Republic of the Union of Myanmar

Directorate of Investment and Company Administration (DICA)

Long-term Foreign Direct Investment Promotion Plan in Myanmar

Final Report

Japan International Cooperation Agency

ALMEC Corporation

International Development Centre of Japan

Daiwa Institute of Research Ltd.

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US$1.0 = 970 Myanmar Kyat

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ABBREVIATIONS

ACIA	ASEAN Comprehensive Investment Agreement
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AFAS	ASEAN Framework Agreement on Services
ASEAN	Association of Southeast Asian Nations
BIA	Bilateral Investment Agreements
BOT	Build-Operate-Transfer
CBD	Central Business District
CEPT	Common Effective Preferential Tariff
CMP	Cutting, Making and Packing
DB	Doing Business
DICA	Directorate of Investment and Company Administration
EPA	Economic Partnership Agreement
ERIA	Economic Research Institute of ASEAN and East Asia
EU	European Union
FDI	Foreign Direct Investment
FDIPP	Foreign Direct Investment Promotion Plan
FESR	Framework for Economic and Social Reform
FIE	Foreign Invested Enterprise
FIL	Foreign Investment Law
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GMS	Greater Mekong Subregion
GOM	Government of Myanmar
GSC	Global Supply Chain
GSP	Generalized System of Preferences
HRD	Human Resource Development
ICOR	Incremental Capital-Output Ratio
ICT	Information Communication Technology
IFC	International Finance Corporation
IMF	International Monetary Fund
IPA	Investment Promotion Agency
IPR	Investment Promotion Report
IPR	Intellectual Property Rights
IT	Information Technology
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
JV	Joint Venture
LPI	Logistics Performance Index
MCA	Myanmar Companies Act
MCDV	Myanmar Comprehensive Development Vision

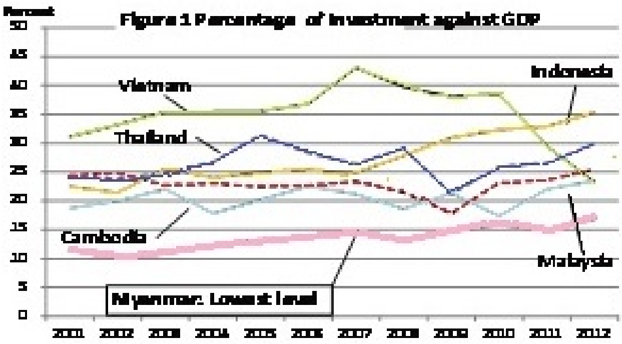
MIC	Myanmar Investment Commission
MICL	Myanmar Citizens Investment Law
MNPED	Ministry of National Planning and Economic Development
MOFR	Ministry of Finance & Revenue
MOHT	Ministry of Hotels and Tourism
MYT-PLAN	National Transport Master Plan
NCDP	National Comprehensive Development Plan
NT	National Treatment
OECD	Organisation for Economic Co-operation and Development
OSS	One Stop Service
PAT	Project Assessment Team
PFI	Policy Framework for Investment
PFI	Private Finance Initiative
PIP	Public Investment Program
PPP	Public Private Partnership
PTT	Permit to Trade
R&D	Research & Development
RRI	Regulatory Restrictiveness Index
SEE	State-owned Economic Enterprise
SEZ	Special Economic Zone
SME	Small and Medium Enterprises
SWOT	Strengths, Weaknesses, Opportunities, Threats
UMFCCI	Union of Myanmar Chamber of Commerce and Industry
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
VFVL	Vacant, Fallow, Virgin Lands
WTO	World Trade Organisation

Executive Summary

1. BACKGROUND

1.1 Critical role of FDI

After launching economic and social reforms in Myanmar, foreign investors started to intensely look at Myanmar because of its high growth potential deriving from territorial and population size, geographical location, rich natural resources, and future economic integration with neighbouring countries. The new trend of Foreign Direct Investment (FDI), i.e. a shift from investments on natural and energy resources sector to manufacturing sector, has been recently acknowledged; however, Myanmar’s FDI growth has not been satisfactory compared to neighbouring countries. This is underpinned by the fact that Myanmar’s investment share in Gross Domestic Product (GDP) is considerably lower than that of neighbouring countries (Figure 1). Also, the current status of inward FDI stock in Myanmar is also much lower than that of neighbouring countries (Table 1).



Source: IMF World Economic Outlook Database, April 2013

Table 1 FDI Inward Stock (Million US$)

	2011	2012
Myanmar	**9,123**	**11,910**
Thailand	139,735	159,125
Vietnam	72,778	72,530
Cambodia	6,850	8,413

Source: UNCTAD World Investment Report 2012 and 2013

The ASEAN Economic Community (AEC) will result in Association of Southeast Asian Nations (ASEAN) becoming a key investment destination, but it will increase competition within ASEAN countries. FDI plays significant roles in bridging the gap between investment needs and national savings, and bringing management know-how, advanced technologies, direct employment, and positive spill overs to domestic suppliers. The Government of Myanmar (GOM) needs to take full advantage of recent attention of FDI for further reforms to actual increase in various investments to materialise the diversified and sustainable economic development. In spite of current economic boom, many challenges remain unresolved in legal and administrative framework to further attract FDI. The improvement of investment climate is, thus, a matter of great urgency in Myanmar.

The Directorate of Investment and Company Administration (DICA), under the Ministry of National Planning and Economic Development (MNPED), is the primary organisation serving as an investment promotion agency of the country which is responsible for investment promotion and facilitation besides all other important tasks of the department. DICA currently engages in reforming the investment policy to improve the investment climate and to increase both the quality and quantity of investment from domestic and foreign investors. Further, the GOM also recognizes the significance of quality investment as it has following features

- Sustainable employment opportunities
- Values and efficiency in national production
- Generation of further capital flow

- Technology transfer of knowledge and skills
- Preservation of sustainable environment

The needs for long-term strategic plan have been advocated to streamline the various commitments to share the same vision among stakeholders. On the basis of above, a draft Long Term FDI Promotion Plan (FDIPP) has been outlined under the assistance of Japan International Cooperation Agency (JICA) and will be finalized in further consultation with and among the relevant Ministries and stakeholders.

1.2 Objective

The objective of the FDIPP is to set out the Myanmar's first comprehensive policy direction of FDI promotion, and to outline its transparent roadmap to reach its overall goal, contributing to Myanmar's further development and integration into the global community. FDIPP also aims to streamline the vision, goals and strategies with a framework corresponding to that of the National Comprehensive Development Plan 2011-30 (NCDP) prepared under the Ministry of National Planning and Economic Development.

2. VISION AND GOALS

In order to envisage the preferable FDI, the vision and goals have been drafted in the FDIPP. Since the NCDP sets a band of GDP growth of between 6 ~ 9% during the planning period which aims to place Myanmar into the global classification of a middle income country by 2032; the GDP per capita between US$3,000 to US$5,000. Target amount of FDI was estimated based on the framework utilised in the National Transport Development Plan. The total inflow of FDI by 2030 is targeted at US$140 billion. This indicative target figure is defined as the benchmark of dynamic economic growth and reflected in the following Vision. The Short-, Mid-, and Long- term Goals are drafted to explore how growth can be attained with the indicative target FDI amount per year.

