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Foreign Direct Investment In Myanmar

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Abstract

Foreign Direct Investment is one of the main factors to improve trade in each and every country to boost its economy. The Union of Myanmar government announced the Foreign Direct Investment Law in 2011. Then the new law was enacted on 2nd November 2012. It includes a lot of business which are "restricted or prohibited" items such as timber, forests, oil and gas, jade, pearls and precious stones, post and telecom, air and railway transport, banks, insurance, mining, power generation, defense related manufacturing. Those items are allowed on a case by case in doing joint venture or production sharing contracts.In Myanmar, there are some barriers which have been found in most of the Least Development Countries. And there are many favourable conditions to invest in Myanmar such as intrinsic strength, favourable location and international support. To achieve a step change in FDI and get closer to meeting the economy's largest need for investment, as well as to contribute to diversely the sectors to which FDI goes, Myanmar needs to prioritise two main areas: developing a targeted FDI strategy led by a high performing agency and improving Myanmar's business environment.

Key Words: intrinsic strength, favourable conditions, FDI, barriers, favourable location, high performing agency, business environment

Introduction

Foreign Direct Investment of a country is very crucial to improve a country's economic development for many reasons. The level of investment of a country is the key determinant of sustained economic growth. Since the late 1988, the Government has been encouraging foreign investment in Myanmar. Its main foreign investment policy objectives are started as the:

- Adoption of a market-oriented system for the allocation of resources.
- Encouragement of private investment and entrepreneurial activity.
- Opening up Myanmar's economy to foreign trade and investment which includes promotion and expansion;

- Exploitation of natural resources which require heavy investment;
- Acquisition of high technology;
- Developing production and services industries involving large capital;
- Creating local employment opportunities;
- Developing of works which would save energy consumption; and
  Regional development.[1]

The Government has identified a number of potential investment opportunities for foreign investors and has also embarked on a privatization programme. A foreign investor (whether investing through a joint venture or a 100 per cent owned entity) manufacturing goods or providing services in Myanmar under the Foreign Investment Law will be granted an exemption from income tax for three consecutive years, inclusive of the year of commencement.[2]

In addition, any one or more of the following incentives *may* be granted by the Myanmar Investment Commission to the foreign investor:

- Exemption or relief from income tax on the profits of the business kept in a reserve fund and reinvested in the business within one year after the reserve is made.
- Accelerated depreciation in respect of machinery, equipment, building or other capital assets used in the business, at a rate approved by the Commission.
- Relief from tax on up to 50 per cent of the profits accursed from the export of goods produced in Myanmar.
- Right to pay foreign employees' income tax and deduct such payments from assessable income.
- The right to deduct from assessable income expense incurred in respect of necessary research and development carried out within Myanmar.
- The ability to carry forward and set off losses up to three consecutive years after the year in which the loss is sustained.
- Exemption from commercial tax on export-oriented commodities.
- Exemption or relief from customs duty, licensing requirements and internal spare parts and materials used in the business and deemed required by the Commission during the initial period/ period of construction.

[1]The Foreign Investment Law the Pyidaungsu Hluttaw Law No 21/2012, the 3rd waning of Thadingyut,1374 ME, 2nd November, 2012 (henceforth: Foreign Investment Law, 2012)
[2]Foreign Investment Law, 2012

- Exemption or relief from customs duty, licensing requirements and internal taxes on the import of raw materials imported within the first three years' of commercial production following start up/ the completion of construction.[3]

The incentives actually granted by the Commission to the foreign investor are specified in the permit. In addition to the above tax incentives, foreign investors holding a permit under the Foreign Investment Law are entitled to lease land for up to 30 years from the Government and may be exempted from customs duties and internal taxes and from obtaining an import license form the Ministry of Commerce for the import of certain capital investment items and raw materials. Furthermore, the Foreign Investment Law guarantees that foreign investment under a Foreign Investment Law permit shall not be nationalized and the ability of the foreign investor to repatriate '' the rightful entitlement of the foreign investor'' in foreign currency after the termination of the business.

