

# Chapter 8

## Investment Climate under Economic Integration the Case of Myanmar

**Moe Kyaw**

Myanmar Marketing Research and Development, Ltd.

March 2009

**This chapter should be cited as**

Kyaw, M. (2009), 'Investment Climate under Economic Integration the Case of Myanmar', in Kuchiki, A. and S. Uchikawa (eds.), *Research on Development Strategies for CLMV Countries*. ERIA Research Project Report 2008-5, pp.191-216. Jakarta: ERIA.

## **Chapter 8**

# **INVESTMENT CLIMATE UNDER ECONOMIC INTEGRATION THE CASE OF MYANMAR**

*Moe Kyaw*

### **Abstract**

The results of the survey shows Myanmar's high inflation and application of a multi-exchange rate system have adverse impact on its macroeconomic stability. Moreover, shortage of power supply restrains businesses to operate at full capacity and this leads to low productivity. Changes in regulations have reduced the investment opportunity. By collaborating with the business community in planning and by adopting a basic law, the government can provide investors with a consistent law which may help raise investor confidence.

## **1. Objectives of Investment Climate Study**

The objectives of the Investment Climate Questionnaire Survey of the ERIA project are:

- (1) to recommend policy measures for CLMV to attract foreign direct investment and to participate in production networks in East Asia;
- (2) to recommend policy measures to effectively utilize economic corridors and special economic zones; and
- (3) to recommend appropriate timing and sequential policy measures to develop industrial clusters.

The questionnaire surveys are assumed to be one of the effective research methods for making policy suggestions based on empirical analyses and comparative studies.

## **2. Research Methodology**

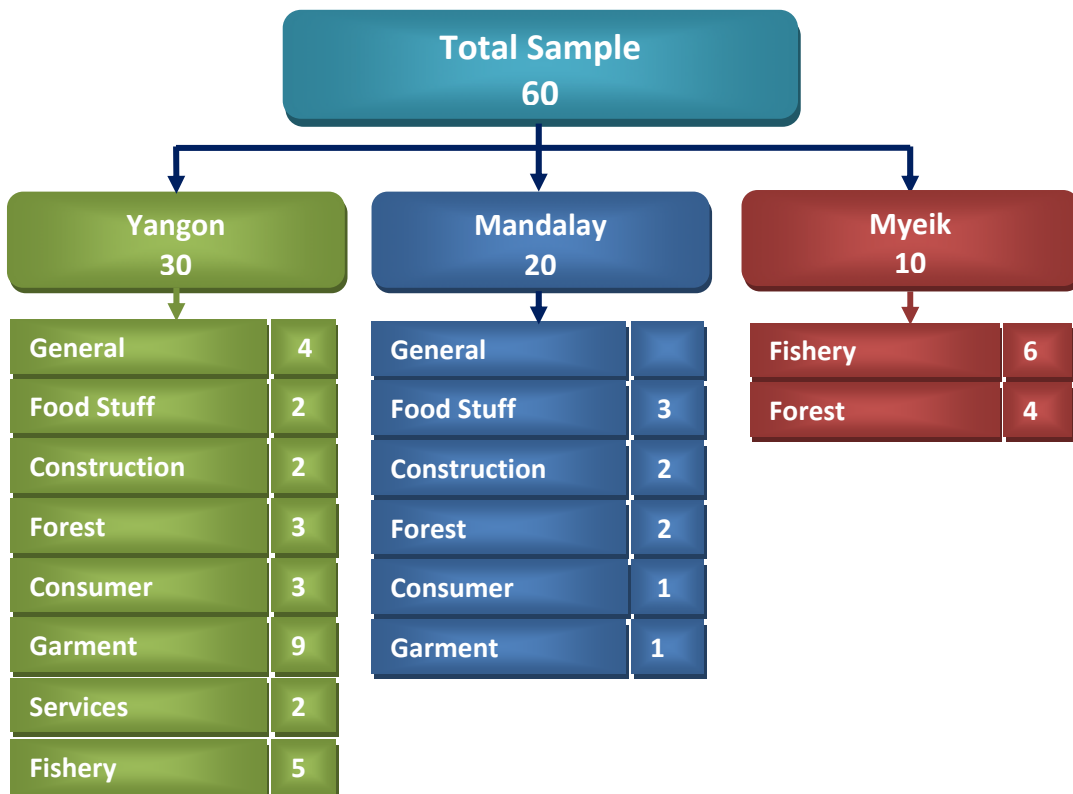
The survey investigated the business environment for the manufacturing industry. Participants were 60 firms engaged in international business transactions. The survey areas were selected based on three types of industrial location: Yangon as a metropolitan area, Mandalay which is a transport hub, and Myeik as a city connecting to

border area. In the survey, the researchers used questionnaire forms with a five-scale rating. The sample size and number of industries of each industrial zone and share distribution by business type are shown in the table and figure below.

**Table 1 Survey samples and universe**

Industrial zones	Samples	Share (%)	Universe
Yangon	30	0.5	5,469
Mandalay	20	1.6	1,267
Myeik	10	13.1	76
Total	60	0.9	6,812

**Figure 1 Share distributions by city and business types**



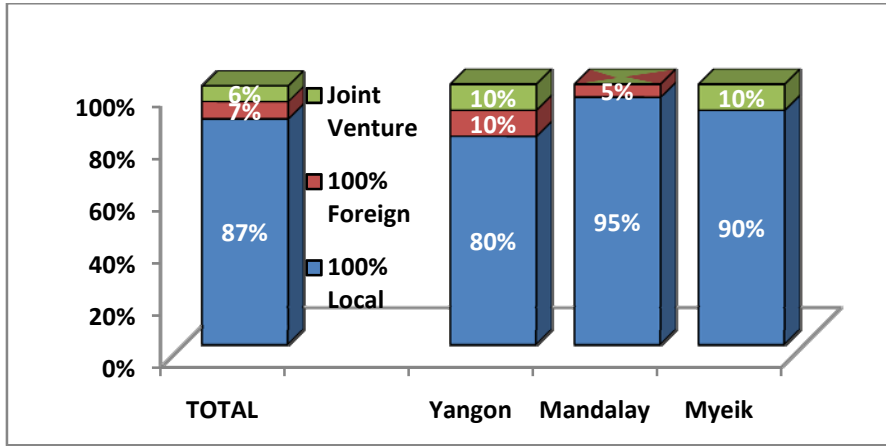
### 3. Company Profile

#### 3.1 Industries by type of ownership and market direction

Out of 60 surveyed industries, 87% was run by local investors, 7% was run by foreign investors, and 6% was jointly run by local and foreign investors. According

to market direction, 32 industries were producing for the foreign market and 29 industries for the domestic market.

