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Myanmar's engagement in regional integration: Status and way forward

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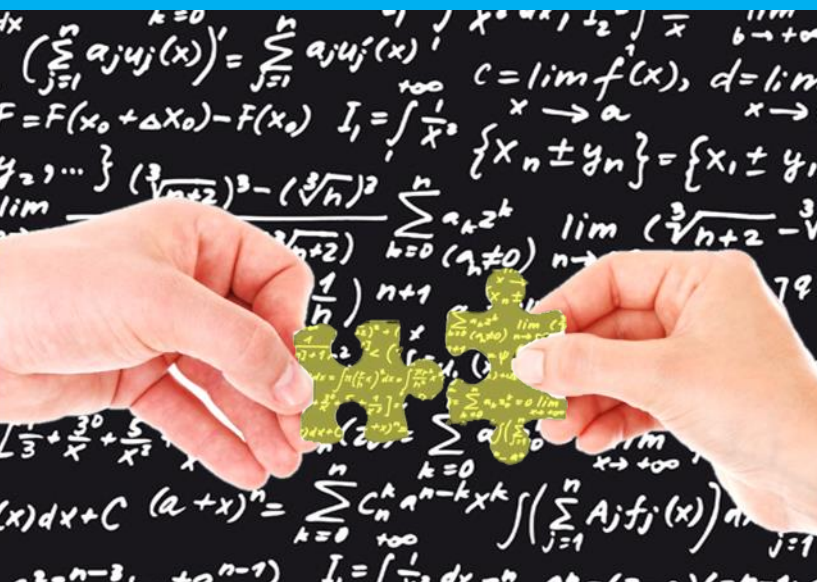
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Myanmar's engagement in regional integration:

Status and way forward



Prabir De

ASIA-PACIFIC RESEARCH AND TRAINING NETWORK ON TRADE

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ASIA-PACIFIC RESEARCH AND TRAINING NETWORK ON TRADE

WORKING PAPER

Myanmar's engagement in regional integration: Status and way forward[†]

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Abstract

Recent restoration of democracy in Myanmar is one of the most important developments in the country's history and potentially of large significance for the region. Owing to its strategic position, Myanmar connects Asia's three big markets— Association of Southeast Asian Nations (ASEAN), China, and India. Since 2011, Myanmar has embarked on a path of political and economic reforms, paving the way for unlocking the country's large potential. Myanmar's underdeveloped infrastructure, unavailability and mismatching of skilled human resources and poor connectivity with neighbouring countries seriously limit Myanmar's participation in the regional and global economies. This non-technical paper discusses Myanmar's participation in regional integration initiatives and argues that greater integration with the neighbours would be of paramount importance in building the country's infrastructure and setting it on the faster growth path.

Key words: Myanmar, Trade, Regional Integration, WTO, ASEAN, GSP

JEL codes: F10, F15, F60

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1. Introduction

Myanmar is perhaps Asia's last country to embrace globalisation. Myanmar had a memorable past.² Emerging from decades of economic and political isolation, Myanmar is striving for rapid growth and integration with the world. Myanmar enjoys a unique physical location: it is surrounded by world's two most populous countries, namely, China and India. Since 2011, Myanmar has embarked on a path of political and economic reforms, paving the way for unlocking the country's large economic potential. Myanmar could follow Asia's fast growing economies and expand at the rate of 7-8 per cent a year, graduate from a least developed country status and become a middle income country, and triple the per capita income by 2030, if it can surmount substantial development challenges by further implementing across-the-board reforms (ADB, 2012a; McKinsey 2013). Easing the sanctions in 2013 on investment in Myanmar by the European Union (EU), the United States of America (USA) and Australia as a reaction to the changes in the national legislation on FDI has raised the prospect of foreign investment boom in that country, thereby indicating availability of financial and technical resources for development of the country's infrastructure. Myanmar's disadvantages are the relatively small population size, missing institutions, inadequate trade capacity, insufficient infrastructure, narrow trade basket and lack of skilled human resources. At present, Myanmar's underdeveloped infrastructure, unavailability of sufficient skilled human resources and poor connectivity with neighbouring countries seriously limit Myanmar's participation in the regional and global economies. At the same time, owing to its strategic position, Myanmar is in the cross roads of Asia's three big markets— Association of Southeast Asian Nations (ASEAN), China, and India. Improving infrastructure, both national and international, is assumed to be essential for the country's prosperity, continued growth, and most importantly, global integration.³

² Refer, for example, Courtauld (2013) and Thant (2011) for a detailed discussion of Myanmar's development in the past, and achievements in recent years.

³ Infrastructure and growth are positively associated. Refer, for example, Straub and Terada-Hagiwara (2010)

The processes of global integration represent both challenges as well as opportunities for Myanmar, in so far as the country's growth prospects depend increasingly on external economic environment. In particular, policies of multilateral organizations such as the World Trade Organisation (WTO), the World Bank and International Monetary Fund (IMF), United Nations (UN) bodies such as Economic and Social Commission of Asia and the Pacific (ESCAP), regional development banks such as Asian Development Bank (ADB), and regional associations/blocs such as ASEAN, South Asian Association of Regional Cooperation (SAARC), Bay of Bengal Initiative for Multi-Sectoral Technical Economic Cooperation (BIMSTEC) and East Asia Summit (EAS) have an important bearing on the process of development of Myanmar.

In view of the above, this paper discusses the Myanmar's participation in regional integration programmes and argues why greater integration with the neighbours would be of paramount importance in building the country's infrastructure. The paper is structured as follows. After this introduction, Section 2 reviews the patterns of Myanmar's trade and presents an overview of Myanmar's current state of regional integration process, followed by a discussion on trends in foreign direct investment flows in Myanmar in Section 3. Finally, conclusions are drawn in Section 4.