Vision :
Dynamic economic growth led by FDI worth US$ 140 billion during the period of 2014 to 2030

Short-term Goal (2015): Increase of FDI to achieve access to the Global Supply Chain (GSC) for Myanmar's economy and to contribute to the development of the domestic market as well as to export.

Target FDI Amount : US$ 4 billion / year

Mid-Term Goal (2016-2020): Achievement of comparative advantage in the AEC with an internationally-recognized reputation and realization of domestic industrial diversification.

Target FDI Amount : US$ 6 billion / year

Long-term Goal (2021-2030): Development of industrial agglomeration through continuous FDI-led industrial development with sophisticated infrastructure and multi-layered supporting industries thus contributing as the core driver of Myanmar's sustainable economic growth.

Target FDI Amount : US$ 8 billion / year (2021 - 2025), US$ 11 billion / year (2026 - 2030) ,

3. ISSUES TO BE ADDRESSED

3.1 Legal Foundation

(1) Restrictive Provisions for FDI:

The Joint Venture requirements and restrictive business permit requirements under Foreign Investment Law (FIL) for economic activities of FDI listed in the notification (Notification 1/2013, Classification of Types of Economic Activities) by Myanmar Investment Commission (MIC) leave certain ambiguities. The FIL states that FDI may be allowed even in prohibited sectors if the MIC allows. These provisions leaves uncertainty as the criteria of MIC were not clearly defined. There is strong recommendation from the business community to employ international coding system such as ISIC (industry) and GATS W/120 (service) for classification of economic activities.

(2) Inconsistent and Unclear Provisions:

The structure of two investment laws; FIL and Myanmar Citizens Investment Law (MCIL) provides complexity in overall investment climate.

- Inconsistency in provisions between FIL and sector business permits, regulations under other ministries to avoid inconsistency. (e.g. land lease permit for agriculture and hotels.)
- Unclear provisions of investment related laws/regulations and their weak enforcement, including those related to business operation. (e.g. capital requirement).

(3) Limited Transparency and Efficiency in Implementation of Registration Procedures in FIL:

Due to inefficient operation of the current One Stop Service (OSS) system in coordination with business permits of the individual authorities (Ministries), procedures of registrations of FIL are resulted in limited transparency.

3.2 Investment Facilitation Measures

FDI promotion strategies based on their actual investment requirements are still limited. It is important to introduce appropriate investment management for attracting quality investment.

(1) Costly Establishment and Operation

Besides cost for time and manpower needed in the registration process, one of the most significant problems for foreign investors is rental fee of office and factories, and existing dual pricing systems for foreigners, which obliged to pay higher price for utility service

(2) Vulnerable Domestic Business Support:

Weak logistics, parts/services local supply and technical support

Limited logistics is a huge obstacle for promoting any industry. Technical support to research activities for a particular industry promotes to further develop industries. Although these logistics support and technical support will play great roles in attracting FDI, these business supports is rarely available in the country

Limited policy support for the development of higher value-added industry

"Business applying high technology" is stated as applicable economic activities under FIL. In addition, the investment which does not utilise high technology, but conduct traditional farming or livestock industry is not allowed in agriculture as well as livestock sectors. Without high technology, it is anticipated to have approval of MIC and a relevant ministry seems to be difficult, but criteria are not so clear. Support for higher value-added industry is, not well stipulated in FIL.

(3) Limited Infrastructure (hard / soft) :

Power/communication/ road/railway/bridge/port, / regional development

It is still huge obstacle to attract investment especially in manufacturing due to insufficient power / communication/ road / railway /bridge / port, etc. Even factories located in Industrial Zones of Yangon City experienced rolling blackouts in the dry season. Yangon and Mandalay which are 1st and 2nd cities in terms of population and accumulation of companies continue to attract new investments. It is highly likely that economic activity at Yangon will spread out Bago and Thilawa Special Economic Zone (SEZ). The other attractive area is border area which could be connected to Thailand by road. As the condition of the Greater Mekong Sub-region (GMS) East-West Economic Corridor and Three Pagoda Pass Road are improved and labour cost in Thailand rises, labour-intensive industry would be further relocated to Myanmar side. However, the current infrastructures in these attractive locations for investors are still limited.

Difficulty to procure funds from local financial system

Remittance of foreign currency for trade settlement, dividend payment, so-called "parent-subsidiary loan" has been relaxed after the new FIL in 2012. However, investors have been facing difficulties for taking out loans for business operation from domestic banks under the current financial framework, and need to obtain loans from overseas. This is a cumbersome procedure which incurs considerable costs to foreign investors.

(4) Inadequate Human Resources:

Investors reiterate lack of managerial level human resources and weak capacity of vocational and higher education to meet the demand of FDI. Human resource development (HRD) policies in response to the vast demand from business sectors are not yet well considered in Myanmar. Interaction among industry, government and educational and training institutions is not well functioning yet.

3.3 Limited Options on Investment Opportunities

Due to absence of appropriate regulations such as Public Private Partnership (PPP) / concession laws, there are few opportunities to participate in large-scale construction projects, e.g. construction in SEZ, under the current legislation.

Dialogues between the private sector and the government at various levels to substantiate further business opportunities in public sectors are still insufficient.

4. STRATEGIES

The following three FDI promotion strategies are drafted in order to overcome the issues of legal system, to improve investment climate and industrial development policies, and to widen investment opportunities in public sectors. These strategies need to be implemented jointly among ministries concerned. DICA will take initiative to set up a FDIPP Task Force at working level among line-Ministries and related authorities in order to implement FDIPP into actions. The function and duties of the FDIPP Task Force is to implement FDIPP including monitoring and evaluation of the progress. In order to ensure its efficient conduct of duties, it should have an appropriate authority to represent the consensus of the GOM on FDIPP issues. In this respect, it is to be considered the Task Force may well be located under a higher authority

Strategy 1: "Strategies for Strengthening of the Legal Foundation"

i) Relaxing the Restrictive Provisions

In pursuance of a more open investment climate, where relevant, the restrictive provisions are to be reviewed including those of the economic activities requiring Joint Venture and/or business permits/conditions (e.g. Notification No1/2013). The conformity of those provisions also needs to be reviewed with principles of international agreements such as World Trade Organisation (WTO) and Bilateral Investment Agreements.

ii) Improvement of Legal Provisional Consistency

a) Coordination between FIL and individual business laws,

In order to preserve clear consistency between FIL and business laws, the conditions of both side is to be reviewed and necessary amendments are to be prepared, where relevant.

b) Review of legal structure between FIL and MCIL,

In order to improve overall investment climate, the consistency of provisions is to be reviewed between FIL and MCIL primarily for ensuring the principle of national treatment. The further consideration can be taken, when relevant, for the integration of the two laws for the better investment climate.

iii) Improvement of Transparency and Efficiency in Law enforcement

Responding to the needs of Foreign Investment Enterprises (FIEs), focus areas in enforcing laws/regulations of FIL registration and other business permits of relevant ministries are to be highlighted for improving transparency and efficiency

Strategy 2: "Strategies for Investment Facilitation for Industrial Development"

i) Facilitation of FDI's Portfolio Needs for the Global Supply Chain(GSC)