**Figure 2 Industries by type of Ownership**



### 3.2 Foreign Experts

Thirty-three (33) percent of the firms have foreign experts, with Chinese experts taking the biggest share at 35%, followed by Malaysian experts at 20%.

**Figure 3 Number of Foreign Experts and Share of Nationality**

## **4. Business Setup**

The survey evaluated the business environment related to business set up on a five-scale rating as follows: 1= Very Poor, 2= Poor, 3= Fair, 4= Good and 5= Excellent.

### **4.1 Collecting information on the business environment**

The average rating in this section is 3.5. Business owners make investment decisions based on their experience and some owners acquire technology transfer by acquiring existing factories.

### **4.2 Collecting information on the regulatory framework and legal procedures**

Some businesses appoint legal experts to do regulatory and legal procedures whereas other businesses do these on their own. Information about how to do business in Myanmar is available at the Directorate of Investment and Company Registration. The average rating is 3.6.

### **4.3 Licenses and permits**

Most respondents had a few problems to get license or permit to do business because they established the businesses in line with the market-oriented economy in the early 1990s. If foreign investors follow the procedures of the Myanmar Investment Commission (MIC), it is easy to get permit and approval from MIC. Negotiation between the MIC and the investor usually takes about two months and sometimes even up to a year. Some businesses have little or no problem in terms of approval and permit application if they are joint-ventured with State Owned-Economic Enterprises. The average rating is 3.5.

### **4.4 Effectiveness of one-stop service**

Effectiveness of One-Stop Service is rated as 2.5 and interpreted as poor. There was lack of one-stop service in the industrial zones. Businesses have to contact many departments of various locations including those in the new capital city, Nay Pyi Taw, to obtain licenses and permits.

### **4.5 Investment regulation**

The average rating is 2.9. Tax exemptions and reliefs should be enjoyed according to the Foreign Investment Law.

**Table 2 Business Setup - Rating by Sector****1= very poor, 2= poor, 3= Fair, 4= good, 5= Excellent**

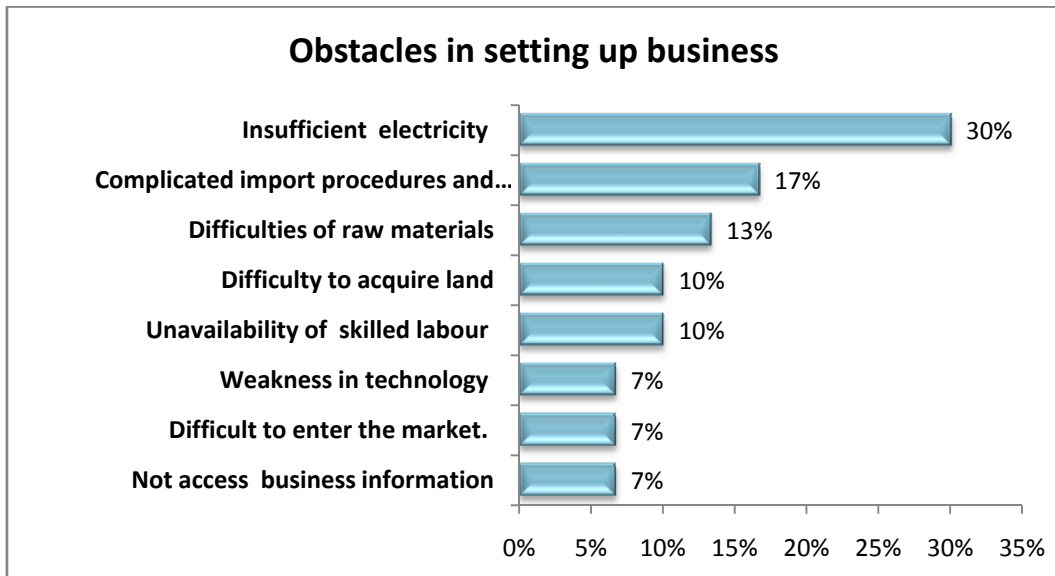
No	Particular	TOTAL	Business Type							
			Garment	Fishery	Forest	Food stuff	Construction	Consumer Product	Services	General Industries
1	Information necessary to make an objective decision on investment	3.5	3.7	3.1	3.0	3.2	4.0	3.3	4.5	3.7
2	Collecting information on the regulatory framework and legal procedures for setting up the business	3.6	3.6	3.3	3.1	4.0	3.8	3.3	4.0	3.9
3	Obtaining licenses and permits	3.5	3.2	3.5	3.4	3.6	3.3	3.8	3.5	3.6
4	Effectiveness of one-stop service	2.5	2.5	2.5	2.2	3.0	3.3	2.3	2.0	2.5
5	Investment regulation	2.9	3.3	2.5	2.8	3.0	3.5	2.8	2.5	2.7
	<b>Total Average</b>	3.17	3.26	2.96	2.91	3.36	3.55	3.05	3.30	3.28

In brief, the average rating by sector on effectiveness of one stop service and investment regulation is below average. The average rating by sector on other areas such as collecting information necessary to make an objective decision on investment, collecting information on the regulatory framework and legal procedures for setting up the business, and obtaining licenses and permits are above average.

#### **4.6 Obstacles in setting up the business**

Shortage of power supply restrains businesses to operate at full capacity and this leads to low productivity. Lack of technology arising from complicated import procedures and regulations affects the efficiency of businesses. Timely business information is not available and lack of skilled technicians impacts on the operations. Scarcity of raw materials limits the setting up of a resource-based industry. Restraints on market entry constitute another obstacle.

**Figure 4 Obstacles in setting up business**



## **5. Business Operation**

### **5.1 Macroeconomic stability**

Myanmar's high inflation rate of about 30 percent per annum and its application of a multi-exchange rate system have adverse impact on its macroeconomic stability. Due to the shrinking world economy in 2008-2009, the export sector has declined and unemployment has also increased. Therefore, the average rating in this section is 2.6.

### **5.2 Governance**

Industrial zones enforce security measures such as by assigning guards yet some factories still experience internal theft. There is a defect in policy formulation and implementation because it is not applicable to all businesses. The enforcement of law is weak in combating corruption.

The average rating by sector on macroeconomic stability is below average (Table 3).