2. Myanmar's trade partners and current engagement in regional blocks

2.1 Geographical patterns of Myanmar's trade

Restoration of democracy in Myanmar is one of the most important developments witnessed by Asia in the contemporary period. Surrounded by major emerging markets such as China and India, Myanmar has relatively few trade partners: China, India and Thailand together share almost 80 per cent of Myanmar's exports, and China, Thailand and Singapore share over 70 per cent of Myanmar's imports. Table 1

presents distribution of volume of exports and imports among Myanmar's top 10 trade partners. Among the top 10 trade partners of Myanmar, China and Thailand occupy the top two positions, both in exports and imports. India and Japan come next in that order in exports, and Singapore and Japan in imports. In destination market, Myanmar's export has been concentrated in top 10 partners – 92 percent in 2012 – 2015 vis-a-vis 86.54 percent in 2010-2012. China is Myanmar's largest source of imports. Myanmar's imports from China had doubled in 2013-2015 from 2010-2012 (see Table 1(b)). Unlike export, concentration of Myanmar's import from top 10 sources has remained static. The overall level of concentration in terms of Herfindahl-Hirschman Index (HHI) is highly alarming in case of Myanmar's exports, compared to imports.⁴

Table 1: Myanmar's top 10 trade partners

(a) Exports

Country	2010-2012		2013-15	
	Volume	Share*	Volume	Share*
	(US\$ million)	(%)	(US\$ million)	(%)
China	3,579.77	15.53	21,479.23	47.10
Thailand	9,125.47	39.59	10,449.11	22.92
India	3,389.63	14.71	3,491.03	7.66
Japan	1,504.34	6.53	2,253.83	4.94
European Union	602.53	2.61	1,421.51	3.12
Republic of Korea	736.09	3.19	1,430.38	3.14
Malaysia	587.72	2.55	502.45	1.10
Indonesia	151.51	0.66	317.40	0.70
United States	0.03	0.00	242.36	0.53
Viet Nam	270.09	1.17	363.16	0.80
World	23,048.59	100.00	45,599.00	100.00
Share of Top 10 in World, %		86.54		92.00
Herfindahl-Hirschman Index (HHI)		2,092.87		2,849.03

Source: Calculation based on DOTS, IMF database

Note: *Share in total export

⁴ The Herfindahl-Hirschman index (HHI) is a commonly accepted measure of market concentration. An HHI between 1,500 to 2,500 indicates moderate concentration, whereas HHI above 2,500 indicates high concentration.

(b) Imports

Country	2010-2012		2013-2015	
	Volume	Share**	Volume	Share**
	(US\$ million)	(%)	(US\$ million)	(%)
China	15,378.74	37.75	28,722.00	41.37
Thailand	8,794.96	21.59	13,241.12	19.07
Singapore	4,080.10	10.02	7,808.23	11.25
Japan	2,232.60	5.48	3,637.56	5.24
India	1,400.40	3.44	2,640.56	3.80
Malaysia	1,791.84	4.40	2,495.17	3.59
Republic of Korea	2,724.22	6.69	2,441.24	3.52
Indonesia	1,149.76	2.82	1,908.99	2.75
European Union	690.21	1.69	1,901.23	2.74
Viet Nam	274.77	0.67	1,029.33	1.48
World	40,739.65	100.00	69,435.00	100.00
Share of Top 10 in World, %		94.55		94.80
Herfindahl-Hirschman Index (HHI)		2,108.83		2,286.14

Source: Calculation based on DOTS, IMF database

Note: **Share in total export

Table 2: Myanmar's top 10 trade partners

(a) Exports to ASEAN

Country (million United States Dollar)	2010	2011	2012	2013	2014	2015
Thailand	2,590.27	3,172.60	3,362.60	3,655.42	3,560.93	3,232.76
Malaysia	207.34	212.82	167.56	180.62	151.69	170.14
Indonesia	28.95	64.80	57.76	66.50	110.98	139.92
Viet Nam	93.48	77.09	99.52	112.41	122.53	128.22
Singapore	74.79	78.01	71.74	162.58	144.58	112.61
Philippines	12.50	18.85	27.79	23.06	14.28	19.89
Brunei Darussalam	0.43	0.49	0.55	0.62	0.59	0.59
Cambodia	0.05	0.12	0.10	0.24	0.25	0.26
ASEAN	3,007.81	3,624.78	3,787.62	4,201.45	4,105.83	3,804.39
World	6,451.90	8,330.16	8,266.53	10,423.40	22,494.50	12,681.10
Share of ASEAN in World (%)	46.62	43.51	45.82	40.31	18.25	30.00

Source: Calculation based on DOTS, IMF database

(b) Imports from ASEAN

Country (million United States Dollar)	2010	2011	2012	2013	2014	2015
Thailand	2,280.16	3,095.57	3,419.23	4,103.48	4,614.95	4,522.69
Malaysia	1,271.89	1,333.60	1,474.61	2,472.59	2,637.91	2,697.73
Indonesia	402.14	615.60	774.10	784.74	886.30	824.13
Vietnam	312.59	395.42	441.75	612.01	623.60	673.38
Singapore	54.47	90.71	129.59	250.78	380.45	398.10
Philippines	12.36	15.54	21.05	24.95	20.61	35.93
Brunei Darussalam	0.00	0.09	0.09	0.74	0.78	0.81
Cambodia	0.08	0.10	0.11	0.11	0.12	0.13
ASEAN	4,333.69	5,546.63	6,260.53	8,249.40	9,164.72	9,152.90
World	9,947.55	13,720.20	17,071.90	20,488.40	24,429.40	24,517.20
Share of ASEAN in World (%)	43.57	40.43	36.67	40.26	37.52	37.33

Source: Calculation based on DOTS, IMF database

Next to China, ASEAN is Myanmar's major trade partner. Myanmar's trade with ASEAN has been driven mainly by Myanmar's bilateral trade with Thailand. Barring Thailand, Myanmar's exports to the rest ASEAN countries has been negligible, whereas Myanmar's exports to the Lao PDR, a neighbour of Myanmar, are less than \$1 million per annum. In 2015, only 30 per cent of Myanmar's total exports have been directed to ASEAN, down from 47 per cent in 2010. On the other hand, while Myanmar's volume of imports from ASEAN has gone up from US\$ 4.33 billion in 2010 to US\$ 9.15 billion in 2015, relative position of ASEAN as a source of imports, similar to exports, has also declined, rather slowly. What emerges is that ASEAN and China are Myanmar's major trade partners, whereas Japan, India, the European Union and the Republic of Korea are Myanmar's potential markets, which need to be nurtured, and trade will be promoted with these countries through effective trade facilitation measures.