As seen from the experiences of the FDI promotion policies in neighbouring countries, the sectoral priority set by FDI recipient countries to attract FDI is not always effective. Certain FDI behaviour is observed to be affected more by the portfolio needs, i.e. alternative production for risk hedge in its GSC. Given that the relevant facilitation such as joint research/analysis of investors' portfolio strategy and possible supporting measures, FDI will realize its objectives in favourable condition while Myanmar can extend the linkage with GSC through FDI (e.g.Thailand+one, China+one for the case of Japanese investors)"

ii) Facilitation of FDI for Diversification of Industry

It is essential to coordinate the FDI promotion policy with the industrial development policy. The GOM needs to prepare appropriate strategies to balance the structure of industry after concentration of initial FDI in-flow to labour-intensive/foot-loose industries which industrial development policy may address. At this respect, the FDI promotion policies are to assist the industrial development policy by attracting higher value-added industry and / or any industry which may accompany subsidiary supporting industries. As a part of FDI attraction, the FDI promotion policy may well include the aspects of bridging FIE with domestic industry which can provide FIE with operational supplies/services at the initial stage. Domestic small and medium enterprises (SMEs) may have potential significant roles in this respect. FIE's activities have potentials to widen the domestic inter-industry relations, and contribute to diversification of industry as well as exports.

iii) Facilitation of Infrastructure (hard and soft) Development

Infrastructure development needs to be accelerated in the area of on-going and prospective industrial agglomeration including SEZs. Prioritisation has to be considered in terms of the needs of FDI as well as regional development.

iv) Facilitation of Technology Transfer and Human Resource Development

The GOM will take necessary actions to encourage more technology transfer, initially on up-grading skills and technical knowledge of their employees through implementation of provisions of FIL. It is also important to promote further human resource development to meet investors' employment needs, and to facilitate technology transfer, and to prepare further efficient system for its employment by connecting vocational / higher educational institutions and FIEs.

Strategy 3: "Strategies for Widening Investment Opportunities"

i) Wider opportunities for FDI in public sectors

The GOM designates appropriate projects, especially large-scale infrastructure development, regional development, privatization and /or JV with public enterprises, etc. to attract FDI. The GOM also encourages private sector initiatives by introducing PPP and/or concession on regional development projects and/or public works to make it available for FDI.

ii) Extensive dialogues among stakeholders

The GOM promotes further dialogues on opportunities of interest and conducts necessary coordination among stakeholders proactively and interactively towards solutions to the FDI needs.

DICA takes initiative to promote dialogue on opportunities of interest and necessary coordination among stakeholders for proactive and interactive coordination towards solutions to the FDI needs. Special attentions are required to develop network with region/state governments. For the business location and information on local business, investors need to discuss with local governments and local business associations. It is ideal for DICA to provide upfront basic information of the local business and facilitate dialogue with local governments. For this purpose, establishing a good network with regional/state government is a prerequisite.

End of Executive Summary

Part I

Overview of Myanmar's Investment Climate

Part I Overview of Myanmar's Investment Climate

1. Project Background

1.1 Project Background

1. After the establishment of the new government in March 2011, Myanmar has moved from decades of isolation to an era of active re-engagement with the global economy. The government has laid down economic policy objectives with four pillars for reforms: 1) sustaining agriculture development towards industrialisation and all-round development, 2) balanced and proportionate development among regions and states, 3) inclusive economic growth for the entire population, and 4) quality statistics and statistical systems.

2. Based on the given policy framework, the first five-year plan (2011-15) targets 'People Centred Development' and the long-term National Comprehensive Development Plan (NCDP 2011-2030) is being drafted. Myanmar currently lacks a well-defined vision and framework for implementing different policies under the current government structure. In accordance with the government's mid-term and long-term reforms, a practical investment promotion strategy is required to ensure the creation of an investment-friendly climate and to catch up with Association of Southeast Asian Nations(ASEAN) and global standards.

3. The Directorate of Investment and Company Administration (DICA), under the Ministry of National Planning and Economic Development (MNPED), is the primary organisation serving as an Investment Promotion Agency (IPA) of the country and it is responsible for investment promotion and facilitation measures in addition to all the other important tasks of the Directorate. DICA is currently engaged in formulating the investment policy in order to improve the investment climate to increase investment both from domestic and foreign investors.

1.2 Objective and Study Methodology

4. The Long-term Foreign Direct Investment Promotion Plan (FDIPP) has been drafted in order to promote Foreign Direct Investment (FDI) as well as to address the issues which face investors. Also, it aims to streamline the vision and respective strategies with a framework corresponding to that of the NCDP. Integrated priority action plans coinciding with the 1st Five Year Development Plan (2011-2015) are defined and considerations for goals beyond 2016 are elaborated.

5. For a pragmatic approach to promote investment, vision and goals, strategies and actions were clarified. Actions to be taken were reflected in a roadmap which will lead to inter-sectoral coordination, regional coordination and ultimately to improving business enabling environment for both domestic and foreign investment. The following steps were taken to define the Vision, Goal and Strategy:

   - Successive discussions with DICA, the primary organisation serving as an IPA of the country and relevant ministries, and the NCDP drafting secretariat were conducted.
   - Utilisation of existing documents and sector survey outputs conducted by the Japan International Cooperation Agency (JICA) study team.
   - Analysis of current industry, investment trends, and experiences of neighbouring countries

2. Current Status and Prospects of Myanmar's Economic Development

2.1 Myanmar's Economy

(1) Socio Economic Situation

6. Myanmar has attracted attention from all over the world as a country of last development opportunities in South-East Asia since the country accelerated its economic and social reform in 2010, followed by subsequent easing of economic sanctions by the United States and EU countries.

7. As indicated in the 3rd column of Table I.2.1 the population of Myanmar accounts for 60 million and ranked 5th in ASEAN. The term "Myanmar as the last frontier in Asia," primarily refers to an abundant and cheap labour supply. Myanmar's Gross Domestic Product (GDP) per capita recorded US$ 875 in 2011 and it is the lowest level in ASEAN. The other countries' GDP per capita had already exceeded US$ 1,000 at that time excluding Cambodia.

Table I.2.1 Area, Population, GDP Growth Rate and GDP per Capita of ASEAN Member States

Name of country	Area (km^2)	Population in 2011 (000 persons)	GDP growth rate 2004-11 (%)	GDP per capita in 2011 (US$)
Brunei	5,765	423	0.8	38,703
Cambodia	181,035	14,521	7.6	879
Indonesia	1,860,360	237,651	5.8	3,563
Lao PDR	236,800	6,385	9.9*	1,279
Malaysia	330,252	28,964	7.5	9,941
Myanmar	**676,577**	**60,384**	**5.1*** **	**875**
Philippine	300,000	95,834	4.2**	2,341
Singapore	714	5,184	6.4	50,130
Thailand	513,120	67,597	3.2	5,116
Vietnam	331,051	87,840	7.1	1,403
Total	4,435,674	604,803	5.7	3,601

Note: * 2006-11, ** 2008-11; *** Calculated from Article IV Consultation Reports

Source: ASEAN Statistical Yearbook 2012; Article IV Consultation Reports (2012 and 2013), IMF

