, spare parts and instruments which is not available within the state;

(c) rights which can be evaluated such as licenses, trade marks and property rights;

(d) technical know-how; and

(e) re-investment out of benefits accrued to the enterprise from the above or out of share of profits.

The minimum amount of foreign capital required has been notified by MIC based on the activity and estimated annual expenditure in Myanmar_ US $ 500,000 for manufacturing and US $ 300, 000 for services.

(2.7) **Privileges of F D I**

As Foreign Investment Law aimed at bringing in more foreign capital into the country, it offers investment incentives and guarantees to foreign investors. A foreign investor who invests and operates under this Law, therefore, has the right to enjoy economic benefits in the form of tax exemption or relief, incentives and guarantees, better more.

The privileges to a foreign investor under this law are as follow:

(1) The right to enjoy a tax holiday period of three consecutive years inclusive of the year the enterprise commence its commercial operation; exemption or relief from income tax for a further reasonable period depending upon its success where it is beneficial for the state.

(2) A provision that if profits are retained in a reserve fund and re-invested within one year, income tax on those profits will be exempted.

(3) The right to accelerate depreciation in respect of machinery, equipment, building or other capital assets used in the business at the rate fixed by the commission from the assessable income.

(4) Relief from income-tax up to 50% on the profits accrued from the export produced by any enterprise.

(5) The right to pay income tax on behalf of foreigners employed in the enterprise and the right to deduct such payment from the assessable income.

(6) The right to pay income tax on the income ot the foreign employees at the rates of applicable to citizens residing within the country.

(7) The right to deduct research and development expenses carried out in Myanmar from the assessable income.

(8) The right to carry forward and set-off up to 3-consecutive years from the year the loss is sustained in respect of such loss sustained within 2-years immediately following the employment of exemption or relief from income-tax.

(9) Exemption or relief from customs duty or other internal taxes or both on imports such as machinery, equipment, instruments, machinery components, spare parts and materials which are actually required for use during the construction phase.

(10) Exemption or relief from customs duty or other internal taxes or both on imported raw materials for the first 3-years commercial production after the construction phase.

(11) Lifting the commercial tax levied on the supply of export-oriented commodities based upon application; and relief of commercial tax on locally distributed commodities based upon case by case.

(12) Guarantee that no enterprise shall be nationalized during the term of contract or during the extended term.

(13) Guarantee that the foreign currency in investment bank made by foreign investor will be given on the expiry of the term of contract.

(14) Guarantee for the repatriations of the profits of the foreign investors and savings of the foreign employees.

(15) The right to lease the land (up to 30 years) and other immovable properties at reasonable rates either from the Government or from the citizens; and to make expansion on case by case basic.

(16) the right to hire local workers and foreign technicians without any restriction; and to engage foreign personnel if necessary.

(2.8) **Current Situation of FDI in Myanmar**

Myanmar is a very rich country in natural resources. Moreover, it is a country of large agricultural potential (with about 50 million in population) and also an agro-based country. These existing situations are a form of attractions to the inflow of foreign direct investment. In addition, the acquisition of cheaper labour for foreign enterprises is one of the most important determinants of the inflow of FDI.

(2.8-1) **Foreign Direct Investment in Myanmar by Sector**

The types of investment are mostly resource development form and these are in capital-intensive investment. In accordance with my learning period, investment in "***crude oil and natural gas exploration and extraction***" is the largest share of FDI (just over 30 percent of total foreign direct investment). In this sector, forms of ownership are production-sharing basis arrangement.

Table (2.1)

Foreign Investment of Permitted Enterprises

As of (31-1-2003) (by Sector)

(US $ in million)

Sr. No.	Sector	Total Permitted Enterprises No.	Approved Amount	Percentage
1.	Oil & Gas	56	2403.17	32.18
2.	Manufacturing	149	1591.19	21.31
3.	Hotel & Tourism	43	1059.66	14.19
4.	Real Estate Development	18	1025.14	13.73
5.	Mining	52	526.74	7.05
6.	Livestock & Fisheries	21	289.47	3.88
7.	Transport & Communication	14	283.27	3.79
8.	Industrial Estate	3	193.11	2.59
9.	Construction	2	37.77	0.50
10.	Agriculture	4	34.35	0.46
11.	Other Services	6	23.69	0.32
	Total	368	7467.59	100.00

Source : Myanmar Investment Commission

"***Manufacturing***" sector holds 20 percent of FDI and it is the second most FDI absorbent sector. In this sector, there are the production of products such as cigarette, beer, ready-made garment like Daewoo, knitwear, wooden products, iron rod, aluzinc roofing sheet, plastic pipe, machinery and spare parts of rice mill, agricultural machinery equipment, cement, television, radio, cassette, refrigerator and jewelry for focal sale and exports. However, some are processing industries.

The third sector is "***Hotel and Tourism***" holding nearly 15 percent of total FDI. Traders, Sedona, Hotel Nikko and the like whose investment is through FDI are famous in Myanmar. "***Real Estate Development***" sector is the fourth significant role in terms of value with over 10 percent. ***Mining*** sector is the fifth under 10 percent.

The shares of "***Livestock & Fisheries***" ,"***Transport & Communication***" and "***Industrial Estate***" sectors are under 5 percent and the shares of "***Construction***", "***Agriculture***" and "***Other Services***" sectors are under 1 percent respectively.

(2.8_2) **FDI in Myanmar by Country Origin**

According to the approved amount, the total foreign investment will be US $ 7467.56 million. Singapore, one of the ASEAN countries, stands first for approximately (22 percent of total foreign investment). Singapore is followed by U.K and Thailand, which are accounted for just over 18 percent and 17 percent respectively. The United Kingdom is the most investor countries from Western countries. Investment from the United Kingdom, United States of America and France are mostly in "oil and gas" sector (in other words, natural resource exploration and extraction) while investment from Singapore and Thailand (one of the ASEAN countries and a neighbouring country of Myanmar) are concentrated in "Hotel and Tourism", "Real Estate Development," "Industrial Estate," and "Manufacturing" sectors.