A permit under the Foreign Investment Law also enables foreign employees of the company resident in Myanmar to repatriate their savings. Although not always possible or advisable to obtain a permit under the Foreign Investment Law, the benefits attaching to investments under a Foreign Investment Law permit can be substantial. In addition, for those foreign investors who do invest under the Foreign Investment Law, a permit application and relevant documents addressing all areas appropriate to the proposed operation in Myanmar (including all other necessary approvals) can effectively provide a “one stop” approval process only dreamt about in many other countries in the region. For large-scale projects, serious thought should be given to investing under the Foreign Investment Law which provides significant tax and other incentives. However, such investments must comply with a rigorous set of criteria and may be subject to significant conditions as to the operation of the investment.

In practice, any investment requiring Government land and all joint ventures with State-owned economic enterprises or any part of the Government are subject to and must apply under the Foreign Investment Law. Also, joint ventures to be formed with local private citizens or entities which have obtained approval or concessions under the Citizens Investment Law 1994, must obtain, prior to formation, a permit under the Foreign Investment Law. Failure to obtain a Foreign Investment Law permit in these circumstances will breach the Citizens Investment Law and will expose the joint venture company (and each of the shareholders) to the possibility of fines and, more importantly, of being blacklisted from any Government approval for any future business venture in Myanmar.

In order to provide more specific guidance to potential foreign investors, some 85 types of activities have been specified as open to foreign investment. A foreign investor may apply for and obtain a permit under the Foreign Investment Law for an economic activity not so specified, provided the foreign investor can explain how the activity would be mutually beneficial to Myanmar and the foreign investor.

[3] Section 21 of the Foreign Investment Law, 2012.

Some Barriers of Foreign Direct Investment in Least Development Country

Foreign Direct Investment plays a key role in the economic development of a country. However, to attract FDI is not an easy and simple task. A number of barriers hinder the inflow FDI into a particular developing country, especially for a Least Development Country (LDC). These barriers lead to increased risks and costs to foreign investors that can outweigh the location-specific advantages and resource endowments of LDCs. This can impede FDI inflow into the country. Foreign investors want to get superior returns from the investment to compensate greater risks. Political instability is one of the most important barriers to FDI.[4]Apart from this LDCs post the following broad and interrelated barriers to foreigners are:

1. Administrative barriers
2. Information Asymmetries and imperfections
3. Policies barriers
4. Infrastructure short comings
5. Constraints of human, social and institutional capital

Above these barriers can deter FDI from entering, increase cause of doing business, increase risks and uncertainty. So it is quite common for foreign investors to carefully investigate the risks of a particular country based on these barriers before making an investment decision. It is paramount for a recipient country to reduce these barriers to attract foreign investment effectively. Each barrier will be discussed from foreign investors view.

In some LDCs countries, the problem starts at the submission of investment proposal stage. To get an approval to start a business or investment, the proposal has to pass different stages of official producers and require documents and consensus from various sectors. This problem is compounded by unclear and overlapping producers on decision making by the authorities concerned. This procedure takes several weeks and months. These barriers can dissuade foreign visitors from making favorable investment decisions.

The persistence of administrative barriers together with absence of institutional capacity in LDCs in situation where trivial procedures like moving a file one department to another and from one table to next within the same department becomes major obstacles to progress. Complex producers and lengthy work process without transparent and standard rules create bribes and corruption at the operational level where official and unofficial fees are paid to higher levels. Most government tries to solve these hurdles by creating one stop approval shops but it leads to increase additional steps because there is no clear delegation of authority on investment.

[4] www.egdigov.se/dev-financinf/pdf/risk-study-ch3.4

Information Asymmetries and Imperfections

There is no doubt that any foreign investor wants to get enough, clear information about the country that he is going to invest before making critical investment decisions. They want to get detailed information about market size, growth rates and changing consumer preferences and so on. But they are also important for resource seekers because they want to access on information on size, quality and exploitability of resources that they are interested in. The greater is access to information, the lesser are the risk to investors.Potential investors in manufacturing sectors want detailed information about the supply and demand conditions, situation of local firms, law and regulation on labour, export and import procedures and so on. In fact all potential investors in any sector and with any motive require more or less information. Therefore, the lack of data and unreliable data make them disappoint about the country to do business. From the point of view of host countries, that attempt to attract FDI, this mean that just showing incentives and changing policies is no guarantee to FDI. The role of investment promotion is to attempt to reduce information asymmetries faced by potential foreign investors in their investment decision process. Inadequate and unreliable statistics issued by the host country increased complexity to foreign investors to understand the real situation in the country. Issuing out of date data returns the same effect. Therefore, if a country can overcome these information asymmetries, collecting and establishing necessary data bases timely and effectively distribute them to foreign investors the chance to be chosen for FDI will be greatly enhanced.