**Table 3 Macro economy - Average Rating by Sector**

No	Macro Economy	TOTAL	Business Type							
			Garment	Fishery	Forest	Food stuff	Construction	Consumer Product	Services	General Industries
1	Macroeconomic stability	2.6	2.7	2.6	2.7	2.6	2.5	2.5	2.5	2.5
2	Governance _ Crime, theft & disorder	3.5	3.6	3.5	3.2	3.8	3.5	3.5	3.0	3.5
3	Quality of policy formulation and implementation	3.0	2.6	3.1	2.9	3.0	3.0	3.5	3.0	3.0
4	Quality of government services	3.3	3.3	3.3	2.9	3.6	3.0	3.5	3.0	3.3
5	Quality of the legal system	3.3	3.3	3.1	3.2	3.6	2.8	3.0	3.0	3.5
6	Corruption control	3.0	3.0	2.7	3.0	4.2	2.5	3.3	3.0	2.8
	<b>Total Average</b>	3.09	3.08	3.05	2.98	3.47	2.88	3.21	2.92	3.12

### 5.3 Regulatory framework

As a regulation, company registration must be renewed yearly. Registration renewal, which is compulsory for the extension of exporters/importers license, takes two to six months. The 10% export tax is high and there are misdeeds in collecting taxes. Labor regulation is fairly enforced but labor right is still limited compared to other countries. Factories are allowed to build within industrial zones and land regulation allows ownership and transfer by local industries.

The average rating by sector on regulatory framework such as tax rates is below average whereas the average rating on other areas is above average (Table 4).

**Table 4 Regulatory Frameworks - Average Rating by Sector**

No	Regulatory Framework	TOTAL	Business Type							
			Garment	Fishery	Forest	Food stuff	Construction	Consumer Product	Services	General Industries
1	Business licensing and operating permits	3.5	3.3	3.4	3.6	3.2	3.3	3.5	3.5	4.0
2	Tax rates	2.6	2.7	2.1	2.6	2.8	2.8	2.8	2.5	2.6
3	Tax administration	3.3	3.5	3.5	2.9	2.8	3.0	3.0	4.0	3.4
4	Labor regulation	3.3	3.0	3.3	3.1	3.6	3.0	3.5	3.5	3.5
5	Land regulation	3.6	3.7	3.5	3.2	3.2	3.5	4.0	3.0	3.9
6	Finance regulation	3.4	3.6	3.5	3.0	3.4	3.5	4.0	3.0	3.5
7	Intellectual property right (IPR) protection	3.3	3.2	3.3	3.2	3.6	3.5	3.3	3.0	3.3
	<b>Total Average</b>	3.28	3.29	3.19	3.08	3.23	3.21	3.43	3.21	3.45



## 5.4 Infrastructure

Industries could not enjoy 24-hour supply of electricity and most industries rely only on tube wells to access water. Myanmar has poor and unreliable transportation and telecommunication infrastructures. Over the years, the development of industrial estates has not significantly improved and the facilities to accommodate foreign experts are below standard. However, this aspect appears to be still acceptable to the Chinese experts, which constitute the biggest proportion (35%) of foreign experts in the study.

The average rating by sector on infrastructure such as electricity and industrial estates is below average at 2.2 (Table 5). The average rating by sector on other areas such as water, gas/fuel, transportation, telecommunication and accommodation for foreigners is above average.

**Table 5 Infrastructures - Average Rating by Sector**

No	Infrastructure	TOTAL	Business Type							
			Garment	Fishery	Forest	Food stuff	Construction	Consumer Product	Services	General Industries
1	Electricity	2.2	2.0	2.2	2.2	1.8	2.0	2.3	2.5	2.4
2	Water	3.5	3.7	2.8	2.9	4.0	4.0	4.0	3.0	3.7
3	Gas/Fuel	3.2	3.3	2.8	3.0	3.4	3.3	3.8	4.0	3.0
4	Transportation	3.3	3.2	2.5	2.9	3.4	3.5	3.3	4.0	3.8
5	Telecommunication	3.1	3.1	2.8	3.2	3.6	2.5	3.0	2.5	3.4
6	Industrial estates	2.9	2.5	2.6	3.4	2.8	3.0	3.0	3.0	2.9
7	Accommodation for foreigners	3.3	3.2	2.7	3.8	3.2	3.3	3.5	4.0	3.4
	<b>Total Average</b>	3.05	3.00	2.65	3.06	3.17	3.07	3.25	3.29	3.24

## 5.5 Labor

Most of the workers are hardworking and some industries carry out capacity-building programs to enhance operations. The engineers are technically qualified and some factories pay attractive salaries with good fringe benefits to employees to keep their presence. There are no serious problems concerning management-employee relationship although labor turnover is high in some industries.

The average rating by sector on labor is above average (Table 6). For sectors such as forest and services, the average rating on labor cost is below average, whereas in the garment sector, the average rating on labor turnover is below average.

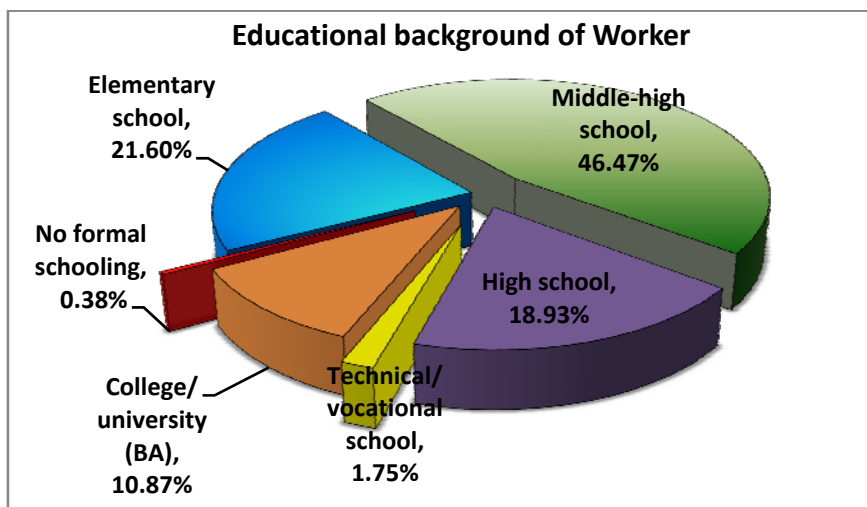
**Table 6 Labour - Average Rating by Sector**

No	Labour	TOTAL	Business Type							
			Garment	Fishery	Forest	Food stuff	Construc-tion	Consumer Product	Services	General Industries
1	Quality of workers	3.3	3.2	3.0	3.3	3.2	3.0	3.5	4.0	3.5
2	Quality of middle management	3.4	3.6	3.2	3.3	3.8	3.8	3.5	3.0	3.4
3	Quality of engineers	3.5	3.6	3.3	3.9	3.2	3.3	3.8	3.0	3.4
4	Labor cost	3.1	3.2	3.1	2.8	3.2	3.3	3.0	2.5	3.2
5	Easiness of recruitment of workers	3.5	3.1	3.3	3.4	3.6	3.3	4.3	3.0	3.7
6	Labor turnover	3.4	2.7	3.5	3.2	3.8	3.5	3.3	3.0	3.9
7	Labor relation	3.6	3.7	3.5	3.4	4.0	4.0	3.0	3.5	3.8
	<b>Total Average</b>	3.40	3.30	3.26	3.35	3.54	3.44	3.46	3.14	3.57