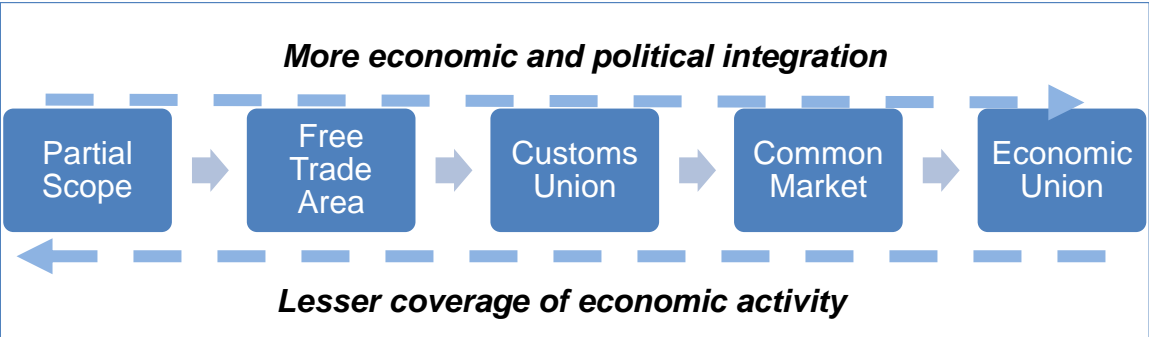
2.2 Myanmar's current engagement in regional integration process

The process of regional integration moves forward with formation of free trade area, customs union, common market and finally economic union (Viner, 1950; Balassa, 1961). Beginning of economic integration process involves lesser coverage of economic

activities. Moving forward from partial scope (e.g. preferential trade agreement) to economic union generates more economic as well as political integration (figure 1). Regional Trade Agreement (RTA), formed mainly through an FTA, establishes free trade area gradually. Customs Union, Common Market and Economic Union follow next.

Myanmar is an original member of the WTO (and its predecessor – General Agreement on Tariffs and Trade (GATT)). Myanmar has granted the most-favoured-nation (MFN) treatment to all its trading partners. According to Myanmar’s latest and only WTO Trade Policy Review: “Myanmar has bound 18.5 percent of its tariff lines (all tariff lines under WTO agriculture), with the simple average final bound rate at 87.2 percent. Myanmar undertook specific commitments under the GATS in tourism and travel-related services, and did not list any exemption to the principle of MFN treatment in its GATS commitment” (WTO, 2014). Merchandise trade in Myanmar are governed under the Sea Customs Act (1878), Land Customs Act (1924), the Export Import Law 2012, and the Tariff Law (1992). The acts and laws are administered by the Ministry of Finance and the Ministry of Commerce.

Figure 1: Level of regional integration



Source: Author’s own

Since multilateral trading negotiations have been moving slowly, Myanmar officials consider that the regional trading system can bring a wide range of economic opportunities for Myanmar as well as precious resources and technology for the

development of country's trading infrastructure.⁵ Illustrated in Table 3, Myanmar has an active participation in ASEAN and ASEAN's FTAs. Myanmar is part of ongoing trade negotiation of BIMSTEC FTA and Regional Comprehensive Economic Cooperation (RCEP) Agreement. In parallel, Myanmar has received preferential treatment through GSP (EU, Norway, US) and GSTP (reciprocal regime among developing countries) in recent years. The preferential access is expected to increase Myanmar's export earnings, promote the economy's industrialization in hope to accelerate the economic growth. Myanmar is also a member of SASEC and GMS, both were already made operational and driven by ADB. Myanmar is member of BCIM regional cooperation, which is still moving at Track II level. Myanmar has also shown interest to join BBIN and SAARC (De, 2016).

Table 3: Myanmar's participation in regional blocks

RTAs		Non-RTAs
List of RTAs in force**	Negotiations on-going	
<ul style="list-style-type: none"> • ASEAN - Australia - New Zealand • ASEAN - China • ASEAN - India • ASEAN - Japan • ASEAN - Republic of Korea • ASEAN Free Trade Area (AFTA) • Global System of Trade Preferences among Developing Countries (GSTP) 	<ul style="list-style-type: none"> • BIMSTEC • RCEP 	<ul style="list-style-type: none"> • BCIM • SASEC • GMS • MGC • BBIN* • SAARC*

Source: Author's own for those initiatives not notified by WTO.