Policy Barriers

Policy barriers are one of the causes to concern for foreign investors who want to invest for long term plan in the particular country. Fiscal policy, monetary policy, exchange rate policy and debt management policy are need into account to attract Foreign Direct Investment. Foreign investors are interested in the stability of fiscal policies in the host country, the level of tax revenue, the structure of tax and long term stability of tax rate applicable to corporate income and capital gains, exercise tax and tax on import, export, value-added and tax allowance and tax exemption for export income and the size and sustainability of budget deficits since these may impact on future operation once investment has started. Monetary policy is the central bank of the host country. Foreign investors are also interested in the stability of domestics' interest rate, the level of inflation, the credit policy and the extent of government domestic borrowing. Foreign firms concerns about the trade policy of the host country. High barriers of import both tariff and non-tariff may be one of the reasons for choosing FDI in this country. In practice, they want to operate in liberalized trade regime with fewer restrictions on producers of exporting and importing. However, foreign investors may want restricted trade policy in the countries in which they are already operated to reduce the competition of imported products from abroad. Therefore, MNCs stand on trade liberalization depends on their position whether they are inside or outside of the country. The stability of exchange rate and the permission to convert any time without restriction is also a major concern for foreign investors.

Concerning with internal and external debt management, most LDCs are highly indebted. That is also a major concern because it can lead to the future instability. It may lead to new borrowing, cutback of government of expenditures on infrastructures and social works, limitation for repatriate capital due to fears of inadequacy of foreign exchange, the threat of printing money to finance repayments of domestic borrowing which in turns lead to inflation and decreasing external value of home currency. In short, unsustainable debt burdens increase of future taxation, currency risk and transfer risk for foreign investors. These policy barriers mostly impact foreign investors, regardless of their investors for motivation investing. Besides, export oriented investors are very sensitive to government policies to trade, exchange rate control and regulations on repatriation profit and capital from the country. They are very interested in how government manages inflation since it effects external value of domestic currency. Market seekers who want to focus on domestic market are also interested in fiscal and monetary policy of the country as well as those meant to protect the local enterprise against undue foreign competition. The existence of these barriers can lead to changes in the mode of entry decision into the country market. For example, foreign investor may choose to enter joint-venture contract with government-owned enterprises instead of establishing wholly owned ventures in the country, hoping that his partnering government enterprise may help to reduce some impact of these policy barriers.

Infrastructure Barriers

Poor infrastructure barriers also hinder to invest for investor in the developing countries. In general, poor infrastructure can lead to increased costs and risks of doing business in that country. It can increase the costs incurred by foreign investors because they have to bear the cost of infrastructure development such as electricity, water supply and communication facilities. It can increase the risk for foreign investors because they face difficulties in acquiring inputs and distribution products through the market channels in a timely manner. Difficulties in communication and transportation are also major hurdles for smooth business operation.

The extent to which certain barriers poses obstacles to attracting FDI is more severe in industries such as mining and manufacturing, given additional costs that foreign investors must assume. These deficiencies of infrastructure may outweigh the benefits of lower labour costs and abundant resources in LDCs. They can severely limit FDI inflows from resource seekers. For potential investor in hotel and tourism, manufacturing sectors, inadequate infrastructure may lead to increased costs for them. Unless these costs are compensated by additional benefits, investors don't want to invest in a particular country. However, these infrastructure weaknesses may create opportunities for some businesses specializing in infrastructure services such as electricity and road construction.

Institutional and Human Resource Barriers

Most developing, especially LDCs, are faced with constraints involving human, social and institutional capital. In terms of human capital, they have higher proportion of unskilled labour, and shortage of

qualified and experienced managers and technicians in these countries. The availability of human capital is a major driver of FDI. A host country that has larger supplies of higher-level man power able to absorb new skills is likely to attract more and better quality FDI than countries without such endowment. Therefore, a country that wants to attract FDI must considerate the above factors.