Table (2.2)

Foreign Investment of Permitted Enterprises As of (31.1.2003)

(by Country Origin)

(US $ in Million)

Sr.No	Country	Total No.	Permitted Enterprises Approved Amount
1	Australia	14	82.08
2	Austria	2	72.50
3	Bangladesh	2	2.96
4	Canada	16	59.78
5	China	13	64.15
6	Cyprus	1	5.25
7	Denmark	1	13.37
8	France	3	470.37
9	Germany	1	15.00
10	Hong Kong	28	149.84
11	India	1	4.50
12	Indonesia	12	241.50
13	Israel	1	2.40
14	Japan	23	212.57
15	Macau	2	4.40
16	Malaysia	32	642.50
17	Panama	1	29.10
18	Philippine	2	146.67
19	Republic of Korea	32	156.41
20	Singapore	72	1572.73
21	Srilanka	1	1.00
22	Switzerland	1	3.38
23	Thailand	49	1290.20

24	The Netherlands	5	238.83
25	U.K	37	1404.01
26	U.S.A	16	582.06
	Total	368	7467.56

Source: Myanmar Investment Commission

(2.8_3) **The Inflow of FDI to Myanmar**

Table (2.3)

FDI in Myanmar (Yearly Changes)

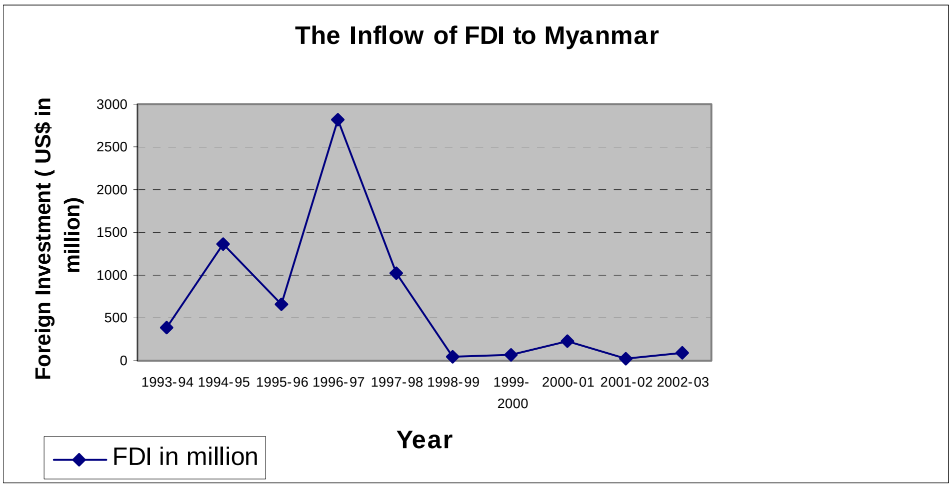
(US $ in million)

Fiscal Year	No.of Enterprises	Foreign Investment
1993-94	27	377.184
1994-95	36	1352.295
1995-96	39	668.166
1996-97	78	2814.245
1997-98	56	1012.917
1998-99	10	54.396
1999-2000	14	58.150
2000-01	28	217.688
2001-02	7	19.002
2002-03	9	86.948

Source: Myanmar Investment Commission

Note: 2002-03 Fiscal year ends in February.

Figure (2.1)



According to the data, the inflow of FDI is very fluctuated year after year. Besides, FDI declines sharply and clearly. However, in accordance with "***World Investment Report***" (WIR-2001), Myanmar is neither the lowest one of FDI inflows nor the much inflows among countries. But compared with Vietnam, inflows of FDI in Vietnam is almost 10-times more than Myanmar's even though two countries are almost the same in natural and human resources.

Box 2.1. Salient features of FDI among developing countries and regions.

South, East, and South-east Asia:

the share of developing countries in the total FDI outflows from this region has increased from three-fifths in 1987 to about nine-tenths in 1997.On the stock basis, more than fourth-fifths of FDI from this region is in developing countries, with more than 90 per cent of it being invested in same region.

FDI among ASEAN member states is fairly significant: 28 per cent of total outflows from Malaysia and 38 per cent from Thailand went to other ASEAN member states in 1997 (UNCTAD, FDI/ TNC database). IN the case of Singapore, 72 per cent of its total outflows were invested in other ASEAN member states in 1997.

More than half of FDI flows into relatively newly opened countries in Asia such as Cambodia, Lao people 's Democratic Republic, Myanmar and Vietnam are from other developing Asian countries (UNCTAD, forthcoming b) [a]

The majority of FDI flows into China is also from other developing Asian economies(especially economies with large numbers of overseas Chinese residents – Hong Kong (China), Singapore and Taiwan Province of China).

TNCs from the Republic of Korea and Taiwan have sizable investments in many countries in the world. However, while FDI directed to developing countries from the former economy is mainly in South, East and Southeast Asia. FDI within the region from the latter economy is smaller (about one third of total FDI), comparable to its FDI in Latin America and

Source: UN (1999), " *World Investment Report 1999- Foreign Direct Investment and Challenge of development*", United Nation, New York and Geneva, 1999, Pg 25

(2.9) Comparative Study of FDI in Some ASEAN Countries: Thailand & Vietnam

(2.9-1)**FDI in Thailand**

Thailand is an open economy which has received significant amounts of foreign direct investment (FDI). Since 1960, Thailand has started industrialization under the conditions of shortages in capital, technology, and skilled manpower. FDI is therefore necessary for country's industrialization. To lure FDI, Thailand offered several incentives to foreign investors.

In the 1960s and 1970s, FDI flows were mostly channeled into import-competing industries, but in the 1980s following the Thai government's policy of promoting manufactured exports, more export-oriented industries were induced to the country. In the late 1980s, after the realignment of major world currencies and rapid appreciation of the Japanese Yen, FDI inflows to Thailand increased sharply. Much of these inflows had been channeled to intermediate and capital goods industries such as electrical appliances and electronic parts and components. FDI has therefore contributed to the rapid increase in manufactured exports and also to the deepening of industrial structure in Thailand.

Thailand is among the ASEAN countries which receive a significant amount of FDI. Net FDI inflows to Thailand in 1999 accounted for 0.7% of world FDI flows. During 1985-95, the net FDI flows was US $ 1.4 billion. In the 1990s, FDI inflows to Thailand continued to be substantial although the net inflows slowed down in the first half of the decade. Another surge in FDI occurred after the onset of economic crisis in 1997. The sharp increase in FDI inflows in baht (Thai Currency)terms in recent years was partly reflected as the result of currency depreciation. Some major commercial banks and finance companies have recapitalized and sold a substantial part of their shares to foreign investors, hence there were large FDI inflows into the financial sector after the crisis. FDI inflows have been declining much since 1988 although the net flows are still larger than the pre-crises year.

According to the data from Bank of Thailand, FDI has been spread out in many economic sectors including finance, manufacturing, trade, construction, services and real estate. Among the manufacturing industries, electrical appliances, machinery and transport equipment, and chemicals are major industries with substantial FDI. Much of the FDI in manufacturing has been made in industries covered by the Board of Investment (BOI) promotion program. BOI is the main agency to provide incentives to foreign investors.

In terms of investing country, Japan has been the most important one. It accounted for 50.5% of total foreign investment valued approved in 2000. 35.84% of Japanese investment was in electrical and electronic sector and 26.29% was in chemicals and paper. Other important foreign investing countries are the United States, the EU, Taiwan and the ASEAN Countries (Singapore, and Malaysia, Mainly).