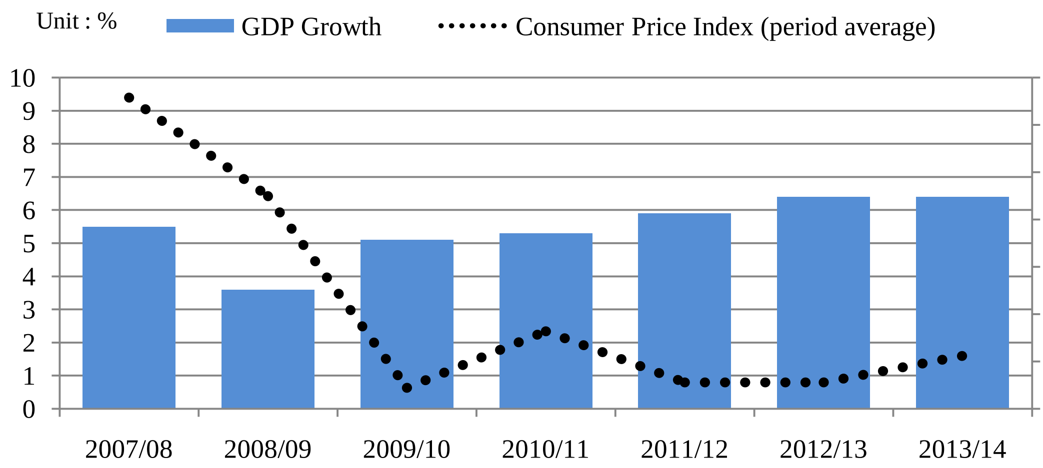
8. Myanmar's national area is the 2nd largest in ASEAN and the national territory stretches from north to south similar to Thailand. Myanmar also has more than 2,000 kilometres of shorelines. It lies in the monsoon region of Asia, with a wide range of rainfall from 5,000mm to less than 1,000mm. The country has rich mineral resources such as gems, copper and nickel, and oil and gas reserves are also available both onshore and offshore. The national territory of Myanmar also has a long history since the 11th century and abundant historical and cultural tourism resources are available.

9. Myanmar's geographic location at the junction connecting three large economic nations, China, India and Thailand, is considered to have a strategic importance. These countries have large scale markets, and goods and services produced by Myanmar have the potential to occupy a certain level of market share.

10. A glance at the macro-economic performance of Myanmar since 2007/08 shows a very high inflation rate at 32.9% in 2007/08 and at 22.5% in 2008/09, however it has settled since 2009/10 with GDP growth rate rising gradually (Figure I.2.1). Whilst GDP growth rate is still under 7% it is expected to double in the next 10 years. Therefore, the current economic boom in Myanmar

implies an "expectation for future rapid growth."

Figure I.2.1 Changes of GDP Growth Rate and Inflation Rate in Recent Years



Source: Article IV Consultation Reports (2012 and 2013), IMF

(2) Current Status of Industry

11. Table I.2.2 shows the cumulative amount of domestic investment from 1994 to October 2013, which was 3,609,733 million Kyat, approximately US$ 3,700 million. The largest investment is in the manufacturing sector, followed by construction, and hotel and tourism. The data up to October 2010 gives the total accumulated investment amount at US$ 1,050 million with the largest investment in construction which constitutes more than 50% of the total investment. This is an indication that investment in the manufacturing sector has increased significantly within a period of three years. In addition, investment in industrial estates increased owing to the demand from the manufacturing sector. Diversification of the investment sector in recent years is significant in the domestic investment.

Table I.2.2 Domestic Investment by Sector from 1994 to October 2010 and October 2013

	Accumulated amount as of 2010		**Accumulated amount as of 2013**	
Sector	Approved Amount (Million Kyat)	%	Approved Amount (Million Kyat)	%
Manufacturing	88,314	8.41	892,954	24.74
Construction	553,619	52.72	733,314	20.13
Others	61,537	5.86	473,079	13.11
Hotel and Tourism	6,931	0.66	433,298	12.00
Transport	64,477	6.14	306,728	8.50
Power	218,003	20.76	290,484	8.05
Industrial Estate	-	-	249,213	6.90
Real Estate Development	30,033	2.86	195,082	5.40
Livestock & Fisheries	14,387	1.37	22,025	0.61
Mining	12,181	1.16	13,008	0.36
Agriculture	525	0.05	548	0.02
Total	**1,050,111**	**100.00**	**3,609,733**	**100.00**

Source: DICA

12. Investment is a significant driving force for economic development, and both domestic and foreign investment play significant roles. However, this FDIPP focuses on FDI as FDI is considered to bring more technologies and employment, thereby generating a higher economic growth, and contributing to government revenue, which is considered insufficient for achievement of the planned economic growth target. The detail of economic growth scenario and target is found in the appendix.

13. The Myanmar Investment Guide [1] prepared by DICA identified promising investment opportunities in eight sectors: 1) Agriculture, 2) Forestry, 3) Mining, 4) Livestock / Fisheries, 5) Transport, 6) Hydropower, 7) Oil and Gas, and 8) Hotel and Tourism. Through discussions with DICA, as part of the FDIPP study, a sector study focusing on 1) Manufacturing, 2) Agriculture, and 3) Service sectors, which are expected to have a large employment and regional development impact, was conducted.

14. For the manufacturing sector, taking comparative advantage of connectivity with economic giants such as China, Thailand and India, there are many possibilities for Myanmar to gain opportunities of producing hubs of light industry and to enter the global supply chain for manufacturing, and thus expand to export growth. On the other hand, there are a large number of State own Economic Enterprises (SEE) which are required to reform in order to achieve sound economic growth. In the full report of the sector, which will be found in the appendix, a detailed study on textiles and automobiles is indicated.

15. Agriculture is a priority sector in the national development plan and an optimal investment allocation between domestic investment and foreign investment is required. However, the share of agriculture (crops) in approved foreign investment is limited to 0.44% and the share of livestock and fisheries is also limited to 0.79% according to the DICA data. The reasons for this low investment are due to various factors including current land legislation, customary land tenure rights, rice first policies which prohibit free choice of crops, lack of safeguards of granting large land areas and transparent selection criteria, etc. which are elaborated in the Organisation for Economic Co-operation and Development (OECD) Investment Policy Review (IPR).

16. Myanmar has identified tourism as one of the strategic sectors that significantly contributes to national employment and income generation. The country has become an emerging tourist destination for international travellers. The Ministry of Hotels and Tourism (MOHT) has created and published 'the Myanmar Tourism Master Plan (2013-2020)' in close collaboration and cooperation with Norway and Asian Development Bank (ADB). This Master Plan is to be 'used as a roadmap to shape the future of tourism in Myanmar'. All the tourism-related policies and efforts shall be designed to contribute to the full implementation of the Master Plan. FDI in the tourism sector should also be discussed and assessed in this context.

17. Although FDIPP does not give priority to the industrial sector for FDI direction, DICA as the Myanmar's IPA needs to understand the strategy of each sector. DICA will coordinate the interaction between potential investors and the concerned ministry, and will also provide the sector strategy to potential investors. The detail of the study on the sectors is found in the appendix.