The Attractiveness of FDI to Myanmar

Myanmar intrinsic strength is its rich endowment of natural gas, oil, precious and semi-precious stone. Myanmar produces 90 percent of the world's jade, a semi-precious stone valued highly in Asia.[5]Official government auctions in 2011 yielded $1.7 billion for jade alone.[6]This total does not take into account unofficial sales that are likely to be substantial given that Myanmar's reserves are mostly in northern regions that are still experiencing some political instability. According to expert interviews, the actual size of the jade market could be up to 40 percent larger than the officially declared value. Myanmar is also one of the world's top producers of gems, ranking fourth in official ruby production and ninth in sapphire production in 2005.[7]Limestone, another key commodity in Myanmar, is estimated to comprise 10 percent of the sector's value by 2030. Myanmar also has 25th largest endowment of arable land and ten times the per capita water endowment of China and India. Myanmar is blessed with the working age population (15-64) estimated 46 million out of 60 million and estimated three million to five million working at abroad whose experience would benefit the country if they come back home.

Myanmar is also fortunate in its location at the crossroad between Bangladesh, China, India, Laos and Thailand, countries that are home to more than 40 percent of the world's population and are huge potential markets. Overall, Myanmar is close to a market of more than a half billion people.[8]And by 2025, over half of the world consuming class, that is those income of more than 10$ per day, will live within five hour flight of Myanmar. Not only Asian economies growing rapidly but also economic integration within the region is rather momentum and Myanmar is part of that process. It chaired for Association of Southeast Asian Nations (ASEAN) in 2014.In addition, Myanmar is gaining momentum support from multilateral institutions and donors. Sanctions are being lifted and foreign governments have opened embassies after many years of absence. Dozens of delegations have visited Myanmar in the past year alone, an indication of interest from potential investors. Moreover, with little legacy infrastructure in place, Myanmar can use digital technology to avoid some of the cost of a more conventional brick and motor approach to such sectors as banking, retail, education,health care and

[5]Stephen Webb and Robert Edel, *Mining in the Asia Pacific: A legal overview—Myanmar (Burma)*, DLA Piper, July 31, 2012

[6]Renaud Egreteau, "The Burmese jade trail: Transnational networks, China, and the (relative) impact of international sanctions on Myanmar's gem industry", in *Myanmar's transition: Openings, obstacles and opportunities*, Nick Cheesman, Monique Skidmore, and Trevor Wilson, eds., ISEAS Publications (Institute of Southeast Asian Studies), 2012.

[7]Thomas R. Yager, David Menxie, and Donald W. Olson, *Weight of production of emeralds, rubies, sapphires, and tanzanite from 1995 through 2005*, USGS, 2008.

[8] UN and China Bureau of Statics, except for the population of Indian Province, which comes from Indian Census

agriculture. It also can give even the poorest communities in remote rural area access to economic opportunity and public services.

Myanmar has a total of 12.25 million hectares of arable land and permanent crops, 25th largest endowment in the world despite the fact that Myanmar is only 38th largest country by total area. Although the country's endowment of water and fertile land is abundant, productivity in Myanmar's agriculture sector is low with output per worker of only around $1300 per worker in Thailand and Indonesia. The sector's low productivity and low level of input such as seeds, fertilizers, water and machinery suggest that there is significant room to grow. There is large scope to increase the share of fruits, vegetables, coffee, rubber and other high value crops as well as the production of fisheries. Given that agriculture currently accounts for 52 percent of workforce employment, capturing full growth potential of agriculture is critical to ensuring that the economy growth is shared widely.

Myanmar has large endowment of oil and gas-its most important export – precious minerals such as rubies, sapphires and jade. For example, Myanmar currently ranked 46th in the world in terms of proven gas reserve[9] and estimate of undiscovered gas reserve indicate that the amount of reserve is likely to much higher. Myanmar produced 90th percent of world's jade which is highly valued in Asia. Many of these natural resources are largely unexploited today- with new technologies, potential would be much higher than the current estimates. But Myanmar should not depend on natural resources to boost its economy.

Myanmar labour cost are comparatively low, giving the country an opportunity to boost output in labour intensive manufacturing sectors such as textiles, leather, furniture and toys at a time when some of this manufacturing is leaving China. However, labour productivity in this sector is also weak. Output per worker is 70 percent in Vietnam in 2010, 20 percent of that in China and Thailand, and less than 15 percent of that in Malaysia.[10] To compete in the region, Myanmar will need to improve labour productivity. On the back of that higher productivity, there is scope over time to make the transition to more value-added sectors, following the example of Thailand, Malaysia, and other Asian economies.