In 2000, there were 761 foreign investment projects approved by the BOI with the total investment value of 212,649 million bath(Thai currency). Among these, 380 projects were 100% foreign-owned, and the rest of 381 projects were joint-ventures. Of the amount of investment approved by the BOI in 2000, 33.7% was in electronic and electrical products, 25.6% was in chemicals and paper and 12.3% was in metal and machinery. In 2000, 46.11% of total investment approved were located in Zone-3 with 313 projects and 98,125.5 million baht value. Zone-3 is the 61 provinces far way from the concentrated Bangkok and metropolis areas plus Laem Chabang Industrial Estates in the Eastern seaboard.

(2.9-2) **FDI in Vietnam**

The VIth Congress of the Vietnamese Communist Party made a turning-point decision in the country's development strategy to build a market-oriented economy under the state control. As part of foreign economic relations activities, FDI was put high on the agenda. As domestic capital raising possibilities are limited, FDI constitutes an important part to the Vietnamese economy.

On December 29, 1987, at its second session, the VIth National Assembly passed the "Law on Foreign Direct Investment" in Vietnam which was a landmark in the development of Vietnam's foreign economic relations. The major goal of Vietnam's FDI policy is to attract capital, advanced technology, and management skills in order to effectively develop the country's potential, increase savings, improve people's living standard and realize the cause of modernization and industrialization.

The FDI sector covered 10.5% of Gross Domestic Products in 1999 compared with 3.6% in 1993. FDI now accounts for nearly 30% of country's investment, 21% of export turnover and creates 300,000 direct jobs. Up to April 2000, Ho Chi Minh City kept the largest share of FDI with the registered capital amounting to US $ 9.7 billion, followed by Hanoi with over US $ 8.1 billion. So far, 7 cities and provinces have had foreign investment of more than US $ 1 billion namely Ho Chi Minh City, Hanoi, Dong Nai, Binh Duong, Hai Phong, Quang Ngai, and Ba Ria Vung Tau.

FDI sector currently accounts for nearly 35% of the industrial output and has considerably contributed to the high growth of industrial production, more than 10 % since 1990. FDI has also helped establish the system of Export Processing Zones and Industrial Estates. Important sectors of the economy like telecommunications, oil and gas, and tourism are growing rapidly with substantial contribution of the FDI sector. In recent years, FDI inflow to Vietnam was on the downward trend. The volume of FDI was US $ 1,780.0 million. In 2000, it declined to US $ 1,289 million. The decline of FDI was partly due to the impact of the 1997-98 regional financial crisis. In fact of this slowdown, the

Government is well aware of the need to reform investment environment to create more favorable conditions for foreign investors. So, the revised Law on Foreign Investment in Vietnam was approved the Xth National Assembly last May.

(2.10) **The Inflows of FDI to Myanmar, Thailand and Vietnam**

Table (2.3)

FDI in Myanmar, Thailand and Vietnam (1995-2000)

(US $ Million)

Host Country	1995	1996	1997	1998	1999	2000
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Myanmar	317.6	580.7	878.8	683.6	304.2	203.4
Thailand	2,004.0	2,270.6	3,628.8	7,433.6	6,149.8	3,280.2
Vietnam	1,780.0	1,803.0	2,587.0	1,700.0	1,483.9	1,289.0

Source: ASEAN Secretariat: ASEAN FDI Database (Balance of Payment Basis)

Notes: (1) These figures comprise of equity and loans.

(2) Myanmar's figures are in fiscal year which ends in March of the following calendar year.

According to the above data, we can see it is clearly that the inflow of FDI to Myanmar in very low compared with Thailand and Vietnam. And FDI in Thailand declined after 1998, however, FDI in Myanmar started to decline since 1997, Especially, though Myanmar and Vietnam started the reform at almost same time and same pace in 1988 and 1986, FDI in Myanmar is clearly and relatively low compared with Vietnam. The followings will be the possible reasons for the low level of FDI in Myanmar compared with Thailand and Vietnam.

(a) ***Political Stability*** ~ It is an important factor for foreign investors in order to invest in developing countries. Without sound political stability, sound macroeconomic stability can not be created. Undeveloped laws and systems are also restricted the inflows of FDI to Myanmar.

(b) ***Improvement of Infrastructure*** ~ The Government has been implementing so many projects in order to improve infrastructure and achieving limited success. But, it is relatively low compared with Thailand and Vietnam. Especially, the first biggest problem in business operation is shortage of electric power.

(c) ***Human Resource Development*** ~ Good-quality human resources in Myanmar is available at relatively low wages and the literacy rate is also high. Nevertheless, it is relatively low.

(d) ***Risk on Exchange Rate*** ~ Economic instability, inflation, and depreciation of the value of local currency and the existence of dual exchange rate are the barriers of FDI's inflows. So the risk is likely to be higher than in Thailand and Vietnam. In order to avoid the problems caused by the dual exchange rates, the special economic zone should be established and in which settlements should be conducted in foreign currency. If the dual exchange rate problem can be alleviated, the amount of FDI will be likely to be higher than the present situation.

(e) ***Incentives System ~*** The incentives system that can benefit to both parties (host country and foreign investors)is likely to weak in Myanmar.

(f) ***Market Prospect*** ~ It is likely to be necessary the consumers who have the knowledge to consume higher-quality products. Thus, market size is relatively small to Thiland and Vietnam.

(g) ***International Banking System*** **~** In Myanmar, it is undeveloped in International Banking System resulting from the low capability of financial institutions and insufficient knowledge on capital markets. Moreover, the Bank crisis in 2002-03 is an additional barrier for the inflow of FDI.

In addition to these, "One Stop-Service System" in Vietnam and Thailand is more preferable to invest than in Myanmar. The declining amount of FDI in Myanmar is partly because of Asian currency crisis and partly because of the United States' sanction on Myanmar. Thus, the problem may not only be the decline of the approval, but also the possibility that approved investments may not be implemented.

The following tables are the difficulties in Myanmar faced by foreign investors according to "Study Group on the Myanmar Economy", "Institute of Fiscal and Monetary Policy", "Ministry of Finance, Japan" (June, 1999).

Table (2.4)

Problems of Investment Environment

	(%)
The dual exchange rates	71.3
The lack of infrastructure for transportation and distribution	60.4
The political situation	50.5
The ban, in principle, on ODA from Japan	43.6
Insufficient information on Myanmar	43.6
Undeveloped laws and systems	25.7
Shortage of electric power	21.8
The lack of infrastructure or communication	14.9
Complicated administrative procedures	12.9
Shortage of office buildings and industrial parks	10.9

Shortage of local professional and technical experts	9.9
Price increase	4.0
Undeveloped water and sewage facilities	3.0
Shortage of housing	3.0
Language problems	3.0
Shortage of health and medical facilities and schools	1.0
Other	7.8

Source: Questionnaire by the Federation of Economic Organization (conducted in 1995)

Notes: The questionnaire was sent out to 193 Japanese corporations, and 102 corporations responded. (52.8% response ratio)

The question was "What are obstacles for proceeding with your business transactions?"