Note: * Proposed

** According to the WTO RTA-IS Database accessed 2 July 2017

(<http://rtais.wto.org/UI/PublicSearchByMemberResult.aspx?MemberCode=104&lang=1&redirect=1>)

⁵ Based on author's own discussion with Mr. Yan Naing Tun, Director General, Myanmar Ministry of Commerce at Yangon on 9 May 2016

Table 4: ASEAN +1 agreements

ASEAN - Australia and New Zealand	
Title	Agreement Establishing the ASEAN-Australia-New Zealand Free Trade Area
Type	Free Trade Agreement & Economic Integration Agreement
Date of entry into force	1 January 2010 for Australia, Brunei Darussalam, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, and Viet Nam
Transition for full implementation for Myanmar	2021/2024/2025
Coverage	Goods and services
WTO consideration status	Factual presentation not distributed
Myanmar's merchandise trade with Australia and New Zealand (2011/12)	Australia: 0.8% of total imports; 0.1% of total exports New Zealand: 0.2% of total imports; 0.003% of total exports
WTO document series	WT/REG284/N/1 and S/C/N/545, 9 April 2010
ASEAN – China	
Title	Agreement on Trade in Goods (under the 2002 Framework Agreement on Comprehensive Economic Cooperation between ASEAN and the People's Republic of China)
Type	Partial Scope Agreement & Economic Integration Agreement
Date of signature/entry into force	Goods: November 2004/January 2005 Services: Jan 2007/July 2007
Transition for full implementation for Myanmar	2015
Coverage	Goods and services
WTO consideration status	Factual Abstract distributed (goods) Factual presentation not distributed (services)
Myanmar's merchandise trade with China (2011/12)	30.8% of total imports; 24.2% of total exports
WTO document series	WT/COMTD/N/20, 21 December 2004; S/C/N/463, 2 July 2008; WT/COMTD/51, 21 December 2004
ASEAN – India	
Title	Agreement on Trade in Goods (under the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and the Republic of India, 2003, as amended in 2009)

Type	Free Trade Agreement
Date of entry into force	1 January 2010 for Brunei Darussalam, Myanmar, and Viet Nam
Transition for full implementation for Myanmar	2018/2021
Coverage	Goods
WTO consideration status	Factual presentation not distributed
Myanmar's merchandise trade with India (2011/12)	3.6% of total imports; 11.4% of total exports
WTO document series	WT/COMTD/N/35, 23 August 2010
ASEAN – Japan	
Title	Agreement on Comprehensive Economic Partnership among Japan and Member States of ASEAN
Type	Free Trade Agreement
Date of entry into force	1 December 2008 (Singapore, Japan, Viet Nam, the Lao PDR, and Myanmar)
Transition for full implementation for Myanmar	2026
Coverage	Goods
WTO consideration status	Factual presentation not distributed
Myanmar's merchandise trade with Japan (2011/12)	5.6% of total imports; 3.5% of total exports
WTO document series	WT/REG277/N1, 14 December 2009 and WT/REG277/N2, 27 July 2011
ASEAN – Republic of Korea	
Title	Agreement on Trade in Goods (under the 2005 Framework Agreement on Comprehensive Economic Cooperation among the Governments of the Republic of Korea and ASEAN)
Type	Free Trade Agreement & Economic Integration Agreement
Date of signature/entry into force	Goods: August 2006/January 2010 Services: November 2008/May 2009
Transition for full implementation for Myanmar	2018
Coverage	Goods and services
WTO consideration status	Factual presentation not distributed
Myanmar's merchandise trade with Korea (2011/12)	5% of total imports; 2.4% of total exports
WTO document series	WT/REG287/N/1; WT/COMTD/N/33; S/C/N/559; S/C/N/560, 8 July 2010. S/C/N/559/Add.1; S/C/N/560, Add.1, 3 May 2011

Source: WTO (2014)

(a) ASEAN

Myanmar became an ASEAN member in 1997 and was its Chair in 2014. ASEAN has been planning to realize an ASEAN Economic Community (AEC) by 2025. ASEAN aims to establish a single market and production base in the ASEAN region, with freer flow of goods, services, skilled labour, and capital. ASEAN currently has component agreements on goods (ATIGA), services (AFAS), and investment (ACIA).⁶ Under the ATIGA, ASEAN members are bound to apply a tariff rate of 0-5 per cent for goods originating within ASEAN, with flexibility granted to LDCs, including Myanmar. Noted in Myanmar's Trade Policy Review, Myanmar's average tariff under the ATIGA was 0.6 per cent in 2012 (WTO, 2014). The basic principle for granting origin status to a product is 40 per cent regional/local-content as Rules of Origin (RoO). Besides, Myanmar has introduced several trade facilitation measures, opened a Trade Portal, and ratified the WTO Trade Facilitation Agreement (TFA).

(b) ASEAN RTAs

As an ASEAN member, Myanmar participates in ASEAN's preferential agreements with Australia and New Zealand, China, India, Japan, and Republic of Korea (Table 4). Being a member of ASEAN, Myanmar, together with the other ASEAN members, is negotiating the Regional Comprehensive Economic Partnership (RCEP) with ASEAN FTA partners such as Australia, China, India, Japan, Republic of Korea, and New Zealand, which is now (after several missed dates) expected to be concluded by end of 2017 or early 2018. The Agreement will cover trade in goods, trade in services, investment, and economic and technical cooperation, competition, intellectual property, dispute settlement, and other issues.

⁶ There are also ASEAN framework agreements on the facilitation of goods in transit (AFAGIT), and the Facilitation of Inter-State Transport (AFAFIST), among others.

(c) BIMSTEC

The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) is a forum to facilitate and promote trade, investment, and technical cooperation among countries around the Bay of Bengal such as Bangladesh, Bhutan, India, Nepal, Sri Lanka, Myanmar, and Thailand. Myanmar joined the BIMSTEC on 22 December 1997. It has 14 broad sectors for cooperation. In 2004, BIMSTEC agreed to establish a BIMSTEC Free Trade Area and signed the Framework Agreement in goods, services, and investment. Article 3 of the Agreement provides that goods, except those included in the Negative List, will be subject to tariff reduction or elimination according to different time frames. Myanmar had tariff reductions and eliminations for its fast track products before June 2011, and the tariffs on its normal track products are to be reduced or eliminated before June 2017. The trade negotiations have been ongoing. Myanmar is central to BIMSTEC integration process. BIMSTEC has received renewed thrust in recent years, particularly from India, and aims to strengthen the economic integration through connectivity projects. BIMSTEC's potential in enhancing trade among member countries lies in geographical contiguity and common coastal link with the Bay of Bengal and the eastern coast of the Indian Ocean.⁷

(d) Global System of Trade Preferences among Developing Countries (GSTP)

Global System of Trade Preferences among Developing Countries (GSTP) is a preferential trade agreement, which aims to increase trade among developing countries. Myanmar signed the GSTP in 1988, which entered into force on 19 April 1989.⁸ Myanmar has received GSTP preferences from almost all the developing countries, including China and India.