Myanmar's infrastructure is not sufficient today to support the higher growth and future demand driven by developing industrial sectors an urbanizing population. Between 2010 and 2030, MGI suggests that Myanmar will need to invest $320 billion in its infrastructure if the economy is to achieve growth of 8 percent a year. The majority of infrastructure investment- 60 percent- will need to be residential and commercial real estate, but there is also a huge for power plants, water treatment plants and road and rail networks.

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[9]Proven reserves: *BP statistical review of world energy 2012*; undiscovered reserves: US Geological Survey, *World petroleum assessment 2000,* and *BP statistical review 2004*; McKinsey Global Institute analysis
[10]McKinsey Global Institute, "Myanmar's moment: Unique opportunities, major challenges," June 2003 (henceforth: Myanmar's moment: Unique opportunities, major challenges)

Myanmar could emulate the example of other countries that have made large up-front and rapid investments in infrastructure. As an illustration, between 2004 and 2012, China increased its road network by 59 percent in terms of kilometres and Malaysia increased its network by 179 percent. Between 2007 and 2012, India increased the length of its rail network by 32 percent. Between 2007 and 2010, Morocco increased electricity production from renewable sources by 3.5 times.[11]

It is important that Myanmar plans to invest in sufficient infrastructure, because infrastructure is a key to driving growth in productivity and to attracting investors and companies to locate in the country. Myanmar's low level of infrastructure investment today does give the economy a potential greenfield advantage. Myanmar could bypass old technologies and approaches and build well-planned, cost-effective, and potentially sustainable infrastructure, including medium-term investment in rail networks, automated port systems, and energy-efficient buildings.

The country will need to maintain credibility with the international community by demonstrating that it is committed to reform. The government also needs to show that it is capable of managing change. Myanmar is early in its transformation and will need to work courageously to maintain the speed and course of change currently under way and build capabilities within the government. Huge progress has already been made—with many of those in government working tirelessly. One of the tasks facing Myanmar is to develop a cadre of skilled and talented officials who can navigate the country through the many challenges that lie ahead.

Myanmar has a large opportunity to attract FDI. Action in virtually every area of economic development as well as governance itself is essential. Myanmar has to priortise its efforts and ensures delivery. On the economic front, Myanmar needs to maintain macroeconomic stability, enhance and expand education and vocational training to close its skill gap, invest heavily infrastructure, improve the ease of doing business and strengthen its financial system. A politically stable environment is important. Economic development and Foreign Direct Investment in Myanmar will take off only if all parties remain committed to the reform agenda if there is domestic political stability and security. Finally there is the enormous challenge of putting in place the governance structure and capability that are necessary to implement, effectively and at the right place and the complicated tasks that lies ahead.

Myanmar can also take advantage of powerful external trends. ASEAN integration has entered an active phase, and there is already intense interest in Myanmar's prospects among investors, companies, and foreign governments and intergovernmental organizations. Many countries are setting up embassies in the country after numerous years of absence. Myanmar was in the international spotlight as host of the World Economic Forum in June 2013, Southeast Asian Games in December and did chair of ASEAN in 2014.

[11] *Myanmar: An untapped telco market*, Nomura Equity Research, March 14, 2012.

Myanmar's new openness is well timed to take advantage of the establishment of the ASEAN Economic Community (AEC) free trade zone at the end of 2015. Plans for enhancing regional connectivity and requirements for the liberalization of services and investment ahead of the 2015 deadline should help to entrench and speed up Myanmar's reform. In the Medium term, Myanmar can benefit from strengthening trade and investment ties and financial cooperation through such initiatives as the ASEAN+3 Asian Bond Markets Initiative and the Credit Guarantee and Investment Facility, which could mobilize savings throughout Asia and help to source funds for Myanmar's Investment needs. ASEAN is not the only useful regional forum, Myanmar is a long standing member of the Greater Mekong Subregion, a forum for economic cooperation that aims to facilitate high-priority sub-regional projects in transport, energy, telecommunications, the environment, the development of human resources, tourism, trade, private-sector investment, and agriculture.