Table (2.5)

Constraints and Obstacles in Running Firms by Private Manufacturers

(Corporation)

Priority	1	2	3	Total
Shortage of electric power	165	95	82	342
Difficulties in financing	105	46	54	205
Shortage of raw materials and spare parts	76	67	39	182
Competition with other companies in the same industry	21	53	62	136
Shortage of technical know-how	20	56	54	130
Aging machinery or equipment	23	51	52	126
Shortage of skilled labour force	14	32	30	76
Recession o your industry	17	10	10	37
Lack of transport facilities	4	8	10	22
Shortage of labour force as a whole	1	7	9	17
Lack of sales network	1	4	7	12
Others 0	6	11	17	

Source: Overseas Economic Cooperation Fund, "Questionnaire on Conditions of the Private Manufacturing Industry and Fund-raising (conducted in March 1996)

Notes: (1) The survey covered 525 private manufactures in and around Yangon.

(2) The above was complied by responses from 467 manufacturers, who replied that they had constraints or obstacles in running their firms.

Chapter - III

The Outcomes of FDI in Myanmar and Its Prospects

(3.1) The Impact of FDI in Myanmar

We can see the impact of foreign direct investment flows in Myanmar in various forms. Some may be favorable and some may be unfavorable.

(3.1-1) Job Opportunities and Employment Creation

After changing the economic system, 17.95 million out of 21.95 million total labour forces employed. Employment condition is increasing owing to the booming in private sector and foreign affiliate firms, however, there is still remained unemployment problem.

According to the Lewis' model in dual economy if the industrial sector is upgraded over time in transition period, surplus labour from informal sector (agricultural sector) will move towards industrial sector. By this way, unemployment problem will be solved automatically. But practically, the industry sector in Myanmar has been merely improving. Besides if it is well-improved, these surplus labour cannot be absorbed by industry sector because of the very different natures of these two sectors. A worker cannot work in farming process and so also a farmer cannot work well in an industry. Besides, Myanmar is an agricultural and agro-based country. So, it is mainly dependent on agriculture. It is important for export operation as well as food consumption. And then potential labour force stands for agriculture. Agriculture sector, the government hopes, to be made further extension in order to get agro-based development. That is why, the government attracts FDI. However, manufacturing sector cannot absorb the surplus labour from informal sector because of their different natures and agriculture sector cannot settle the unemployment problem as a result of very little amount of FDI in agriculture.

The projects they invest need especially low skill -level workers and they bring foreign experts and technicians required for their projects. Therefore, local educated persons find the suitable jobs hardly. Besides, as for the low level workers, foreign presence does not create job opportunities and employment because foreign affiliates take capital-intensive technology (labour-saving technology) Myanmar needs especially labour-intensive technology in order to solve unemployment.

According to the data through labour office, though employment increases in urban area, it merely increases in rural area because FDI are mostly in cities and very little in remote area. Even in the boom year of FDI (1996/97), the job opportunities and employment creation did not increase clearly. Following the Asian financial crisis, the inflow of FDI sharply decreases. However, the trend of job opportunities and employment creation increases but fluctuates. So, magnificent job opportunities and employment creation cannot occur in the country. The increase in FDI cannot distinctly reduce unemployment rate though job opportunities and employment creation increase slightly as a result of the increase in FDI.

Table (3.1)

Employment through Labour Offices

Fiscal Year	Yangon					Other Townships				
	No. of registered	vacancies notified	No. of submissions made for vacancies	Persons placed	Registered live & pending at the end of period ($)	No. of registered	vacancies notified	No. of submissions made for vacancies	Persons placed	Registered live & pending at the end of period($)
1993-94	78419	7383	16781	6463	325725	102445	51779	33713	22273	191712
1994-95	90672	12991	23789	10812	345481	116749	30169	3662	26316	203434
1995-96	134082	17288	30063	15146	398985	114383	34391	41557	25879	196432
1996-97	140834	14510	27037	12506	464078	109840	34365	40591	28811	204312
1997-98	142070	17105	21736	16657	208643	99564	27473	31144	23000	205494
1998-99	170969	16100	20547	14255	260611	102559	37688	34251	27594	163862
1999-00	204880	19149	22790	16187	260796	115892	34987	36779	29694	162251
2000-01	23480	36552	34824	34382	174911	137006	22926	27129	22528	184262
2001-02	229353	29797	24102	24596	215673	136579	26645	33356	27239	176923
2002-03 (Aprl-Feb)	216704	27689	24923	26024	276347	112249	28697	30562	29939	165843

Source: Selected Monthly Indicators (March/April 1999- Jan/Feb 2003)- Note: (1) 16 Labour offices in Yangon City and 63 in other parts of the country, (2) 2002-03 fiscal year ends in February.

(3.1-2) **Technology Transfer and Diffusion**

Myanmar currently ranks 118 out of 162 countries in the United Nations Development Programme (Human Development Report, 2001), slightly above two of the Least Developed Countries_ Cambodia and Laos. Even Myanmar belongs to the list of medium human development countries, her situation is eighth of the above low human development line while Vietnam stands 101 out of 162 countries in 1999.