⁷ According to one estimate, once full FTA is in effect in 2017, the intra-regional trade would be scaled up to US\$ 47-59 billion annually.

⁸ WTO RTA-IS database, available at www.wto.org

(e) Generalized System of Preferences (GSP)

Generalized System of Preferences (GSP) is a preferential trade arrangement extended dominantly by developed countries to developing economies and in particular to the least developed countries. Myanmar, as the least developed country, is a beneficiary from a number of GSP schemes, including those accorded by Australia, Belarus, Canada, Japan, New Zealand, the Russian Federation, Switzerland, and Turkey. The European Union reinstated GSP treatment for Myanmar in July 2013, granting retrospective benefits to Myanmar's exports from June 2012. Norway and Canada reinstated GSP treatment in 2012 and 2015, respectively. In its latest revision of the US GSP regime in November 2016 Myanmar has received some GSP benefits too.⁹ Myanmar also received preferences from those developing economies which provide “duty-free, quota free” type of preferences to least developed countries (see Table 5 for more details).

Table 5: Other developing economies’ preferences extended to Myanmar

Name	Type	Provider(s)	Initial entry into force
Duty-Free Tariff Preference Scheme for LDCs	LDC-specific	India	13-Aug-08
Duty-free treatment for LDCs – Chile	LDC-specific	Chile	28-Feb-14
Duty-free treatment for LDCs - China	LDC-specific	China	01-Jul-10
Duty-free treatment for LDCs - Taiwan Province of China	LDC-specific	Taiwan Province of China	17-Dec-03
Duty-free treatment for LDCs - Kyrgyz Republic	LDC-specific	Kyrgyzstan	29-Mar-06
Duty-free treatment for LDCs – Tajikistan	LDC-specific	Tajikistan	25-Oct-03
Duty-free treatment for LDCs – Thailand	LDC-specific	Thailand	09-Apr-15
Preferential Tariff for LDCs - Republic of Korea	LDC-specific	Republic of Korea	01-Jan-00

Source: WTO PTA Database accessed 2 July 2017

⁹ Refer, <https://ustr.gov/sites/default/files/Burma-GSP-briefer-English-November-2016.pdf>

(f) Greater Mekong Sub-region (GMS)

The Greater Mekong Sub-region (GMS) programme, driven by the ADB is an important subregional cooperation programme in Asia. In 1992, Myanmar, together with Cambodia, the Lao PDR, Thailand, Viet Nam, and Yunnan Province of China¹⁰, launched the GMS programme to enhance economic linkages across their borders (ADB, 2012b). The GMS programme covers nine priority sectors including ambitious GMS economic corridor projects. Myanmar falls on the GMS East – West Economic Corridor.

(g) Other arrangements

After serving as Observer for several years, Myanmar has finally joined the ADB's South Asia Subregional Economic Cooperation (SASEC) programme on 21 February 2017 as a full member. Myanmar became the seventh SASEC member country, following the original four founding partners in 2001 — Bangladesh, Bhutan, India, and Nepal — and Maldives and Sri Lanka, who joined in 2014.

Myanmar is also active member of Mekong-Ganga Cooperation (MGC). MGC is an initiative by India and five ASEAN countries, namely, Cambodia, the Lao PDR, Myanmar, Thailand and Viet Nam for cooperation in tourism, culture, education, as well as transport and communications. It was launched in 2000 at Vientiane, the Lao PDR.

Myanmar is also a member of Bangladesh-China-India-Myanmar (BCIM), which is also known as Kunming Initiative. Launched in 1997 in Kunming, China, BCIM initiative is still known as Track II initiative. However, BCIM countries have completed a joint study to facilitate the development of BCIM-Economic Corridor (BCIM-EC).

Myanmar has shown interest to join BBIN and SAARC. To enhance bilateral trade with neighbouring countries, Myanmar has signed MOUs on establishing bilateral joint trade

¹⁰ Guangxi Zhuang Autonomous Region of China joined the GMS programme in 2004.

commissions with Bangladesh, India, Thailand and Viet Nam. Myanmar has 14 main border trade points with four neighbouring countries. Myanmar has signed border trade agreements with China, India, Bangladesh, Thailand and the Lao PDR. The border trade with China and Thailand is very active.

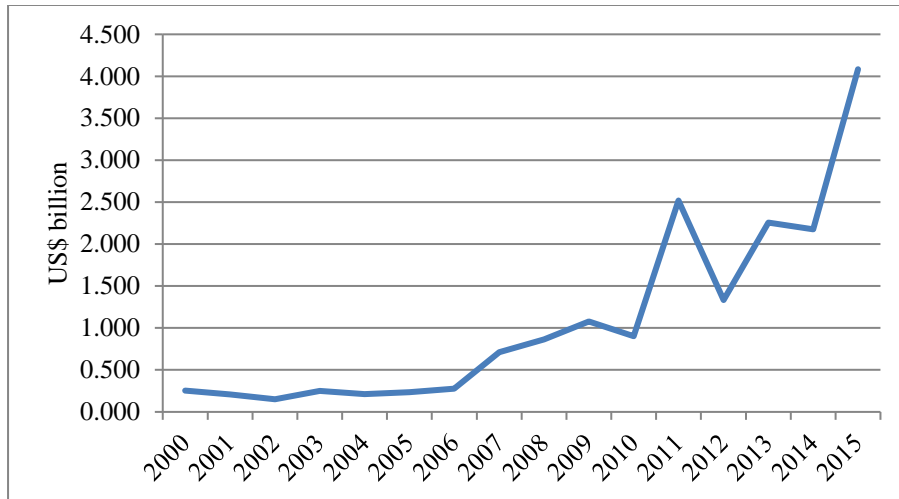
2.3 Trends in foreign direct investment inflows