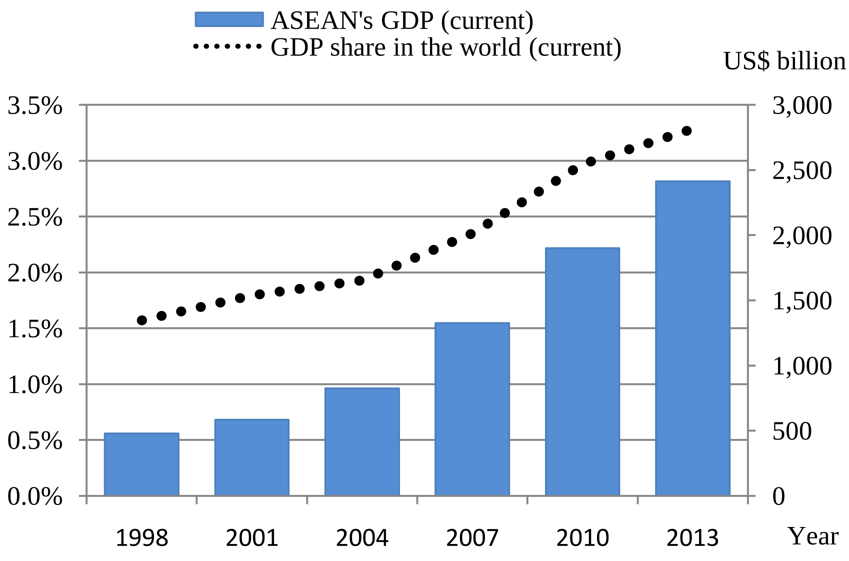
(3) Rapid Economic Development of ASEAN Countries

18. The ASEAN economy experienced rapid economic growth in the last 15 years. Figure I.2.2

[1] Available from the following website ; http://www.dica.gov.mm/Investment%20Guide.htm

shows that ASEAN GDP and the GDP share in the world during the period 1998-2013. ASEAN's GDP has increased five times in 15 years from 1998 to 2013, and the GDP share in the world economy has increased from 1.6% to 3.3%.

Figure I.2.2 GDP in ASEAN and the GDP share in the World



Source: World Economic Outlook Database October 2013, IMF

19. In accordance with the rapid economic growth, the trade volume has also increased very quickly. As indicated in Table I.2.3, the trade volume of ASEAN has increased 2.2 times from US$ 1.1 trillion in 2004 to US$ 2.4 trillion in 2011. Trade within the ASEAN member states has also increased 2.3 times from US$ 260 billion to US$ 598 billion. The proportion of intra-ASEAN trade to the total ASEAN trade has increased from 24% to 25% during this period.

Table I.2.3 Change of Trade Volume in ASEAN

Unit: US$ million

	2004	2011
Total trade	1,071,848	2,388,592
Trade within ASEAN members	260,941	598,242
Trade with external countries	810,907	1,790,350

Source: ASEAN Statistics in 2012

(4) Integration of ASEAN economy

20. One of the most important issues for the ASEAN member states is the formulation of the "ASEAN Economic Community (AEC)" in 2015. After completion of the Common Effective Preferential Tariff (CEPT) scheme by six advanced countries (Thailand, Malaysia, Indonesia, Singapore, Philippines and Brunei) in 2002, all members decided to aim at a more integrated economy beyond the free trade agreement in the region. The formulation of AEC is one of the most important milestones towards formulating the "ASEAN Community" in the future.

21. AEC covers not only the free movement of goods but also the free movement of services, investment and labour force towards formulation of a single market. Therefore, the following

three areas are positioned as priority integration sectors:

- ASEAN Free Trade Area (AFTA): Aims for free merchandise trade in ASEAN (elimination of tariffs) by 2015
- ASEAN Framework Agreement on Services (AFAS): Aims for free service trade in ASEAN by 2015
- ASEAN Comprehensive Investment Agreement (ACIA): Free investment on manufacturing industry from member countries to member countries has already been achieved in 2003. Aims for free investment in the manufacturing industry from external countries (excluding sensitive sector) by 2015.

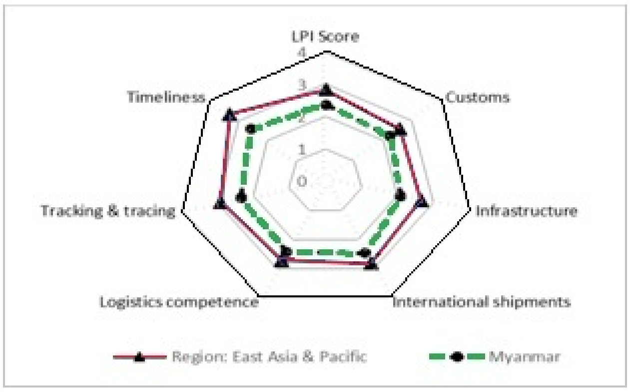
22. Since Myanmar is not an original member country of ASEAN, it has a longer moratorium to achieve these targets than the original members of ASEAN. The major objectives of the AEC are to create (1) a single market and production base, (2) a highly competitive economic region, (3) a region of equitable economic development and (4) a region fully integrated into the global economy.

23. The trend of fragmentation has also accelerated the recent change of investment destinations by foreign investors. It is important for DICA to analyse the portfolio strategy of foreign investors and take necessary action for investment promotion.

(5) **Infrastructural Development**

24. Logistic infrastructure is one of the important factors for investment. Unfortunately Myanmar's current logistic infrastructure is evaluated as poor (Figure I.2.3). Myanmar ranked at 129 out of 155 in the Logistics Performance Index (LPI) 2012 (Table I.2.4)

Figure I.2.3 Logistical Performance Index of Myanmar, 2012



Source:http://lpisurvey.worldbank.org/international/scorecard/radar/254/C/MMR/2012/R/EAP/2012/I/LIC/2012

Table I.2.4 Country Score Card of LPI 2012

	Rank		Customs		Infrastructure		International Shipment		Logistics quality and competence		Tracking and Tracing		Timeliness	
	2007	2012	2007	2012	2007	2012	2007	2012	2007	2012	2007	2012	2007	2012
Thailand	31	38	3.03	2.96	3.16	3.08	3.24	3.21	3.31	2.98	3.25	3.18	3.91	3.63
Vietnam	53	53	2.89	2.65	2.5	2.68	3	3.14	2.8	2.68	2.9	3.16	3.22	3.64
Cambodia	81	101	2.19	2.3	2.3	2.2	2.47	2.61	2.47	2.5	2.53	2.77	3.05	2.95
Myanmar	**147**	**129**	**2.07**	**2.24**	**1.69**	**2.1**	**1.73**	**2.47**	**2**	**2.42**	**1.57**	**2.34**	**2.08**	**2.59**

Source: LPI Result 2013, World Bank

25. The logistical performance index (LPI)[2] conducted in 2012 for Myanmar shows that exporting goods is relatively difficult compared to East Asia-Pacific countries, as shown in the figure below. The overall LPI score for Myanmar in 2012 was 2.37, equal to the average for low-income countries and lower than the average for East Asia-Pacific countries.

26. The relatively low logistics performance, in all the six variables specified in the LPI, translates into relatively high trade costs, which is an obstacle to Myanmar benefitting from its export potential. Prerequisites to bringing down trade costs include reforms in custom procedures and the regulatory framework.