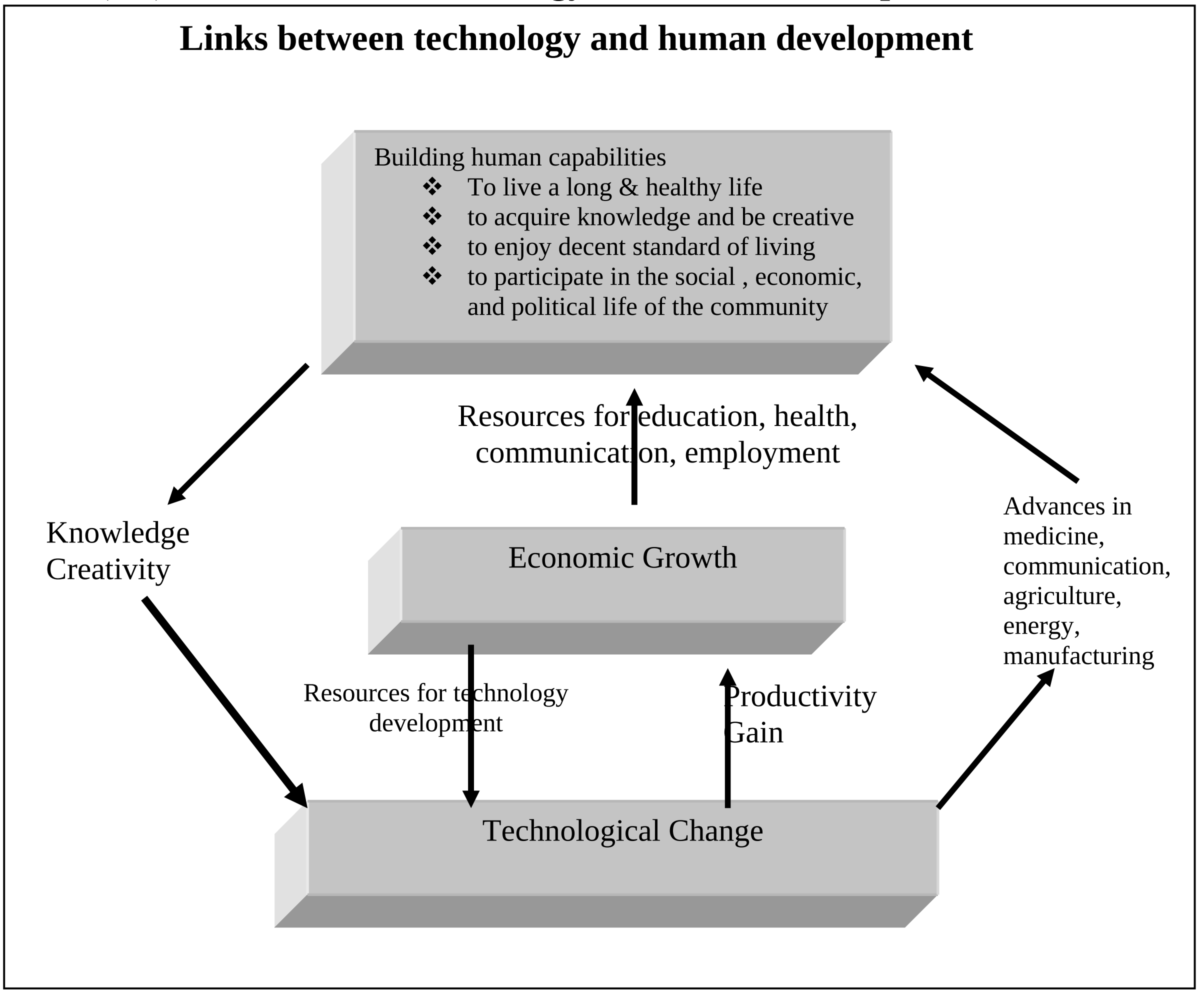
Table. (3-2): Human Development Index Trends

	1970	1980	1990	1992	1994	1997	1998	1999
Myanmar	0.318	0.356	n.a	0.457	0.475	0.580	0.585	0.551
Rank	n.a	n.a	n.a	132	131	128	125	118
Vietnam	n.a	n.a	0.604	0.539	0.557	0.664	0.671	0.682
Rank	n.a	n.a	n.a	120	121	110	108	101

Sources: UNDP, " *Human Development Report various issues*"

Myanmar is on the way of technological innovation line but not satisfactory situation in trend. Technological innovation is an expression of human potential. Human development is also an important means to technology development, and technological innovation is an expression of human potential. (See Box 3.1)

Box (3.1). Links between technology and human development



Source: UNDP, " *Human Development Report 2001- Making New Technologies Work for Human Development* ". Pg 28

Investment for human resources development was also prominent in all models of East Asian success. East Asian educational enrolment variables were said to be already high in the 1960's compared to international norms. But then, educational achievements were found to be also high in some of the least successful markets economies and a well as in Latin America and east European countries. Thus it would seem the quality and the right mixes of educated people rather than pure quantity is the important factor in educational attainment.[7]

There is a positive impact of FDI on the growth of total factor productivity in host countries' manufacturing sector. So, the government of Myanmar gives incentives and privileges and removes or reduces restrictions and regulations to foreign investors. This is a way of that government has been searching for FDI, aiming at receiving technology. FDI through MNCs brings the ability of mastering the technicalities of industrial norms and safety standards. These are very important for a product in the world market,. The ability to produce the export-quality product is one of the channels to development.

However, foreign presence forces local firms to become more productive in sectors where best practice technology lies within their capability, but there is no significant transfer of technology. Furthermore, there is no significant effect of foreign presence on the rate of productivity growth of local firms. Besides most of the FDI in Myanmar are in manufacturing sector, but in light industries for instance, garment, hotel and tourism. These firms are the firms that do not need advanced technology. Even if the firms need advanced technology such as the projects of extracting the natural resources-like oil & gas production, mining, they bring foreign experts and technicians. They retain monopoly power over their technology. This gives the conclusion that technology does not transfer and diffuse significantly as the government wishes.

(3.2) The location of Foreign Investment Enterprises

Myanmar is formed with seven Divisions and seven States. Though we can say that most of the Divisions are likely to develop, most of the States are less developed. In other words, in urban area, it is likely to developed but in rural area, it is not developed at all. In order to get appropriate development of the country, it is necessary to develop in all areas of the county. So as to get balanced development, the government has been trying to attract FDI because it is likely to believe that FDI can motivate the growth of the region by the presence of foreign affiliates.

[7] . . Myat Thein, " Union of Myanmar 's Strategy for development" . Research Paper Myanmar ,1996

Nevertheless, FDI in Myanmar are mostly in the capital of the country (Yangon), in the second capital (Mandalay), and other cities of the Divisions and States. In remote area and coastal region, they invest in the exploration and extraction of natural resources. But, they will terminate their enterprises when these natural resources worn out. Thus, sustainable and balanced development as government hopes cannot be obtained only through FDI. Therefore, we can say that FDI helps for development, but it cannot be said that FDI can materialize the goal of the country (the development of Myanmar).

(3.3) **The Effects of FDI on Balance of Payment**

FDI affects on balance of payment of Myanmar. We can see that FDI is a new item that flows towards Myanmar after 1989. Actual amount of FDI is one-third of permitted amount by Myanmar Investment Commission-MIC. In 1996/97 and 1997/98, FDI rose to $ 2814 million and $1012 million. This is the booming period of FDI. After these years, the inflow of FDI declines obviously.

The effects of FDI on balance of payment depend on the aim of the project and nature of their activities and conditions. In the initial stage of the project, the current account of balance of payment may deteriorate as a result of substantial importation of intermediate products and capital goods. For example, the projects of extracting oil and gas and mining, are necessary to import so many heavy machineries and equipments. In the long-run, the capital account in balance of payment may also worsen because of the overseas repatriation of profits, interest, royalties, management fees, and other funds. However, in the future, we can hope that export-oriented industries can make positive effect on trade balance if they can run their operations effectively.