Foreign Direct Investment (FDI) is considered to be an important source for achieving greater and faster economic growth. As such, it is identified as one of the key means of implementation of the 2030 Agenda for Sustainable Development (with trade, science, technology and innovation and domestic resources). Myanmar has been receiving an increasing amount of FDI in recent years, particularly 2010 onwards¹¹ FDI inflow to the country has increased from less than US\$ 1 billion in 2010 to over US\$ 4 billion in 2015 (figure 2). The sharp rise in FDI inflow has started in 2010 when Myanmar introduced the new FDI policy and new law to facilitate FDI in the country. Surge in FDI is an important development in Myanmar economy, indicating higher level of economic engagement with the world. Today, FDI inflows contribute over 6.5 per cent to country's GDP, which was half a decade back was even less than 2 per cent (figure 3).¹²

Figure 2: Foreign direct investment, net inflows (BoP, current US\$)

¹¹ Foreign direct investment refers to direct investment equity flows in the reporting economy. It is the sum of equity capital, reinvestment of earnings, and other capital. Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. Ownership of 10 per cent or more of the ordinary shares of voting stock is the criterion for determining the existence of a direct investment relationship (World Bank, 2017).

¹² In comparison, FDI contribution to GDP in India, China and Thailand has been an average 2 in 2014 and 2015 (World Bank, 2017)



Source: World Development Indicators (WDI), the World Bank

China has been the main investor in Myanmar, followed by Japan and Singapore. Table 6 illustrates the trends in FDI inflows to Myanmar and shares in Myanmar's total FDI inflow. Countries are cautious in investing in Myanmar in recent months due to change in certain policies and the uncertainties in Myanmar Investment Commission (MIC).¹³ As a result, FDI flow, according to the Directorate of Investment and Company Administration (DICA) Statistics, to the country has declined in 2016-17. As Myanmar starts taking reforms and strengthens the country's legal system, FDI inflow is likely to increase.¹⁴

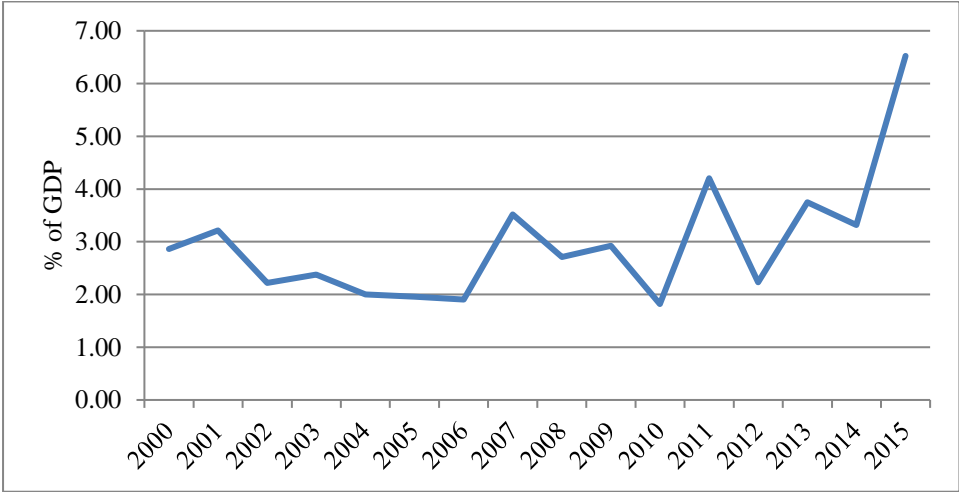
The total amount of FDI for the period from 1988 to 2016 has reached approximately US\$ 65 billion, consisting mainly of manufacturing enterprises, with oil and gas companies bringing in one-third of total investment. However, the year 2010 was the turning point of Myanmar's FDI inflow. Table 7 illustrates distribution of FDI flows during the period 2010-11 to 2016-17. During the period 2010-11 to 2016-17, the cumulative stock of FDI inflow was US\$ 51.18 billion, wherein power, oil and gas, and transport and communication are the country's top three major sectors, which together have attracted over 75 per cent of total FDI inflows to the country. Next is the manufacturing sector,

¹³ Refer, <https://www.ft.com/content/f7bda5bc-e150-11e6-8405-9e5580d6e5fb>

¹⁴ Refer, the recent commentary of Oxford Business Group, available at <https://www.oxfordbusinessgroup.com/overview/letter-legal-overview-climate-foreign-investment>

which has attracted US\$ 5.78 billion FDI in the same period. Hotel and Tourism, real estate, and mining are the most promising sectors in Myanmar; each of which has attracted over US\$ 1 billion FDI during the period 2010-11 to 2016-17. Trends in FDI inflow has therefore optimistic.

Figure 3: Foreign direct investment, net inflows (% of GDP)



Source: World Development Indicators (WDI), the World Bank

The Government of Myanmar has enacted new policies, which allow more foreign participation in the country by relaxing the previously strict trading rules. However, investment permits with corresponding incentives and benefits continue to be guided under the Myanmar Companies Act; Myanmar Foreign Investment Law, 2012 as well as investment permits issued under the Special Economic Zone (SEZ) Law, 2014. Through these laws, foreign investors may choose to establish a foreign branch office in Myanmar; incorporate a private limited company; apply for and secure an investment permit from the Myanmar Investment Commission (MIC), which is also known as an MIC Permit; or apply for and secure an investment permit from the relevant Myanmar SEZ Management Committee, which is also known as an SEZ Permit.