27. From the viewpoint of private investors, infrastructure is also one of the major investment targets. Currently, the infrastructure service is weak; however, demand on infrastructure is increasing rapidly. Limited infrastructure capacity is also one of the major issues hindering the promotion of industrial activities in Myanmar. So far, almost all private-finance projects were limited to the transport and electric power sectors. Investment in transport infrastructure such as airlines and seaports was observed in the 1990s, however no further investments were made in this sector after the 1990s. In the electric power sector, there were six existing investment projects as of October 2013. The government has stepped forward to invite private finance, including foreign capital, for the infrastructure service. In 2013, the Myanmar government selected concessionaires of the three international airports (Hanthawaddy International Airport, Yangon International Airport and Mandalay International Airport) and two cellular phone licenses.

28. Currently, the shortage of infrastructure in Myanmar is an important obstacle to meeting the needs of society and to enterprise and economic development. Access to infrastructure assets is currently one of the weakest in the region. With almost 70% of the population living in rural areas, infrastructure investment connecting rural areas to cities and townships can also play an important role in raising the standards of living of a large segment of the population.

29. Myanmar is one of the countries with the most limited infrastructure networks in the region, particularly in Information Communication Technology (ICT), electricity and transport (TableI.2.5 through Table I.2.6). The transport sector is also underdeveloped, especially from the road network point of view (Table I.2.7). Although the core road network is in relatively good condition, with about 48% of it adequately paved, only 8% of the non-core secondary and local road network is in adequate condition. The poor condition of transport infrastructure explains Myanmar's weak performance in the World Bank's 2012 Logistics Performance Index, ranked 129 out of 155 countries as shown in Table I. 2.4.

2 The overall LPI index reflects the perception of a country's logistics environment based on about 1,000 responses to a survey of logistics performance evaluated from six key criteria. These subcategories are: (a) efficiency of the customs clearance process; (b) quality of transport and transport-related infrastructure; (c) ease of arranging competitively priced shipments and competence; (d) quality of logistics services; (e) tracking ability; and (f) timeliness of shipments. The value of the index ranges from 1 to 5, with a higher score representing a better performance. The overall international LPI was calculated using standard statistical techniques for aggregation, and approximates the simple average of the scores of the six subcategories.

Table I.2.5 Electric Power Consumption and Electrification

Country	Electric Power Consumption (per capita kWh)		Household Electrification Rate (% of households)			
	1990	2010	Earliest Year		Latest Year	
Myanmar	**46.0**	**131.0**	**n.a.**		**47.0**	**2002**
Vietnam	98.0	1,035.0	78.4	1997	96.1	2005
Thailand	703.0	2,243.0	n.a.		n.a,	
Cambodia	13.0	146.0	16.6	2000	31.1	2010
Lao PDR	64.0	103.0	n.a.		46.3	2002
Source: Key Indicators for Asia and the Pacific 2013, ADB						

Table I.2.6 Telephone and Internet Subscriptions

Country	Fixed Telephone Lines (thousands)		Mobile Cellular Phone (thousands)		Fixed Broadband Internet (thousands)	
	2000	2012	2000	2012	2000	2012
Myanmar	**271.4**	**555.6**	**13.4**	**5,440.0**	**0.2**	**5.4**
Vietnam	2,542.7	10,191.0	788.6	134,066.0	1.1	4,446.6
Thailand	5,591.1	6,391.0	3,056.0	84,075.0	1.6	4,357.4
Cambodia	30.9	584.5	130.5	19,105.1	0.1	29.7
Lao PDR	40.9	112.0	12.7	6,492.0	0.0	93.2

Source: Key Indicators for Asia and the Pacific 2013, ADB

Table I.2.7 Road Network

Country	Road Network (000km)			Road Density (km/000 ㎢)			Paved Road (% of total roads)			Access to All-Season Road (% of rural population)	
	1990	Latest Year		1990	Latest Year		1990	Latest Year		Latest Year	
Myanmar	**25.0**	**27.0**	**2005**	**38.3**	**41.3**	**2005**	**10.9**	**11.9**	**2005**	**n.a.**	
Vietnam	96.1	160.1	2007	295.2	516.3	2007	23.5	47.6	2007	83.5	2004
Thailand	72.2	180.1	2006	141.3	352.4	2006	55.3	98.5	2000	n.a.	
Cambodia	35.8	38.3	2004	202.8	216.7	2004	7.5	6.3	2004	80.7	2003
Lao PDR	14.0	39.6	2009	n.a.	171.4	2009	24.0	13.7	2009	64.4	2002

Source: Key Indicators for Asia ad the Pacific 2013, ADB

30. Inland waterways are also the important transport mode and the network is 43% larger (5 000 km in total) than the extension of the railroad network, and in 2011 it transported approximately 66% more tonnes of freight (5 million tonnes in total). The primary inland waterway routes are about 2 400 km[3]. However, infrastructure is poor with very few river ports containing cargo handling facilities and many have limited capacity for larger vessels. The eight existing coastal ports are also only equipped with basic facilities.

3 THOMSEN, S and PFISTER, M (2013) "Investment Policy Review of Myanmar", OECD

31. Access to electricity in 2009 was limited to 13% of the population, which is among the lowest in the region. Power supply shortages are also frequent in the country, notably in Yangon. Myanmar has the lowest rates of telephone and internet penetration in Southeast Asia - only 2.6 people in 100 have access to mobile telephones, 1.08 have access to fixed telephone lines and 0.06 have broadband internet subscriptions. The poor quality of internet infrastructure, limited to one access to the global fibre optic network and 1GB per second of bandwidth until recently, is also a concern for foreign investors.

2.2 National Development Policy Framework

(1) National Development Policy

32. The short-term four or five year-national plans were drafted from 1992/93 – 1995/96 as the first and followed by the 1996/97 - 2000/01 plan, the 2001/02 - 2005/06 plan, and the 2006/07 - 2010/11 plan. The current plan, 2011/12- 2014/15 has been published as the "Framework for Economic and Social Reforms (FESR)", which was presented at the donor meeting in January 2013 and is considered as the essential policy tool of the government to realize both the short-term and long-term potential of Myanmar. First, it provides a bridge linking the on-going programs of government to NCDP. Secondly, FESR serves as a required reference for various entities of the government to develop more detailed sectoral and regional plans. Third, it can serve as a guide for building lasting cooperation with development partners to obtain mutual benefits.

33. FESR sets Myanmar's vision "to become a modern developed nation that meets aspirations of its people for a better life; and to achieve greater integration with the international community by 2020," and describes necessary reforms in economic policies and social systems. With regard to investment liberalisation, the Government of Myanmar (GOM) articulated to reform relevant laws, to improve transparency by building capacity among the domestic judiciary and to conduct a comprehensive investment climate assessment to determine the full spectrum and magnitude of constraints to private sector development.

34. Under the FESR, GOM also stated the importance of SEZ to attract FDI and lead to increased exports by overcoming both soft and hard infrastructure bottlenecks. In addition, GOM is determined to encourage domestic firms by reducing burdensome regulations, and removing restrictive and unnecessary government controls in the same manner as for foreign investors.

(2) Economic development strategy described in other existing national plans

a) First Five-Year Plan (2011-15) and NCDP

35. It is said that preparation of the first Five -year plan (2011-15) has already been completed and would be discussed in the Parliament. The detailed contents of the plan have not been presented yet, but the following targets are expected to be included.