Even in the booming period of FDI, balance of payment account worsened and the amount of deficit was k-445.2 million in 1996/97. After this year, it showed the surplus in balance of payment, k-320.1 million in 1997/98 and k-344.4 million in 1998/99. After these years, while the inflow of FDI is decreasing, the condition of balance of payment is worsening till now.

(3.4) **The Effects of FDI on Export**

Exporting is the main source of foreign exchange earning operation. Foreign exchange earnings provokes the development of the country, the ingredients for the development process can be obtained by using foreign exchange. Moreover, Myanmar is a developing country and so export-quality product cannot be produced well. And there is lack of information about the product, consumer preference in world market which can be carried out by foreign affiliates. For these reasons, the government has been persuading the FDI so as to export to the world market more and more.

In accordance with the data during the period between 1993/2003 (Feb), Myanmar can promote its exports. In 1993/ 94, Myanmar can export the value of k-4227.8 million. In the boom years of FDI (1996/97 and 1997/98), the value of export is k-3577.3 million and k-4791.5 million respectively. After this years, export value is increasing slowly and steadily. In 2002 (April)-2003(Feb), the amount of export increases to k-18603.6 million. The production increases in both government and private sectors, especially in private sector. We can see that although FDI declines after 1997, export value rises. So, FDI does not play the significant role in export operation.

Table(3-3): Export of the Country

(Kyat in Million)

Fiscal Year	Total Value	Government value	Private Value
1993-94	4227.8	2128.1	2099.7
1994-95	5405.2	2950.3	2454.9
1995-96	5043.8	2364.1	2679.7
1996-97	5487.7	1910.4	3577.3
1997-98	6446.8	1655.3	4791.5
1998-99	6755.8	2102.7	4653.1
1999-2000	8947.3	2026.1	6921.2
2000-01	12736.0	3775.7	8960.3
2001-02	17130.7	8172.7	8958.0
2002-03	18603.6	8544.8	10058.8

Source: Statistical Year Book 1998-2002

Selected Monthly Indicators (Jan-Feb 2003)

Note: 2002-2003 Fiscal year ends in February

(3.5) Prospects for Foreign Direct Investment

Myanmar provides a rich venue for investment with her vest forest, river system with broad delta, a long coastline, mountain ranges, cultivable plains and highlands on geographical surfaces. Myanmar's natural resources here are still unexploited as the area of investment had been mostly in the primary sector. So, the government should invite further FDI depending on the country's natural and human resource endowments. More specifically, the following sectors can be expected for a good prospect.

(i) Agriculture

Myanmar possesses a large land area in the Southeast Asia region. She still has a vast potential land resources for cultivation and for further expansion of the cultivable land. Of the total area of 67.6 million hectares, only about 26.8 million acres (10.854 million hectares) is under cultivation. There is also a great potential for further expansion of mixed and multiple cropping areas, especially in lower Myanmar. In Upper Myanmar, especially, in the dry belt zone, cultivation is done with water drawn from networks of irrigation facilities. There still exists a great room for further extension of irrigation facilities as the potentialities have so far been exploited only to a small extent. Total cultivated area under irrigation accounts for just over 19 percent of net area sown (26.8 milln-acres). Moreover, there is no foreign project in this sector at the present time. So, the government should attract foreign direct investment in order to modernize this sector.

(ii) Livestock & fisheries

The livestock and fishery sector is one of the productive sector with a vast potential for further expansion and for export. Myanmar has a long coastline, 2832 kilometers in all. The continental shelf covers 228,781 sq-kilometers and Myanma's exclusive economic zone is 486,000 sq-kilometers wide.For the development of cattle industry, vast pasture land with suitable climate are available in different regions. In Myanmar, fisheries can be classified into fresh water fisheries and marine water fisheries. Fresh water fisheries are mainly of the nature of flood made possible through vast river systems and heavy rainfall. There are also leasable fisheries which cover a vast area. Fish culture operations are at the same time undertaken extensively in ponds, lakes and reservoirs. A person desiring to carry out fishery in the form of joint venture under the Foreign Direct Investment Law shall also have to apply for license to the Department of Fisheries. Fishing grounds shall be determined as required in Myanmar Marine Fisheries Waters beyond the baseline by the said department.

(iii) Forestry

Myanmar is indeed very rich in forest resources as the forest covers about 50.87 percent of the total land area. There are over 8570 different plant species, including 2300 tree species, 850 kinds of orchid, 97 varieties of bamboo and 32 different types of cane. In 2002/2003 (provisional), totaled reserved forest area is 57920 sq-miles. Without any reservation, these forest resources will be soon depleted. So, high sustainable yield should be more strictly kept through efficient forest conservation. Moreover, forest products should be exported after the high value-added processing.

(iv) Mining

Myanmar is well endowed with mineral resources and has many famous mines. To explore, develop and exploit the mineral resources of the country and to make partnership in bilateral co-operation, the Ministry of Mines is welcoming the foreign investors who are interested to invest in joint ventures with Economic Enterprises under the Ministry. However, these mineral resources are not renewable during a certain period. In order to replace, we have to wait so many millenniums. The misdirection of irreplaceable natural resources will occur economic loss. This direct economic loss is not likely to be counter-balanced by the indirect economic benefits claimed for the expansion of the sector. So, the government should administer correctly and efficiently the activities of the enterprises in this sector.

(v) Manufacturing

Most of the factories have ample capacity left for the foreign investors to take advantage in this sector. Some of these factories need renovation and modernization to enhance their production capacity to the maximum level.

Foreign investors are welcomed to submit proposals for activities under the Foreign Investment Law, either as joint ventures or wholly- owned foreign enterprises. They can also make manufacturing contracts with these factories by providing raw materials and spare parts and taking back the finished products after payment of processing charges in foreign currency. Foreign investors can also cooperate on a buy-back system, where they need to supply the machinery and equipment for the new factories or the existing factories on a deferred payment basis and the cost of the machinery and equipment would be paid back in such quantity of finished goods annually at mutually agreed price.

(vi) Tourism

For the development of Hotel and Tourism Industry and for foreign exchange earnings, Myanmar Hotel and Tourism law has been enacted in October 1993 with a view to provide security and satisfaction of tourists. The Hotel and Tourism Board of Authority has also been formed to lay down policy guidelines and for the systematic operation of Hotel and Tourism Industry.. Myanmar is a country with so attractive and natural scenic beauty. Myanmar has also interesting historical places. These are gifts of the God. Moreover, since Myanmar is gifted with not only abundant tourism resources as well as hospitality of the people in general, tourism has great potentiality to grow. It is desirable to promote because it will help acquire foreign exchange in a relatively short period of time. So, government should invite more foreign direct investment for this sector by delivering the information about Myanma panorama through various channels.