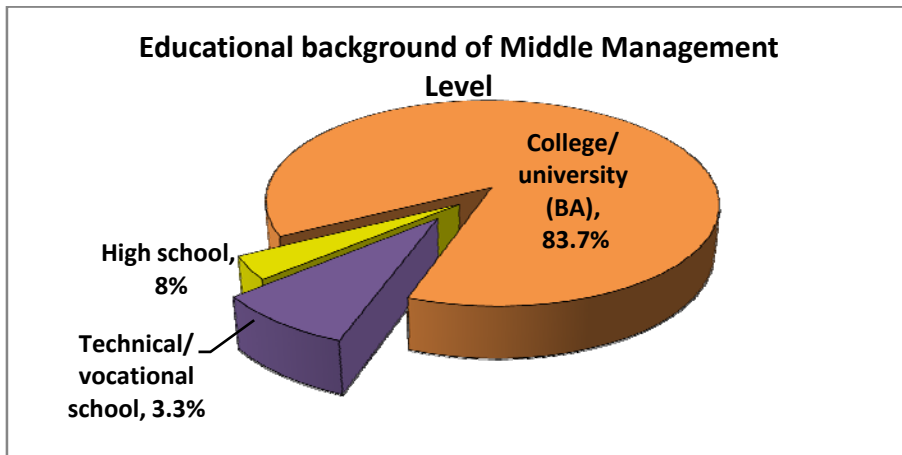
**5.6 Educational background of employees**

The educational backgrounds of workers, mid-level managers and engineers are shown in the figures below. The educational level of workers is acceptable to the owners and most workers have formal education. More than 83% of mid-level managers are college/university graduates and nearly 50% of engineers are products of technical institutes.

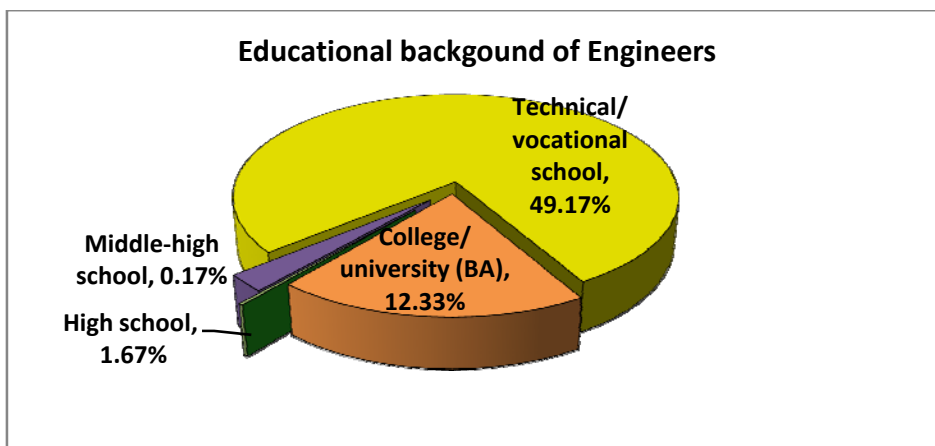
**Figure 5 Educational background of worker**



**Figure 6 Educational background of Middle – level employee (Manager)**



**Figure 7 educational backgrounds of Engineers**



### **5.7 Employees' wages and salaries**

The average wage and salary (excluding other benefits such as travel allowance) are US\$45 for workers, \$138 for mid-level managers and \$139 for engineers. The level of wages in Yangon and Myeik is normally higher than in Mandalay. In this survey, most respondents in Mandalay are workers from auto manufacturing firms and other consumer goods industries. The workers enjoy flat wages that are paid according to the work done. The average monthly wage and salary according to city is presented in Table 7.

**Table 7 Average Monthly Wage and Salary by City (Kyats)**

No	Particulars	TOTAL	City		
			Yangon	Mandalay	Myeik
1	Worker	45,183 (US\$ 45)	43,700	50,000	40,000
2	Middle management	138,276( US\$ 138)	148,000	122,778	137,000
3	Engineer	139,079(UD\$ 139)	145,789	120,454	148,750

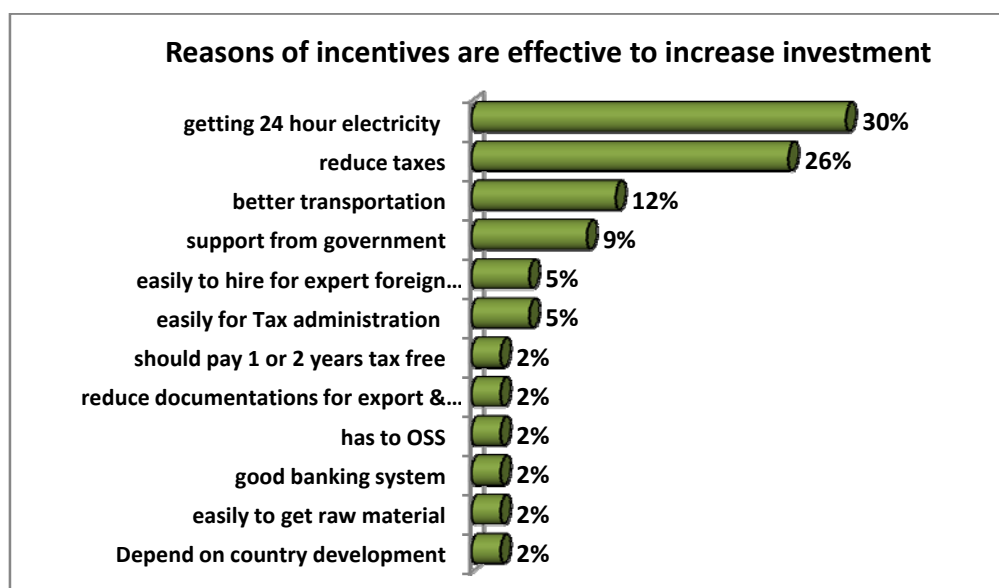
**5.8 Average Monthly Turnover rate by city**

A total of 88% of industries has monthly turnover rate of fewer than 10% followed by between 11 and 20% of industries with 8% monthly turnover rate. The rate is highest in Yangon than in other cities. The garment industry has the highest turnover rate among all the business sectors surveyed.