    - GOM strives to achieve an average annual GDP growth rate of 7.7%
    - Structural change of industry share from 26% to 32% together with an increase in the service sector, reducing the currently high share of agriculture
    - Per capita GDP growth will increase between 30 – 40% from the base year of 2010

36. NCDP is prepared based on the various kinds of inputs from the line ministries and local governments. In this regard, FDIPP is also an input for the NCDP.

b) Myanmar Comprehensive Development Vision (MCDV)

37. In the 3rd Mekong-Japan Summit[4], the leaders agreed to formulate the Myanmar Comprehensive Development Vision (MCDV) to support Myanmar's long-term development, and to be initiated by Economic Research Institute of ASEAN and East Asia (ERIA). MCDV was a long-term development aspiration and a set of growth strategies, which provided the foundation for a comprehensive and consistent set of economic policies, infrastructure and human resource development plans, industrial sector-wise growth paths, Region and State development master plans and so forth. MCDV envisaged Myanmar's development over 20 years, and also could be a comprehensive reference material of Myanmar economy for the present and future. The essence of the MCDV could be compiled into the following five strategies shown in Table I.2.8.

Table I.2.8 Five Strategies of MCDV and those Main Messages

Strategies	Main messages
Agriculture Plus Plus	- Importance of increase productivity by use of irrigation, fertilizer, agriculture machine and credit system for agriculture (Plus one) - Expanding economic functions of agriculture along its value chain: R&D, qualified seed, crop choice at the upstream side, and post harvesting, processing marketing, exporting and branding at the downstream side (The other plus one)
Export-oriented growth	- Difference of garment export, electric, and electric and electronics products with Myanmar since 1990s - Necessity to diversify export goods (from raw material only to diversified manufactured goods)
FDI-driven growth	- FDI promotion is a key to promote export-oriented growth. - Not crowding out but crowding in domestic investment - Spill over effect from foreign companies or joint-venture companies to domestic firms - Entering into Asian production system through "export-oriented growth" and "FDI-driven growth"
Two-polar growth	- Concentrating investments into developed industrial bases in Myanmar: Yangon and Mandalay - Two-polar growth will contribute to balanced national development through poverty reduction at Mandalay Region (acceleration of economic development at Mandalay) and delta area (acceleration of economic development at Yangon).
Development of domestic economic corridors	- Necessity of border area development (national border with Thailand, China and India) - Four economic corridors (north-south, east-west, right sash and left sash corridors) make Myanmar a "connecting node" or "land bridge" between Thailand, Laos, China, India, Bangladesh and the Indian Ocean

Source: Compiled by JICA Study Team

(3) Targeted Goals 2030 drafted in NCDP

38. The NCDP serves to guide Myanmar's development by providing a comprehensive and coherent strategic framework and substantive directions for aligning policy planning and investment decisions. The NCDP reflects a new development paradigm intended to move Myanmar from dependence upon the export of natural resources and basic agricultural commodities to higher stages of development that combine increasingly sophisticated technology and knowledge.

39. The 2030 vision for Myanmar is "a developed nation that is integrated into the global community" which is to be achieved through the realization of two long-term goals:

Goal 1: To build a growing diversified and sustainable economy

Goal 2: To ensure people-centred inclusive growth and development

[4] November 2012

40. The strategic framework of NCDP is based upon the achievement of these two long-term goals that are explicitly linked through the implementation of seven strategic thrusts. Although the government does not prioritize the implementation or sequencing of the identified strategic thrusts, it places institutional development at the centre of the strategy, acknowledging both challenges that is one side in the context of institutional capacity and also the need for effective democratic institutions to support sustainable and equitable growth for all the citizens of Myanmar.

41. Seven Strategic Thrusts:

Strategic thrusts identified within the NCDP are:

(1) Strengthen the governance and public institutions,
(2) Create an enabling business environment and strong enterprise base,
(3) Expand domestic and global connectivity and economic integration,
(4) Foster internationally competitive sectors,
(5) Develop local economic potential,
(6) Promote human development and reduce poverty, and
(7) Conserve and protect the natural resource base

42. Accelerating and Transforming Myanmar's Economic Development;

The NCDP provides an over-arching policy framework to support the rapid development and transformation of Myanmar's economy which aims to place the country into the global middle income classification by 2032 that boasts a GDP per capita of between US$3,000 and US$5,000 at current prices. To achieve this feasible, the Government acknowledges that a quick transformation of the economy in terms of its structure must be realized, and that a constant growth between 6% and 9% needs to be attained.

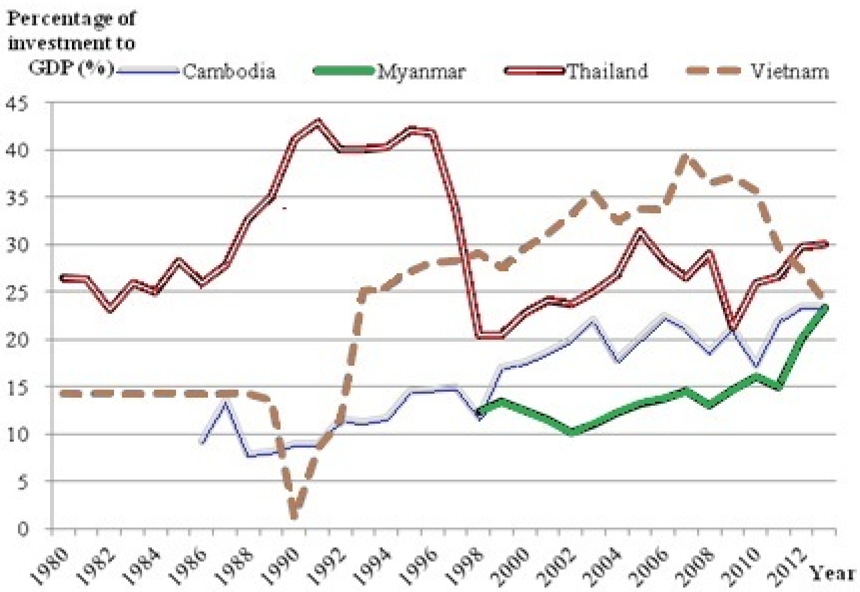
3. FDI situation and issues for the Myanmar's Economic Development

3.1 Current FDI situation

(4) Trend of Investment in Recent Years

43. The ratio of investment to GDP in Myanmar is the lowest in comparison to neighbouring countries such as Cambodia, Thailand and Vietnam in the 2000s. Figure I.3.1 indicates the percentage in the four countries since 1980. In the 2000s, the percentage was 30% to 40% in Vietnam, 20% to 30% in Thailand and 15% to 25% in Cambodia. Thailand experienced the highest percentages, with more than 40% of investment ratio to GDP in the 1990s. After the Asian Financial Crisis, the ratio dropped to 20% in 1998 and recorded 20% to 30% after year 2000.

Figure I.3.1 Ratio of Investment to GDP in Myanmar and Neighbouring Countries



Note: Myanmar's data before 1998 is not available.
Source: World Economic Outlook

44. Vietnam and Thailand, which recorded a high level of investment ratio to GDP, also achieved a high level of savings ratio to GDP (around 30%). Saving is the main factor for the investment and therefore, it is necessary for Myanmar to raise the savings ratio. The average percentage of savings from 2009 to 2013 of Myanmar was 21%. A 10% increase is needed to catch up with the level of Thailand and Vietnam.