The benefits are not guaranteed. ASEAN's market integration holds great potential for competitive sectors and companies in Myanmar to prepare and become competitive ahead of that integration. Myanmar together with other countries that joined ASEAN since 1990, has been given more time to meet targets laid down in the AEC blueprint than the developed ASEAN six countries, but meeting the required competitiveness standard ahead of the implementation of these targets remains challenging even on an extended timetable.

International investors, including multinational corporations and Asian businesses, are showing keen interest in Myanmar, keeping a close eye on action taken by the government on issues such as the rule of law as well as tax and financial regulations. The progressive easing of sanctions by the United States and the one-year suspension of sanctions by the European Union (EU) in April 2012 has helped to give investors increased confidence in Myanmar. "In response to the changes that have taken place and in the expectation that Myanmar will continue, the Council (of ministers) has decided to lift all sanctions with the exception of the embargo on arms."[12]However, considerable uncertainty remains.

Beginning in 1990, a number of countries, led by the United States, implemented a wide range of restrictions on Myanmar in several stages over 20 years in response to the crackdown on pro-democracy protests and the re-establishment of military rule. These sanctions included bans on certain imports, exports, and investments, as well as restrictions on the provision of services, asset freezes, limits to aid assistance and foreign-travel bans for those connected to the military regime. The sanctions have made doing business in the country difficult. Limits on imports mean supply lines often need to be entirely domestic. Export restrictions reduce sales potential for Myanmar-based operations. Sanctions of various types require additional due diligence for business transactions, increasing administrative costs.

Many investors are attracting a high degree of interest from investors. In June 2013, Myanmar plans to grant two licenses for the operation of private telecommunications and 91 expressions of interest were submitted before that decision, although the list of those qualifying was considerably smaller. The

[12] www.bbc.com/news/world/asia-222544493

financial service sector remain highly underdeveloped, and foreign banks will be allowed to operate in the country only after the planned Financial Institutions of Myanmar Law is put in place in anticipation of the integration of ASEAN at the end of 2015. While this law was still being drafted in spring 2013, another piece of legislation- the Central Bank of Myanmar Law- was likely to be passed shortly after and therefore might start to drive some reform of commercial banking. Looking ahead to this new access, 17 foreign banks had already established representative offices in Myanmar by April 2013.[13]

The International Community's Support

The fact that diplomatic relations with many countries around the world have normalized and that development partners are once again fully engaged in Myanmar will boost the country's potential to make rapid progress. The international community was united in its support of Myanmar's transition. Donors from across the world have committed to coordinating their activities through a programme of sustained development partnership detailed in the Nay Pyi Taw Accord of Effective Development Cooperation signed in January 2013.[14]

The Asian Development Bank and The World Bank settled the issue of Myanmar's outstanding arrears, and this left the way open for the Paris Club, Japan, and Norway to grant additional relief. This resulted in a total of $6 billion of debt relief given to Myanmar in January 2013. The government of Myanmar said that it had met with the Paris club on January 25 and that agreement was reached for the cancellation of half of the arrears in two stages, with the rest scheduled over 15 years with a seven-year grace period. In January 2013, the Asian Development Bank announced a $512 million loan for Myanmar and the World Bank declared $440 million in loans.[15] In the same month, International Finance Cooperation (IFC), part of the World Bank Group, announced that it was investing $2 million in ACLEDA Bank PLC to help set up a new microfinance institution with the aim of providing loans to more than 200,000 people by 2020.[16] Myanmar is in discussions to become a member of a Multilateral Investment Guarantee Agency, which provides risk guarantees to investors.[17]

Myanmar’s current state of development is undoubtedly a considerable challenge but could also prove to be a powerful advantage by allowing Myanmar to leapfrog over intermediate stages of development and accelerate growth. The fact that Myanmar is beginning its transformation decades after some of its Asian neighbours means that it can learn from their experience-good and bad. Moreover, Myanmar is starting its development in a post-Internet world, potentially allowing for a different, and higher productivity, approach to delivering public and commercial services using digital technology. Making the

[13] www.cbm.gov.mm/content/private bank
Union Minister Ministry of National Planning and Economic Department This Accord represents the shared intention of the Government of Myanmar and Development Partners and does notconstitute a legally binding instrument
[15] Press releases from the Asian Development Bank, World Bank, Paris Club, and Myanmar government
[16] International Finance Cooperation press release
[17] World bank press release

right decisions now could lead to high-productivity and energy-efficient systems and infrastructure for decades to come. Despite the up-front investment, higher productivity and efficiency will save on-going operating costs and potentially prevent financial, social, and environmental strains emerging. Technology that connects people even in the most remote areas to health care, education, banking, shopping, and other services can be a powerful force for social and economic inclusivity- a central component of Myanmar's "people-centered" development.