**5.9 Current investment incentives**

Only 30% out of 60 firms said the current investment incentives are attractive and the rest said these are not attractive. Effective investment incentives are uninterrupted power supply, tax incentives, better transportation infrastructure, government policy of industrialization and institutional support, and availability of foreign experts (Figure 8).

**Figure 8 Incentives to be attracted to increase investment**



## 6 Logistics

### 6.1 Export Markets

Japan is the most common destination market of the respondents' export products, followed by China and Malaysia. Export products ranging from garments and fishery products mostly go to Japan.

### 6.2 Import Countries

China is the topmost source of imported raw materials and machinery of the respondents. In the second and third places are Thailand and Singapore, respectively.

### 6.3 Domestic market

Some industries concentrate on exporting and do not distribute their products locally. Other industries which concentrate on the domestic market face a declining purchasing power due to the scarcity of jobs. Most industries say there is no smuggling control, giving the presence of biscuits from China as an example.

**Table 8 Domestic market - Average Rating by Sector**

No	Domestic Market	TOTAL	Business Type							
			Garment	Fishery	Forest	Food stuff	Construction	Consumer Product	Services	General Industries
1	Domestic market size	3.13	2.75	2.89	2.83	3.40	3.00	3.75	2.50	3.47
2	Purchasing power of local consumers	3.14	3.13	3.00	3.00	3.60	3.50	3.25	3	3.00
3	Smuggling control	3.09	3.50	3.00	3.00	2.80	3.50	3.00	3	2.93
	<b>Total Average</b>	3.12	3.13	2.96	2.94	3.27	3.33	3.33	2.83	3.13

### 6.4 Foreign market

There was a delay in the procedures for export. Regarding the rules of origin for the Generalised System of Preferences (GSP), most industries do not have or are not aware of GSP and other privileges such as the ASEAN Integration System of Preferences (AISP) and China's Special Preferential Tariff. Industries are hopeful for the GSP status since Myanmar is a least developed country (LDC).

The average rating by sector on foreign market such as export tax procedure, rules of origin for GSP, and uncertainty of the GSP status in the future is below average whereas the average rating by sector on procedures for export is above average (Table 9).

**Table 9 Foreign market – Average Rating by Sector**

No	Foreign Market	TOTAL	Business Type							
			Garment	Fishery	Forest	Food stuff	Construction	Consumer Product	Services	General Industries
1	Procedures for export	3.07	3.10	3.00	3.22	2.75	3.00	3.25	3.00	3.08
2	Export tax procedure	2.88	2.80	2.55	2.89	2.75	3.25	2.75	4.00	3.00
3	Rules of origin for GSP	2.71	3.00	2.64	2.78	2.75	2.75	2.50	3	2.57
4	Uncertainty of the GSP status In future	2.89	3.00	3.00	2.78	3.00	3.00	2.25	3	2.93
	<b>Total Average</b>	2.89	2.98	2.80	2.92	2.81	3.00	2.69	3.25	2.89

## 6.5 Domestic Procurement

Most of the raw materials are imported and some industries face difficulties contacting capable international suppliers. Others have limitations to meet their client's requirement. Other independent industries have no difficulties finding international clients through the internet.

The average rating by sector on domestic procurement such as collecting information about local suppliers, capability of local supplier base, and access to capable international suppliers is above average (Table 10).

**Table 10 Domestic Procurement - Average Rating by Sector**

	Domestic Procurement	TOTAL	Business Type							
			Garment	Fishery	Forest	Food stuff	Construction	Consumer Product	Services	General Industries
1	Collecting information about local suppliers	3.40	3.00	3.18	3.22	3.80	3.25	3.75	4.00	3.67
2	Quality of local supplier base	3.28	3.13	3.09	3.33	3.80	3.25	4.00	3.00	3.13
3	Access to capable international suppliers	3.33	3.00	3.27	3.11	3.40	3.00	3.75	4.00	3.60
	<b>Total Average</b>	3.34	3.67	3.17	3.83	3.67	3.47	3.83	3.67	3.47

## 6.6 Foreign Procurement

There is a long process for importing raw materials/parts and components. Regarding custom clearance, there is no delay in the process as long as the industries provide the required documentation. Regarding tariff, there is no appropriate rules imposed and there is no refund for value added tax. Industries can change money at market exchange rate and the market rate is higher in favor of the US dollar compared to the official exchange rate.

The average rating by sector on foreign procurement such as procedures for import of raw materials/parts and components, custom clearance, tariff barrier, non-tariff barrier, trade regulation, and foreign exchange regulation is above average (Table 11). In contrast, the average rating on drawbacks of import duty and value added tax is below average.

**Table 11 Foreign Procurement - Average Rating by Sector**

No	Foreign Procurement	TOTAL	Business Type							
			Garment	Fishery	Forest	Food stuff	Construction	Consumer Product	Services	General Industries
1	Procedures for import of raw materials/ parts and components	3.13	3.30	2.44	3.00	2.80	3.25	3.50	4.00	3.40
2	Custom clearance	3.39	3.50	3.09	3.38	3.00	3.25	3.50	4.00	3.60
3	Tariff barrier	3.27	3.30	2.91	3.00	4.00	3.50	3.25	3.00	3.40
4	Non-tariff barrier	3.36	3.50	3.09	3.11	4.00	3.25	3.75	3.50	3.29
5	Drawbacks of import duty and value added tax	2.53	2.70	2.18	2.33	2.75	2.67	2.50	n/a	2.75
6	Trade regulation	3.12	3.40	2.82	3.00	3.40	2.75	3.25	2.50	3.27
7	Foreign exchange regulation	3.27	3.50	3.00	3.22	3.25	2.75	3.50	4.00	3.33
	<b>Total Average</b>	3.15	3.31	2.79	3.01	3.31	3.06	3.32	3.50	3.29

## 6.7 Modes of transport in trading

About 80% of the respondents normally use sea shipping as mode of transport, 33% prefer land route through the Chinese border and only 13% use air transport. Yangon has all modes of transport where it has access to ports, airlines and borders.

## 6.8 Transportation and communication cost and efficiency

Sea transport is the most cost-effective mode of transportation and air transport is the least effective. Cost of communication is rated below average (2.85). Efficiency and reliability of transportation and communication are fair in average.