Chapter - IV

Conclusion

Key Findings

The recent increase in FDI does not necessarily imply that Myanmar's business environment is highly desirable for foreign investment. Myanmar still has shortcomings as an investment destination, including an insufficient financial system, lack of transparency in implementation. In development process, Myanmar is still lagged behind the other Asian countries, especially Vietnam and very near from Cambodia and Laos although Myanmar and Vietnam started the reform at the almost same time and same pace in 1988 and 1986. Nowadays Vietnam is a potential Asian Tiger and Myanmar is one of the Asian least developed countries. The State ***Law and Order Restoration Council -*** SLORC (now called ***State Peace and Development Council -*** SPDC) initiated the open-door programme of economic reforms in late 1988. These reforms aimed at expanding the role the private sector. In this manner, the reform programme was intended to transform the economy from one managed along socialist line and dominated by the state sector to a market-oriented system. The measures focused on liberalizing regulations and enacting fiscal incentives for foreign investment. In spite of trying to get economic development through FDI, the government fails till now.

Although "foreign direct investment-FDI" through MNCs brings the ingredients of development, it does not bring them significantly into Myanmar. Moreover, FDI is being promoted from the past over ten years ago and the structure of the demand for capital is clearly changing in favour of the private sector since the adoption of the market-oriented policy in late 1988, however, the progress of foreign direct investment in Myanmar has been relatively low, compared to other countries, especially Vietnam. There are so many reasons for these.

As you know, Myanmar is an agricultural and agro-based country. Our country is mainly dependent on the agricultural sector because our staple food is from agriculture. One of the reasons of inviting participation in terms of technical know-how and investment from abroad is to develop well in agriculture. Over my learning period, main source of export earnings totally depend on agricultural sector. Nevertheless it is quite notable that no significant increase of FDI in this sector. So, this sector does not develop as the government hopes. Myanmar still lags behind in modern agricultural production. Technological change is also important for productivity gains and economic growth. But FDI does not help in this process.

In Myanmar, most of the manufacturing enterprises of FDI are light industries such as garment that do not need to use high technology. And even if there is a requirement for the experts and technicians in a project, MNCs bring them together. Technology diffusion does not occur apparently as we desire. So, Myanmar should have to emphasize on not only manufacturing but also trying to get high technology. Moreover, their investment is mostly in natural resource exploration and extraction. Much of FDI is likely to lead our natural resources to be worn out rapidly. Thus, however the government induces FDI through incentives, FDI will go back immediately when the natural resources worn out. Besides, FDI are mostly in urban area and very scarce in rural area except the projects of natural resource exploration and extraction. Therefore, balanced regional development cannot be get only through FDI.

Following the learning period, FDI does not give the net positive benefit; if even so, it may be a little. And we cannot say the FDI plays effectively in development process. In order to attract FDI, the government set privatization policy, incentives, and so forth. But FDI inflow is still likely to be low. So, we cannot say ***Myanmar Foreign Direct Investment Law*** is so successful.

One of the main barriers of the inflow of FDI is the *lack of infrastructure development* in Myanmar, compared to other countries. Infrastructure improvement may be better than fiscal incentives. The government has been improving the infrastructure with emphasis, especially on transportation and communication. The major traffic infrastructure projects including roads, construction of grand-scale bridges, new railroads, and seaport and international airports, have been implementing. In addition, communication (no. telephones, fax, e-mail, internet) has been improving. Using Internet is more easier than others. Nevertheless, there is still requirement.

Electricity is also important infrastructure for the operations of all sectors but the development of electric power sector is overdue. Electricity supply is less than the electricity consumption in Myanmar. Insufficient electricity supply is a great obstacle to the operations of private corporations of both foreign and domestic. However, if the present endeavors of electric power generation projects have been achieved, I guess, it will produce sufficient amount for the country. The government should have been implementing the hydro power generation projects till the amount that can be exported because our country enriches in water resource.

Next obstacle of foreign direct investment is *the requirement of financial intermediations*. Their functions should be emphasized as soon as possible. The central Bank of Myanmar, on behalf of government, has issued three year and five year government treasury bonds since 1993. This is expected to set the preparation of open market operation and establishment of a bond market. But, capital market is not well developed in Myanmar till the present time. It is obvious that financial liberalization creates a conducive environment for the mobilization of financial resources. However, the experiences of other ASEAN countries show that conversation and the lack of continual monitoring and adjustment could lead to financial turmoil, which in turn will drag the country into the crisis. The level of employment is related to the strength and quality of infrastructure. Therefore, the existing infrastructure requires to be well-maintained and additions should be made to roads, communications, electricity generation and the like.

One of the obstacles is that *the official exchange rate and the market rate exist in parallel*. The gap between these two rates is so wide. The government has been trying to solve this dual exchange rate problem. So, the Foreign Exchange Certificate-FEC was introduced in 1993. But the official rate has been failed to devalue yet. The depreciation of the kyat reflects inflationary concerns and perpetual doubts about the country's balance of payment position. In short, unless the macroeconomic environment is sound and an appropriate exchange rate policy is pursued, all efforts to stimulate domestic savings cannot be successful.

The technological gap between the investing country and the host country, Myanmar, is one of the barriers of FDI inflow. In Myanmar, MNCs can employ unskilled and semiskilled labours but not employ skilled labour. So, the government should train its citizens to be skillful. To overcome these blocks, it also should to stress on education which can diminish this distance. I think an educated person is likely to be easier to cope with technological changes. The higher the level of education, the more easier to be bridged this gap.

The last obstacle may be the existence of bureaucratic governmental offices. If a company or a MNC is likely to establish or wants to make a project, it has to present about the detail concerns to so many officials. Besides, it will wait for a long time in order to get a permission. So, the active MNCs have been reluctant to invest in the country. So the government should notice that point.

The role of FDI has become more important from time to time, especially for developing countries with low saving rate, low investment rate and inefficient use of their natural resources by primitive way. There are shortages of skilled personnel, inadequate resources, poor communication strategies, and inadequate feedback mechanism and such barriers are a critical bottleneck to the use of biotechnology for the sake of development. Normally, FDI gives the welfare to the country. However, many observations suggest that though all countries must find ways to deal with the risk of technological change, developing countries face several specific challenges via MNCs(FDI) that can add to the costs, increase the risk and reduce their ability to handle change safety.