Myanmar is pivotal point in its complex history. It stands at the heart of the world's most dynamic region, but, after a century of economic stagnation, is at a far earlier point in its evolution. Now there is a groundswell of goodwill from governments and multilateral institutions, investors and companies, as well as citizens around the world. This is a window of opportunity-potentially a narrow one- that Myanmar must grasp. Over the next two decades, global demand for natural resources is likely to increase at an unprecedented rate, fuelled by the transformation of major emerging economies. Myanmar is a resource-driven exporter. Despite relatively limited exploration and development, natural resources still account for more than 55 percent of merchandise exports today. The role of natural resources in Myanmar's economy is likely to rise with the development of ambitious projects, including the Shwe natural gas pipeline and onshore terminal with a planned capacity of about 12 billion cubic metres of natural gas a year.

However, there should be a note of caution about relying too heavily on natural resources to support growth, development, and jobs. Revenue from this sector often fails to lend support to longer-term social and economic development. Indeed, rich endowments of resources can potentially harm an economy through channels such as macroeconomic volatility due to changes in resource prices and fiscal revenue; a reduction in the competitiveness of export sectors through exchange-rate appreciation and domestic cost inflation; and the potential undermining of democratic institutional development.[18]Resource endowments can also lead to distortions in the economy through subsidies on the domestic use of a raw material and by failing to recognise the environmental externalities of its over-use. Further, the production of resources often does not generate significant employment and can produce large environmental costs such as deforestation and contamination.

The Myanmar government has shown a willingness to adopt international best practices such as the voluntary Extractive Industries Transparency Initiative as it considers how to capture the greatest value from its natural resources. However, many challenges remain.[19]Ensuring that the country's natural resources help create a productive, inclusive, and resilient economy will require learning from the successes and failures of other resource-driven countries.

[18]Erika Weinthal and Pauline Jones Luong, Combating the resource curse: An alternative solution to managing mineral wealth, 2006; and Jeffrey Frankel, The natural resource curse: A survey of diagnoses and some prescriptions, Center for International Development at Harvard University, working paper number 233, 2012.
[19]Gwen Robinson and Lionel Barber, "Myanmar to reconsider energy contracts", *Financial Times*, April 11, 2013.

Conclusion

International economic sanctions, which have been progressively eased since the current government came to power, had dampened the flow of FDI into Myanmar. FDI was only $40 billion between 1989 and 2012, with the bulk of that coming from China.[20]In 2011, nominal FDI inflows were only $850 million, not materially higher than those of $879 million and $715 million in 1997 and 2007, respectively. To put those flows into context within Asia, in 2011 Thailand received $10 billion in nominal FDI flows and Vietnam $7 billion.[21] FDI into Myanmar has also been overwhelmingly directed to the resources sector. Despite some diversification in recent years, the resources sector still accounted for 87 percent of total permitted FDI in January 2012.To achieve a step change in FDI and get closerto meeting the economy's large need for investment, as well as to continue to diversify the sectors to which FDI goes, Myanmar needs to prioritise two main areas: developing a targeted FDI strategy led by a high-performing agency and improving Myanmar's business environment.

Myanmar needs to be proactive in its efforts to attract FDI, given its potential need for investment. Any effective FDI strategy needs to start with a clear understanding of the country's current competitive strengths and how they might evolve. Myanmar's Directorate of Investment and Company Administration (DICA) serves as its investment promotion agency, but that function is not yet fully developed. To play this role successfully, DICA can look at the experience of its counterparts elsewhere. These agencies tend to have four factors in common that drive success. First, they create a culture that is customer-focused, responsive, and flexible, and are staffed with talented people who are able to make the case for the investments and to connect effectively with investors. Second, they have the powers to address the concerns of investors by being firmly embedded in the centre of government. Third, they leverage prominent private- and public-sector representatives to champion the country's offering to investors. Finally, they build connections between foreign investors and local firms. One of the major themes that came up repeatedly was concern about the business environment in the country. In light of this, Myanmar needs to focus relentlessly on improving the environment in which businesses can operate in the country. This will be crucial to attracting larger volumes of FDI. Countries—or even individual cities—that have been successful in attracting large volumes of FDI have made the creation of a business-friendly environment a priority. Their experience suggests four areas that Myanmar would need to get right to help it attract FDI:

Many investors and embassy trade representatives indicate that concerns about whether the rule of law is fully established and embedded into the business environment in Myanmar is a major source of uncertainty for prospective investors. Instilling confidence in the sanctity of contracts and ensuring that

[20] IMF data
[21] "Towards a generation of Investment Policies" UNCAD, 2012

arbitration is available in the event of disagreements are both important considerations for investors contemplating deals with local partners and the government.

Foreign investors seek a level playing field with domestic firms. In practical terms, this requires limiting the preferential treatment of locally owned companies, as well as the removal of withholding tax on foreign remittances and ceilings on the repatriation of profits and capital by foreign firms. Simplifying and standardizing processes, and therefore the costs incurred by business, are important components of creating a business-friendly environment. Many of the companies whose leaders I interviewed said that it takes between one and six months to register a business in Myanmar today. This is comparable to the situation in Cambodia and Laos, where the average is around three months, but much longer than the average of one month in Thailand and Vietnam and less than a week in Malaysia.

The environment of a country in the broadest sense—the quality of life—is often a factor in whether companies decide whether to locate there. A country that offers social benefits such as health care, public safety (low crime rates and an effective police force), schools, and a rich cultural life may be more likely to attract businesses and talented individuals. To sum up, Foreign Direct Investment in Myanmar is still pivotal to improve its economic development. However, there are some challenges that need to fill the gap to attract foreign investment such as effective performance agency and business environment. Myanmar needs to be proactive in its efforts to attract FDI, given its potential need for investment. Any effective FDI strategy needs to start with a clear understanding of the country's current competitive strengths and how they might evolve.

Myanmar's Directorate of Investment and Company Administration (DICA) serves as its investment promotion agency, but that function is not yet fully developed. To play this role successfully, DICA can look at the experience of its counterparts elsewhere. These agencies tend to have four factors in common that drive success. First, they create a culture that is customer-focused, responsive, and flexible, and are staffed with talented people who are able to make the case for the investments and to connect effectively with investors. Second, they have the powers to address the concerns of investors by being firmly embedded in the centre of government. Third, they leverage prominent private- and public-sector representatives to champion the country's offering to investors. Finally, they build connections between foreign investors and local firms. As part of the research for this report, MGI conducted extensive interviews with foreign companies that have a presence in Asia to explore attitudes towards investing in Myanmar. One of the major themes that came up repeatedly was concern about the business environment in the country. In light of this, Myanmar needs to focus relentlessly on improving the environment in which businesses can operate in the country.

Countries—or even individual cities—that have been successful in attracting large volumes of FDI have made the creation of a business-friendly environment a priority. Concerns about whether the rule of law is fully established and embedded into the business environment in Myanmar is a major source of uncertainty for prospective investors. Instilling confidence in the sanctity of contracts and ensuring that

arbitration is available in the event of disagreements are both important considerations for investors. Foreign investors seek a level playing field with domestic firms. In practical terms, this requires limiting the preferential treatment of locally owned companies, as well as the removal of withholding tax on foreign remittances and ceilings on the repatriation of profits and capital by foreign firms. Indonesia achieved a six-fold increase in foreign investment between 2000 and 2011 partly because it allowed foreign investors to repatriate their earnings in the country after 2007.[22] Estonia liberalised its economic policy, and, by the end of 1994, nearly all controls on capital account transactions were removed. This move paid off and contributed to Estonia's increased FDI inflows; in 2005, FDI inflows were more than 14 times the 1995 levels.

Simplifying and standardising processes, and therefore the costs incurred by business, are important components of creating a business-friendly environment. Many of the companies whose leaders we interviewed said that it takes between one and six months to register a business in Myanmar today. This is comparable to the situation in Cambodia and Laos, where the average is around three months, but much longer than the average of one month in Thailand and Vietnam and less than a week in Malaysia. When Myanmar can ease doing business for investors and can create business environment, those will be crucial to attracting larger volumes of FDI.

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