**Table 12 Condition of Transportation and Communication efficiency average rating**

No	Particulars	Total	Yangon	Mandalay	Myeik
1	Land transport	3.03	3.00	3.31	2.20
2	Sea transport	3.26	3.33	3.70	2.60
3	Air transport	2.90	3.00	n/a	2.33
4	Communication	3.08	2.96	3.33	2.89

**Table 13 Condition of Transportation and Communication reliability average rating**

No	Particulars	Total	Yangon	Mandalay	Myeik
1	Land transport	3.03	3.23	3.13	2.20
2	Sea transport	3.55	3.73	3.82	2.70
3	Air transport	3.63	3.88	n/a	2.33
4	Communication	3.27	3.13	3.61	3.00

## **6.9 Time span on transportation**

Average time spent for import and export is the duration of time spent from the entry or exit of goods to customs clearance. Average period for import in Yangon is two weeks. In Mandalay and Myeik, the average time spent for import is only within a week because of their proximity to the borders.

Average period for export in Yangon is three weeks. The reason for the longer time spent on export than on import is because Myanmar mostly imports goods from neighboring countries (and thus the shorter time spent given the proximity of these countries to Myanmar) but exports goods to Japan, Korea and other countries. Exporters from Mandalay export through Yangon and Muse. In Mandalay and Myeik, the average time spent on export is within a week.



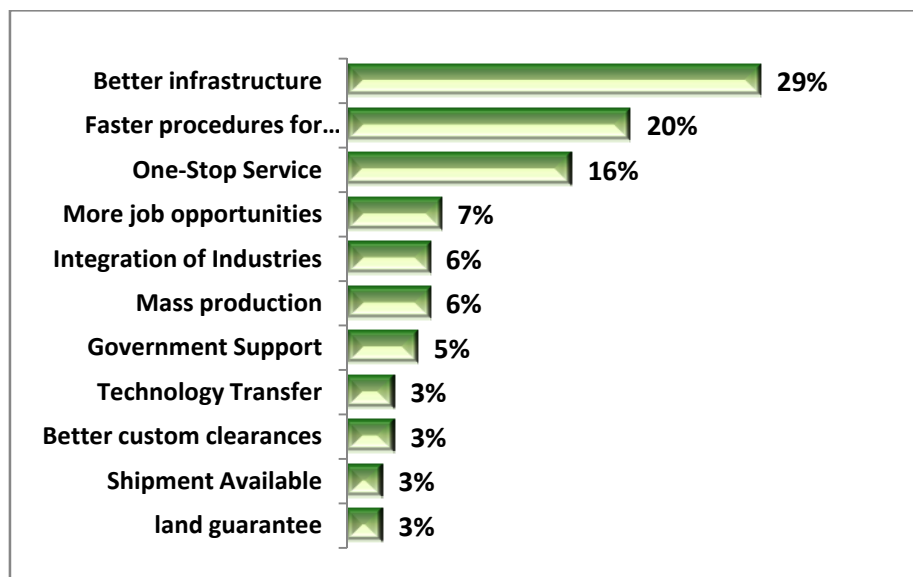
## 7. Future Development

### 7.1 Improvement of the Investment Environment

About 95% of the respondents think the establishment of SEZ/IZ will be effective in improving the investment environment because these economic zones have a better network within a cluster environment and can acquire land at less expensive prices. With the promotion of SEZ, the procedures for starting a business in Myanmar has become faster. These economic zones can also create more job opportunities, generate foreign currency for the country, and increase value-added goods production.

Establishing SEZ could also result in better infrastructure and information accessibility. Import substitute industries would be created so that consumers can buy quality products at less expensive prices.

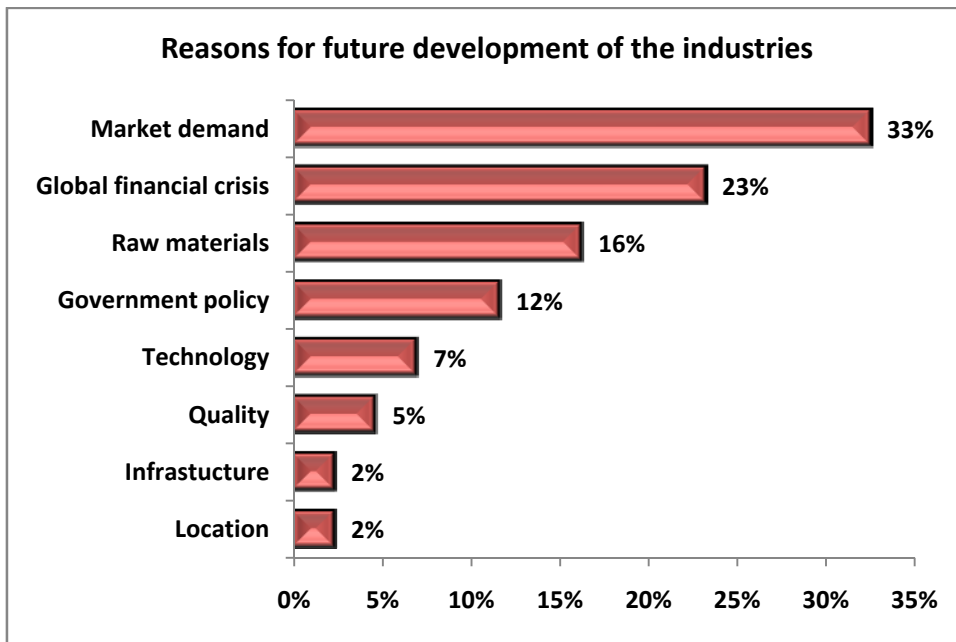
**Figure 9 Facts about better investment environment through establishment of SEZ/IZ**



### 7.2 Reasons for future development of the industry

The most important reason is the promising market demand. Most businesses are hopeful about the positive political development in Myanmar by 2010. The impact of the global financial crisis is considered an influential factor that will affect businesses to some extent.

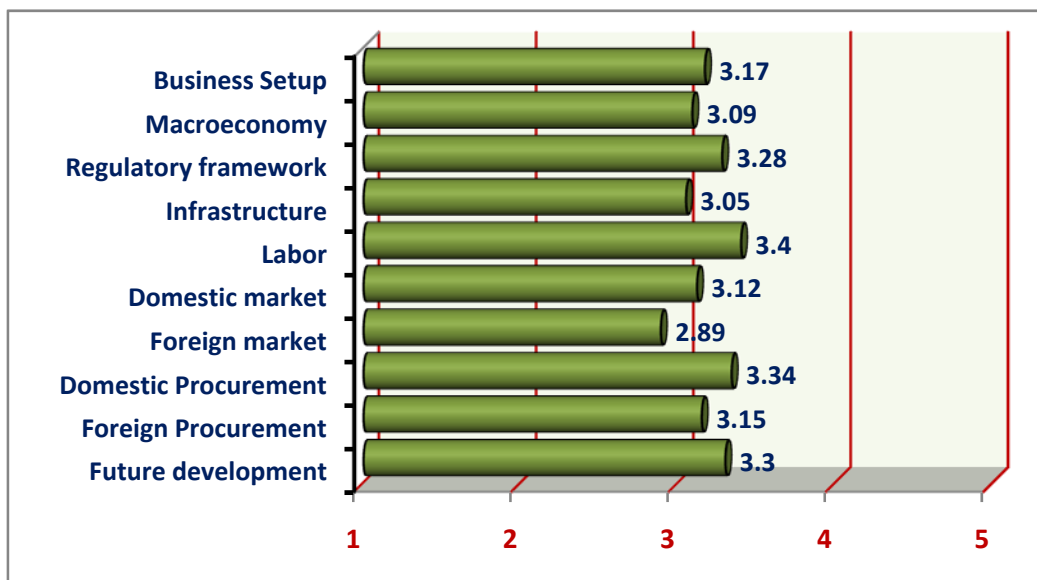
**Figure 10 Reasons for future development of the industry**