In conclusion, the political, economic and social problems of today's, is much less than tomorrow's, world. The policy-makers should notice that the cost of adjustment must be considered in relation to the cost of non-adjustment. Foreign lending and FDI cannot be the sole providers of investment capital. And over-dependence on TNCs for export competitiveness and the country's development, has its own drawback. Policy makers also need a good understanding of the corporate strategies, driving export decisions and to adjust policies to changing strategies. Without economic fundamentals, a well- functioning market mechanism, and healthy financial institutions, hasty capital account liberalization and very high technology bringing by FDI, may be hazardous to the natural economy. So, policy makers should aim at consistency in all policy actions, and ensure that all affected parties and institutions are ready to cope with any potential or expected policy changes before a new policy is implemented liberalization should be undertaken gradually in order to minimize chances of errors or crisis.

We have the colossal potential of culture, education, science, natural and human resources in our country. So with all this creative energy at our command, we can push away the roadblocks that have slowed down our economy and reduced productivity. The government should nurture and promote youngster generation's faith in themselves and ideas; and entrepreneurial and managerial skill; and should create new jobs, new wealth and opportunities for all. The government should try to promote our country to become a good host country for the inflow of FDI. At the same time it should also recognize that the nation's economic development cannot be hold only through FDI. Progress should be no longer inch forward. We have every right to dream heroic dreams. In these pages of next years, I hope to be able to see renewed momentum.

(Appendix - A)

Form (1)

Proposal of the Promoter to make Foreign Investment in the Union of Myanmar

To

The Chairman
The Union of Myanmar Foreign Investment Commission,
Yangon,
The Union of Myanmar

Reference No.
Date.

I wish to make investment in the Union of Myanmar in accordance with the Union of Myanmar Foreign Investment Law, and I herewith apply for permission furnishing the following particulars: _

1. Prometer's __
   (a) Name ....
   (b) Father's name ....
   (c) National registration No...
   (d) Citizenship ....
   (e) Address..
   (f) Name of principal organization................................
   (g) Type of business ....
   (h) Place of organization ....
   (i) Place of incorporation ....

2. If investment is to be made by joint-venture, the particulars of the persons wishing to participate in the joint-venture with the promoter__
   (a) Name ....
   (b) Father's name ....
   (c) National registration No...
   (d) Citizenship ....
   (e) Address..
   (f) Name of principal organization................................
   (g) Type of business ....
   (h) Place of organization ....
   (i) Place of incorporation ....

3. Type of business in which investment is to be made _
   (a) Production ....

(b) Services ....

(to indicate name of goods or type of services)

4. Form of economic organization _

(a) Sole Proprietorship ....

(b) Partnership ....

(c) Limited Company ....

(to enclose the list of the name, citizenship, address and designation of the excutives of the organization, indicating the local and foreign capital ratio)

5. If the organization is in the form of a partnership __

(a) Capital ratio and amount to be ....
contributed by the partners

(b) Profit sharing ratio ....

(c) Right and liabilities of partners ....

6. If the organization is in the form of a limited company _

(a) Authorized capital ....

(b) Types of shares ....

(c) Share capital to be subscribed ....
by the shareholders ....

7. Particulars relating to the organization in which investment is to be made _

(a) Amount of capital _ Kyat

(1) Amount of local capital to be contributed ....

(2) Amount of foreign capital to be brought in ....

Total -

(b) Amount of foreign capital to be brought in _ Kyat

(1) Foreign currency ....

(2) Others ....

Total -

(c) Period for bringing in items mentioned in ....
sub-paragraph (b)

(d) Proposed duation of investment ....

(e) Construction period ....

(f) Commencement of consruction ....

8. Particulars relating to the proposed economic organization _

(a) Type of business ....

(to indicate production/ services etc.)

(b) Porposed place(s) at which investment is ....

to be made

(c) Technique of operation ....

(d) Annual fuel requirement ....

(to indicate type/ quantity)

(e) Annual electricity requirement ....

(f) Annual water requirement ....

(to indicate daily requirement, if any)

(g) Annual equipment/ raw materials requirement ....

(to enclose a list of type/ quantity/ value)

(h) Building requirement ....

(i) Type of land and area requirement ....

(j) Goods to be produced/ services to be rendered ....

(to indicate name, type, annual estimated quantity

and value of the goods and services)

(k) System of sales ....

9. Details of foreign capital to be brought in _

	Foreign Currency	Estimated kyat Equivalent
(a)Foreign currency (type and amount)	....	....
(b)Value of machineries, equipment etc. (to enclose detail statement)	....	....
(c) Value of raw materials and other similar materials	....	....
(d)Value of rights which can be evaluated such as licence, trade mark, patent rights	....	....
(e)Value of technical know-how	....	....

Total -

10. Details of local capital to be contributed _ Kyat

(a) Amount of cash ....

(b) Value of machineries and equipment ....
(to enclose detail statement)

(c) Buildings/ land ....

(d) Value of furniture and office equipment ....
(to enclose detail statement)

(e) Value of raw materials ....
(to enclose detail statement)

Total -

11. Particulars relating to annual production/ services _

Foreign

Estimated kyat

Currency

Equivalent

(a) Type and value of foreign exchanged required ....

(b) Amount of foreign exchange to be received ....

(c) Amount of working capital requirement in kyat ....

(d) Value of exportable goods/ services ....

(e) Value of annual local sale of goods/services ....

12. List of personnel required for the proposed economic organization _

(a) Local personel required _

Serial No. Type of personal Number

....

(b) Foreign experts and technicians required _

Serial No.	Type of expertise	Number	Porposed period of employment
....	....	....	....

13. Particulars related to economic justifications_

		Estimated kyat Equivalent	Foreign currency
(a)	Annual income	....	....
(b)	Annual expenditure	....	....
(c)	Annual net profit	....	....
(d)	Yearly investment	....	....
(e)	Recoupment period	....	....
(f)	Other benefits (to enclose detail calculations)	....	....
(g)	To mention prospects of new employment opportunities/ local and foreign market conditions/ foreign exchange savings	....	....

14. Supporting documents for the porposal _

The following documents are attached for the proposed investment:_

(a) Draft contract;

(b) References for business and financial standing;

(c) Drafts of Memorandum of Association and Article's of Association.

Signature ....

Name ....

Designation ....

(Appendix - B)

Form (2)

The Union of Myanmar Foreign Investment Commission

PERMIT

Permit No........................ Date ....

The Union of Myanmar Foreign Investment Commission issues this Permit under Section 10 of the Union of Myanmar Foreign Investment Law.

(a) Name of Promoter ....

(b) Citizenship ....

(c) Address ....

(d) Name and address of principal organization ....

(e) Place of incorporation ....

(f) Type of business in which investment is to be made ....

(g) Place (s) at which investment is permitted ....

(h) Amount of foreign capital ....

(i) Period for bringing in foreign capital ....

(j) Total amount of capital (kyat) ....

(k) Permitted duration of investment ....

(l) Name of the economic organization to be formed in Myanmar ....

Chairman

The Union of Myanmar Foreign Investment Commission

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