Table 6: Trends in top 10 country-wise FDI inflows

Year	China	India	Japan	Malaysia	Republic of Korea	Singapore	Thailand	United Kingdom	Viet Nam	Hong Kong, China	Total
(US\$ million)											
2010-11	8269.23	*	7.14	76.75	2676.40	226.17	2146.00	799.00	*	5798.28	19998.97
2011-12	4345.73	73.00	4.32	51.86	25.57	*	*	99.83	18.15	*	4644.46
2012-13	231.77	11.50	54.06	4.32	37.94	418.23	1.30	232.70	329.39	84.84	1419.47
2013-14	56.16	26.04	55.71	616.11	81.21	2300.12	529.07	156.86	142.00	107.10	4107.06
2014-15	511.42	208.89	85.74	6.72	299.59	4297.19	165.68	850.76	175.40	625.56	8010.53
2015-16	3323.85	224.22	219.79	257.22	128.09	4246.88	236.17	75.31	4.68	224.67	9481.28
2016-17	447.40	*	51.07	10.18	25.80	2626.72	106.28	7.43	2.20	187.60	3521.52
Share in total FDI inflow											
Year	China	India	Japan	Malaysia	Republic of Korea	Singapore	Thailand	United Kingdom	Viet Nam	Hong Kong, China	Total (9)
(%)											
2010-11	41.35	0.00	0.04	0.38	13.38	1.13	10.73	4.00	0.00	28.99	100.00
2011-12	21.73	0.37	0.02	0.26	0.13	0.00	0.00	0.50	0.09	0.00	23.09
2012-13	1.16	0.06	0.27	0.02	0.19	2.09	0.01	1.16	1.65	0.42	7.03
2013-14	0.28	0.13	0.28	3.08	0.41	11.50	2.65	0.78	0.71	0.54	20.35
2014-15	2.56	1.04	0.43	0.03	1.50	21.49	0.83	4.25	0.88	3.13	36.14
2015-16	16.62	1.12	1.10	1.29	0.64	21.24	1.18	0.38	0.02	1.12	44.71
2016-17	2.24	0.00	0.26	0.05	0.13	13.13	0.53	0.04	0.01	0.94	17.32

*Zero or negligible FDI inflow

Source: Directorate of Investment and Company Administration, available at <http://www.dica.gov.mm/en/data-and-statistics>

Table 7: Distribution of FDI flows, 2010-11 to 2016-17

(US\$ million)

Sector	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17*	Total (2010-11 to 2016-17)	Share [^] (2010-11 to 2016- 17) (%)
Agriculture	138.75		9.65	20.27	39.67	7.18		215.52	0.42
Livestock & Fisheries			5.60	96.02	26.86	8.25	86.69	223.42	0.44
Mining	1396.08	19.90	15.33	32.73	6.26	28.92		1499.22	2.93
Manufacturing	66.32	32.25	400.72	1826.98	1502.01	1065.00	883.14	5776.42	11.29
Power	8218.52	4343.98	364.20	46.51	40.11	360.10	605.67	13979.09	27.31
Oil and Gas	10179.30	247.70	309.20		3220.31	4817.79		18774.29	36.68
Construction									
Transport & Communication		0.63		1190.23	1679.30	1931.00	1628.87	6430.04	12.56
Hotel and Tourism			300.00	435.21	357.95	288.40	97.23	1478.78	2.89
Real Estate				440.57	780.75	728.68	165.00	2115.00	4.13
Industrial Estate						10.00		10.00	0.02
Other Services			14.77	18.53	357.32	235.96	54.92	681.51	1.33
Total	19998.97	4644.46	1419.47	4107.06	8010.53	9481.28	3521.52	51183.28	100.00

*Till December 2016. ^Share in total FDI flows during the period 2010-11 to 2016-17. An empty cell means no FDI

Source: Directorate of Investment and Company Administration (DICA)

The Foreign Investment Law, enacted in 2012, vastly simplified the process for investment application and offers a number of tax breaks, incentives and guarantees rights and protections for foreign business ventures. Likewise, the MIC was restructured and its members are stakeholders from the Government, the private sector and academia. The MIC approves new investment proposals and provides regular market updates. Four types of FDIs are now allowed in the country:

- Full (100 per cent) investment: Foreign investors may invest without any local partners in permitted sectors.
- Joint Venture: Joint ventures may be created with foreign, local and government entities.
- Contract: Foreign investors may act under a mutually-agreed upon contract.
- Other Investment Forms: These include build operate-transfer (BOT) and build-operate-own (BOO) investments.

Myanmar's legal framework has to be consistent with international standards, which has been again revolving on continuous basis. Some important laws such as the Foreign Investment Law, Myanmar Companies Act and the IP regulations are still in the pipeline. To facilitate and sustain the FDI trends, Myanmar has to revise the Companies Act on urgent basis. Myanmar does not allow foreign companies from having stakes in existing domestic businesses, but the revision in Companies Act is expected to allow foreign ownership in some companies. The government is considering setting the upper limit of foreign stakes at 35 per cent.¹⁵ The government may allow foreign investors to trade on the Yangon Stock Exchange (YSE).

3. Bilateral investment agreements and double taxation avoidance agreements

4.

As a member of ASEAN, Myanmar is also a party to various multilateral agreements that aim to develop and enhance cross-border trade and investment among ASEAN countries such as RCEP, the ASEAN Comprehensive Investment Agreement and the agreement on the ASEAN Economic Community. Bilateral Investment Agreements (BIAs) and Double Taxation Avoidance Agreements (DTAAs) are important tools for enhancing foreign investments and restoring transparency. To further improve the investor confidence, Myanmar has entered into BIAs with Japan, the Republic of Korea,

¹⁵ Author's own discussion with bank executives in Yangon in December 2016

the Philippines, China, the Lao PDR, Viet Nam, Thailand, and India. Myanmar has concluded several BIAs and DTAAAs till 2016 (Table 8).