## 8. Evaluation and Cost-Benefit Analysis

### 8.1 Evaluation of the survey findings

**Figure 11 Evaluation of Overall Investment Climate**



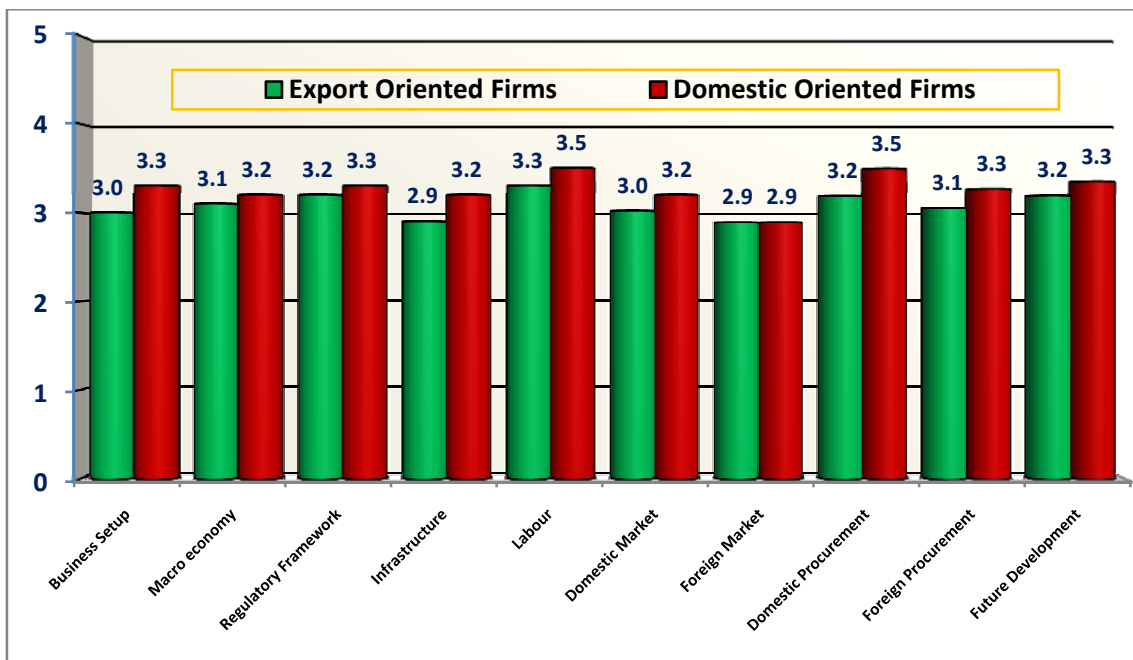
The survey has four main components for assessing the investment environment on a five-point scale. The total scores of the rating are 3.17 for business setup, 3.205 for business operation, 3.125 for logistics and 3.3 for future development of the industries. The future development of industries depends on government's

supportive measures such as tax relief, impartial treatment to all investors, and consistent and effective regulation.

Industries which concentrate on the domestic market have suffered less from the global financial turmoil compared to those concentrating on the export market. Though consumer demand may be on a decline, the firms enjoying large domestic market shares are less likely to go bankrupt.

Figure 8.2 also shows the evaluation rating scale of investment climate by export-oriented firms and domestic market-oriented firms. Despite the lower ratings of export-oriented firms than those of domestic market-oriented firms, the difference is not significant.

**Figure 12 Evaluation Rating Scale of Overall Investment Climate by Export and Domestic Oriented Firms**



## 8.2 Cost-benefit analysis

Cost-benefit analysis is made by comparing investment incentives between Thailand and Myanmar. Table 14 clearly shows the tax incentive, ownership and cost of infrastructure. Table 15 compares the wages and salary between the two countries. The wages in Myanmar are three times lower than in Thailand. It also has a favorable economic environment for labour-intensive industries. Table 16 describes the cost comparison and Table 8.4 shows the costs and benefits.

**Table 14 Comparison of investment incentives between Thailand and Myanmar**

No	Particular	Thailand			Myanmar
		Zone 1	Zone 2	Zone 3	Hlaingtharyar Industrial Zone
1	Corporate income tax/tax exemption	3 years	7 years	8 years	3 years + extension
2	Exemption of import duty on imported machinery and raw materials used in manufacturing	1 year	None	5 years	3 years
3	Export tax	0% (Export Processing Zone)			10%
4	Right to withdraw net profit to abroad				Allowed by Foreign Investment Law 26
5	Right of foreign ownership	100%			100%
6	Period of lease to foreign company	30 years renewable			30 years
7	Annual land rental	\$71/square meter (General Industrial zone)			\$3/square meter
8	Initial Capital (Capital Investment)	10 Million Bt (\$285,714)			Industrial: \$ 500,000, Service: \$ 300,000
9	Monthly electricity charges			Double deduction (10 yrs from the date of first sales)	\$ 0.8/kilowatt
10	Monthly water charges			Double deduction (10 yrs from the date of first sales)	\$ 0.88/cubit meter, \$ 4/1000 gallon
11	Industrial development cost				Kyat 1.5 million/acre
12	Monthly maintenance fee				\$20/acre

**Table 15 Comparison of wages between Myanmar and Thailand**

No	Average wages	Thailand (Baht)		Myanmar* (Kyat)
		Migrant	Local	
1	Worker	4,500 (\$128.57) (industry)	6,420 (\$183.43) (manufacturing)	45,183 (\$45.18)
2	Middle management	47,994 (\$1371.26) (Office manager)		138,276 (\$138.28)
3	Engineer	26,051 (\$744.31)		139,079 (\$139.08)

**Source:** \*Investment Climate Survey in Myanmar ; ANU E press and Asia Pacific Press 2007, National Statistical Office, Thailand ,first quarter, 2005