Table 8: BIAs and DTAAAs

Bilateral Investment Agreements		
Country/Region	Date of signature	Date of entry into force
Philippines	17.02.1998	11.09.1998
Viet Nam	15.02.2000	-
China	12.12.2001	21.05.2002
The Lao PDR	05.05.2003	-
Thailand	14.03.2008	-
India	24.06.2008	08.02.2009
Kuwait	06.08.2008	-
Double-Taxation Avoidance Agreements		
Country/Region	Date of entry into force	
United Kingdom	01/10/1948	
Viet Nam	01/04/2004	
Republic of Korea	01/04/2004	
Malaysia	01/04/2009	
India	01/04/2009	
Singapore	01/04/2010	
The Lao PDR	01/04/2011	
Thailand	01/04/2012	

- Not yet in force.

Source: Trade Policy Review of Myanmar (WTO, 2014)

4. Conclusions and policy implications

Myanmar is a “double track” land-bridge, connecting South and Southeast Asia in one side and South and East Asia, on the other. Starting with a low base, Myanmar has strong potential for growth. Surrounded by China, India, ASEAN and the Bay of Bengal, the country has relatively young labour force, is rich and has plenty of natural resources. However, Myanmar suffers from lack of capacity and infrastructure, which are the strong impediments to Myanmar's integration with the world. Therefore, the Government of Myanmar shall undertake structural reform programmes, prioritizing trade infrastructure and capacity building. Regional integration may help Myanmar to gain higher market access and entail significant benefits. At the same time, Myanmar has to undertake policies and programmes for a sustained industrial and agricultural development to attain poverty alleviation and rural development, promote local and foreign investment, and implement projects for all round social development leading to the improvement in the quality of life. When the trade with the bordering neighbours is vital for Myanmar's growth and development, greater economic integration with neighbourhood will go a long way in narrowing the infrastructure gap and strengthening the country's globalization process. Myanmar shall aim to promote greater cooperation and collaboration with EAS, ASEAN, SAARC, BIMSTEC, BCIM, IORA, and GMS. Myanmar's greater participation in regional integration arrangements is expected to further promote and accelerate the Asian integration process.

Given AEC and the trade preferences through GSP and GSTP, there is a huge scope for Myanmar to take part in value-added trade with the neighbouring countries. The potential sectors of investment would be transportation, energy, information and communication technology, agriculture, horticulture, climate protection, tourism and manufacturing such as automobiles, capital goods and electronics and electrical products, and services industries such as shipping, education, tourism, etc.

The investment environment in Myanmar continues to improve. FDI can be an important source of valuable technology and know-how. Launching ASEAN Economic Community

(AEC) in 2015 and the GSP and GSTP benefits have improved the investor sentiments on Myanmar. Several companies are now planning to expand their presence in Myanmar. Several SEZs and industrial zones are under development in the country. A supportive FDI environment is, therefore, needed for the improvement of physical infrastructure and global (or regional) value chains in the country. In view of Myanmar's ongoing efforts to modernise its legal framework, it seems very likely that this trend will continue going forward. The outlook for foreign investors seeking to expand into Myanmar is therefore promising.

Myanmar will aim to achieve business-oriented joint activities for trade and investment cooperation through trade facilitation measures (WTO TFA+), trade policy coordination, harmonization of standards, harmonization and simplification of procedures and the dissemination of information, conducting capacity-building, supporting the growth of SMEs, etc.

If value chain has to take place in Myanmar, the country needs to increase the skills of labour, which is an essential requirement. Myanmar will, therefore, collaborate for skill development and technology sharing. Myanmar offers high trade and investment opportunities. Myanmar may consider promoting trade in its respective regions and also with other regions through harmonization of non-tariff measures, trade and investment facilitation measures, etc. Besides, Myanmar should focus on strengthening trade and economic relations with emerging markets of the world such as BRICS. Investment facilitation should be taken up upfront, which would help build the needed infrastructure. It shall focus on strengthening physical and digital connectivity with the countries in ASEAN and the Bay of Bengal.

Myanmar is vulnerable to natural disaster. Natural disaster covers a wide range of events such as earthquakes, floods, landslides, cyclones, tsunamis, heat wave, etc. In 2004, a tsunami in the Indian Ocean has devastated several countries in the region including Myanmar. In 2008, Cyclone Nargis had devastated Myanmar. Disasters

particularly affect the poorest and most marginalised people, widening social inequalities and harming economic growth. Therefore, ignoring the disaster risk and allowing the risk to accumulate, would have an undermining effect on its own future potential for social and economic development in Myanmar. Greater regional cooperation will help Myanmar to gain precious resources for disaster management.

Myanmar has about 2000 km of coastline, which is dotted over a dozen of ports. Therefore, it is imperative for Myanmar to safeguard coastal security, safety, conservancy and the importance of protecting marine environment. However, it faces the rise of terrorism, piracy, etc. Strengthening Good Order at Sea with various best practices is required for global maritime safety and security. Therefore, collective security in terms of opposing terrorism, piracy, and the proliferation of weapons of mass destruction within or from the region would pave the way to peace and harmony in the region. Myanmar may undertake joint efforts for immediate rescue and relief to all human persons in distress in the Bay of Bengal region. Therefore, Myanmar may undertake policy measures to secure the shipping lanes and joint projects to build maritime domain awareness. Regional cooperation certainly has an important role in strengthening Myanmar's capacity in maritime sector.

Myanmar has the potential to become another dynamic growth centre of Asia if it builds a strong pool of skilled human resources, besides developing a stronger and improved connectivity with the neighbouring countries. Strengthening the human resources would speed up its growth process. Myanmar has some of Asia's pioneering institutions and universities. However, to support the country's participation in international and regional forums, policy research, capacity building and training are prerequisites

For Myanmar to grow fast in regional integration front, it has to first strengthen national integration. Myanmar is highly heterogeneous and diversified in terms of ethnicity and culture. Harnessing the diversity would help Myanmar to build a stronger partnership

with neighbours. Aid may not build Myanmar. Myanmar has to build its own economy through its own resources.

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