**Table 16 Cost Comparison between Myanmar and Thailand**

No	Factor	Thailand	Myanmar
1	Labor cost	High	Low
2	Land price	High	Low
3	Finance/Loan	Available	Unavailable
4	Infrastructure	Good	Poor
5	Services	OSS available	Limited OSS
6	Logistics cost	Low	High
7	Operating cost	Low	High
8	Set up cost	Low	High

**Table 17 Cost and benefit analysis of relocating industry to Myanmar**

NO	COST	BENEFIT
1	Cost for permission for doing business	Raw material availability
2	Set up/ relocation cost	Water availability and quality
3	Service link cost ( communication)	Cheap labor wages
4	Infrastructure development cost	Availability of workers
5	Logistics ( transportation)	Land and building available
6	Training cost	Market size of over 50 million population
7	Export tax	Geographical location, access to huge markets
8		Governance, security
9		Special privileges within ASEAN, China

## **9. Link with economic corridors**

### **9.1 Link with East-West Economic Corridor (EWEC)**

The Greater Mekong Sub-region (GMS) develops its plans of economic corridors and Myanmar plays a decisive role in the successful completion of the East-West Economic Corridor (EWEC). EWEC is a connection route between DaNang in Vietnam on the eastern end and Mawlamyaing in Myanmar on the western end. It is the only land link that connects the Indian Ocean to the Pacific.

The main objective of EWEC is to develop a highly efficient transport system. This will allow goods and people to move around the GMS without significant impediment of excessive cost or delay. Improvement in the transportation network plays a key role in promoting economic growth and regional development.

### **9.2 Link with South-West Economic corridor (SWEC)**

The South-West Economic Corridor (SWEC) links Ho Chi Min City in Vietnam, Phnom Penh in Cambodia, Bangkok in Thailand and Myanmar via the Myanmar-Thai border. There are two ways to link Myanmar. One is through the Pharyar thonzu or the three-pagoda pass and the other is through the Dawei route. A plan to turn Dawei into a sea gateway to Southeast Asia will shorten the long sea route round the tip of the Malaysia peninsula.

Myanmar and Thailand signed a memorandum of understanding on the development of a deep seaport in Dawei. The two countries would jointly develop the deep

seaport and build a 130-kilometre road stretching from the Dawei deep seaport to the Myanmar-Thai border.

In Myanmar's view, the objective for developing the Dawei deep seaport is to promote trade, investment, tourism, fishery, mining, natural gas and other industries by launching an integrated regional development programme. From the business aspect, the industries in Myanmar are hoped to enjoy the benefits of these economic corridors and facilitate the industrial linkages among industries in Myanmar and other regional industries.

## 10. Recommended industries

*Recommended to invest in Myanmar are resource-based industries to link up regional production networks. Among these industries are the following:*

- a) **Cold storage and processing** - Myanmar's marine product exports in 2007 totaled US\$550 million. There are 116 cold storage and processing factories in Myanmar that consist of 77 factories in Yangon, 13 in Tanintharyi, 4 in Ayeyarwaddy, 14 in Rakhine, 7 in Mon and 1 in Shan State. Up to December 2008, only about US\$350 million had been earned from the export of 180,000 MT of fisheries products.
- b) **Processing of fish products** – Out of the total marine exports, Myanmar's fish product exports in 2007 were worth US\$240 million. Apart from the cold storage and processing plants, fish paste and fish sauce products should be produced in accordance with international standard.
- c) **Battery factory** - Myanmar's battery requirement and market demand are high. The country imports \$20 million worth of battery products a year and exports a few of its imported and locally made battery products to India and Bangladesh. It has also been manufacturing and locally distributing lead acid automobile battery, industrial stand-by battery and other specialized battery.
- d) **Rubber-based industries** - Myanmar produces car tires and car accessories. It exported more than 60,000 tons of raw rubber (US\$120 million) in 2008. Rubber cultivation has grown in Mon State and Taninthayi Division for years. These days, neighbouring countries use Myanmar's raw rubber to produce finished goods.
- e) **Agro-based products processing industries** - Myanmar produces plenty of food crops such as onion, garlic, turmeric, potatoes and chili. Fruits like mango, banana, citrus, pears, durin, mangosteen, pineapple and runbutan are also abundant. These are exported as natural and fresh fruits to neighbouring countries. Tropical and temperate vegetables are also grown in Myanmar. Agro-based products can be made into processed food such as sauce, ketchup, onion powder, fruit juice and snack food. At present, Myanmar imports these products from neighbouring countries. The seasonal output of tree crops, fruits and vegetables is unprofitable at times due to over production.
- f) **Metal-based industries**- The main attraction for foreign investors to invest in Myanmar is its abundant mineral resources. Myanmar has considerable supply of copper, gold, lead, iron, zinc, silver, tin, chromium and nickel. In terms of mineral potential, Myanmar ranks high among countries in Asia and there are



foreign mining companies engaged in the exploration of copper, gold and other base metals. Cable, wire, iron casting and machinery parts using mineral raw materials can be produced.

## **11. Policy recommendations**

The main objective of the investment climate survey is to provide the key points of policy recommendations for improving the investment environment in Myanmar and for facilitating its integration with regional production networks. Myanmar as an LDC will enjoy the benefits of industrialization from an integrated regional economy. The following focus areas and suggested solutions are being offered as policy recommendations for improving the investment environment of Myanmar.

### **a) Consistency**

Changes in regulations have reduced the investment opportunity. By collaborating with the business community in planning and by adopting a basic law, the government can provide investors with a consistent law which may help raise investor confidence.

### **b) Regulation**

A lengthy documentation process restrains business activities to be carried out on time. It acts a significant disincentive to inventors. Relaxing certain rules but still adopting appropriate standard laws and procedures will help investors enjoy the efficiency and flexibility of the investment process as an advantage for market competition.

### **c) Information**

Because information on rules and procedure is not well circulated, investors have difficulty accessing information. If information is transparent and provided on time, more opportunities can be opened up for investors in making investment decisions.

### **d) Fair tax policy**

In terms of taxation, some businesses are taxed low regardless of the huge profit they make. The opportunities rate of taxation applied to business is essential and it will lead to increases in budget allocation for the public sector and help the government expand the priority sectors.

**e) IPR and protection**

Protection and promotion of intellectual property right (IPR) through an effective legal system is essential. Protecting IPR could lead to more innovations and lessen IPR violations. By encouraging the establishment of research and development centers, there will be more environment-friendly products acceptable under international standards.

**f) Reliable infrastructure**

Institutional cooperation is needed for infrastructure development to reduce production cost and improve productivity. Moreover, by improving infrastructure through the development of economic corridors, resources would be utilized rationally for the welfare of the region.

**Figure 11.1 Policy recommendations and solutions**