3.2 Overview of FDI

45. DICA is compiling FDI statistics in terms of the number of investment projects and investment amount in the three categories: permitted investment, existing investment and terminated investment. All compiled data is on an application basis. Table I.3.1 tabulates permitted, existing and terminated projects by economic sectors, and Table I.3.2 shows such projects by major countries of origin.

Table I.3.1 Permitted, Existing and Terminated FDI Projects by Sectors

Unit: US$ million

Sectors	Permitted Investment		Existing Investment		Terminated Investment	
	No.	Approved amount	No.	Approved amount	No.	Approved amount
Power	7	19,284	6	13,254	1	6,030
Oil and Gas	115	14,372	64	13,630	51	902
Manufacturing	287	3,456	198	2,254	89	835
Mining	68	2,834	10	2,309	58	209
Hotel and Tourism	50	1,600	35	1,349	15	169
Real Estate	22	1,229	10	448	12	587
Livestock & Fisheries	26	347	8	88	18	21
Transport & Communication	16	314	7	138	9	113
Industrial Estate	3	193	2	179	1	14
Agriculture	12	192	9	163	3	29
Other Services	12	42	10	25	2	17
Construction	2	38	–	–	2	38
Total	620	43,902	359	33,837	261	8,963

Note: Accumulation from 1988/89 to October of 2013/14

Source: DICA

Table I.3.2 Permitted, Existing and Terminated Investment Projects by Major Countries of Origin

Unit: US$ million

Major Countries of Origin	Permitted Investment		Existing Investment		Terminated Investment	
	No.	Approved amount	No.	Approved amount	No.	Approved amount
Australia	14	99	1	23	13	39
China	51	14,193	31	14,115	20	72
Hong Kong	61	6,459	44	6,366	17	53
Japan	40	292	29	190	11	120
Malaysia	46	1,626	19	1,028	27	398
Republic of Korea	84	3,045	71	2,973	13	86
Singapore	96	2,584	60	2,247	36	245
Thailand	69	9,984	33	2,876	36	6,750
U.K *	62	3,056	30	2,503	32	530
U.S.A	15	244	-	-	15	318
Total of Major Countries	538	41,581	318	32,322	220	8,612
Total	620	43,902	359	33,837	261	8,963

Note: Accumulation from 1988/89 to October of 2013/14

Source: DICA

46. Most of the FDI projects are in the power sector and oil gas sector dominated by China and Thailand in the 2000s. However, FDI in the manufacturing sector, hotel and tourism and real estate sector has been increasing in recent years. Table I.3.3 indicates the average permitted investment amount per year during the period of fiscal year 2001 to 2011, the permitted investment amount of fiscal year

2012, and the permitted investment amount of fiscal year 2013 up to December 2013[5]. The figures increase substantially in manufacturing (US$17 million to over US$ 1,400 million), hotel and tourism (US$ 3 million to over US$ 400 million) and real estate (zero to US$172 million). On the other hand, the figures dropped in mining (US$208 million to US$ 4 million), power (US$1, 716 million to US$46 million) and oil and gas (US$1, 064 million to zero).

Table I.3.3 Current FDI Trend of Diversification by Permitted Investment Amount

Unit: US$ million

Sectors	Average Permitted Investment Amount per fiscal year in 2001/02 -2011/12	Permitted Investment Amount in fiscal year 2012/2013	Permitted Investment Amount in April to December 2013
Agriculture	13	9.65	9.21
Livestock & Fisheries	4	5.60	36.02
Mining	208	15.33	4.04
Manufacturing	17	400.72	1,438.25
Power	1,716	364.20	46.51
Oil and Gas	1,064	309.20	0
Construction	0	0	0
Transport & Communication	3	0	0
Hotel and Tourism	3	300.00	433.11
Real Estate	0	0	172.70
Other Services	0	14.77	15.94
Total	3,028	1,419.47	2,155.77

Source: DICA

47. In parallel with the change of investment amount by sectors, the trend of the number of projects has also changed from 2012/13. During the period 2007/08 and 2011/13, there were between 5 and 24 projects; however, it increased to 94 in 2012/13. In 2013/14, there will be around 95 projects if the current pace of FDI application figures are kept (Table I.2.12).

Table I.3.4 Change of Number of Permitted Projects

Fiscal Year	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Number of Projects	8	5	7	24	13	94	81

The permitted investment amount in 2013/14 is estimated until December.

Source: DICA

48. With regard to the trend of FDI, the majority of FDI was concentrated in resource and energy sector such as Power, Oil and Gas, and Mining during the period of 2001 - 2011. These investments mainly came from the neighbouring countries, such as China and Thailand (Table I.2.13).

5 Myanmar fiscal year starts from April and ends in March following year.

Table I.3.5 Comparison of the number of permitted FDI in Myanmar between 2001/2011and 2012/2013

Sector	Power		Manufacturing		Mining		Oil & Gas		Livestock & Fisheries		Construction		Hotel & Tourism		Transport & Communication		Other Service	
	2001 /2011	2012 /2013	2001 /2011	2012 /2013	2001 /2011	2012 /2013	2001 /2011	2012 /2013	2001 /2011	2012 /2013	2001 /2011	2012 /2013	2001 /2011	2012 /2013	2001 /2011	2012 /2013	2001 /2011	2012 /2013
China	5		3	7	5		6											
Japan			3	8				1										1
Korea			2	11					1									
Malaysia			2	1					1									
Singapore		1	1	5					1	1								2
Thailand	1		3	2	1		1				1		2					
UK				1			1	1							1			
Vietnam			1	1	1		1											
Others	1		5	8	5		13	2	1						1			
Total	**7**	**1**	**20**	**44**	**12**	**0**	**22**	**4**	**4**	**1**	**1**	**0**	**2**	**0**	**2**	**0**	**0**	**3**

Source of Table : Foreign Direct Investment Companies in Myanmar by Myanmar Survey Research (April, 2013)

49. The most remarkable change appeared in the manufacturing sector. Almost all investments in the manufacturing sector are contract manufacturing[6] of garments which has been booming since 2012/13. The major countries of origin are China, Hong Kong, Japan and Republic of Korea (Table I.2.14).

Table I.3.6 The number of Investment in Manufacturing Sector (2012-2013 March)

	China	Japan	Korea	Malaysia	Singapore	Thailand	UK	Vietnam	Others
CMP*	3	3	11			2			7
Automobile	1	1							
Medicine		2						1	
Cigarettes		1			1				
Beverage					3				
Wood					1				
Others	3	1		1			1		1
Total	7	8	11	1	5	2	1	1	8

Note : CMP - cutting, making and packing

Source : Foreign Direct Investment Companies in Myanmar by Myanmar Survey Research (April, 2013)

50. As explained above, the volume of investment in the manufacturing sector has increased since 2012; however, further diversification of the investment is imperative to achieve sustainable industrial development. Also, it is important for the Myanmar government to attract quality investment,[7]

6 In Myanmar, contract manufacturing is called CMP (cutting, making and packing). Companies that conduct CMP business receive exemption of import tax for materials if the company receives permission of CMP from MIC.

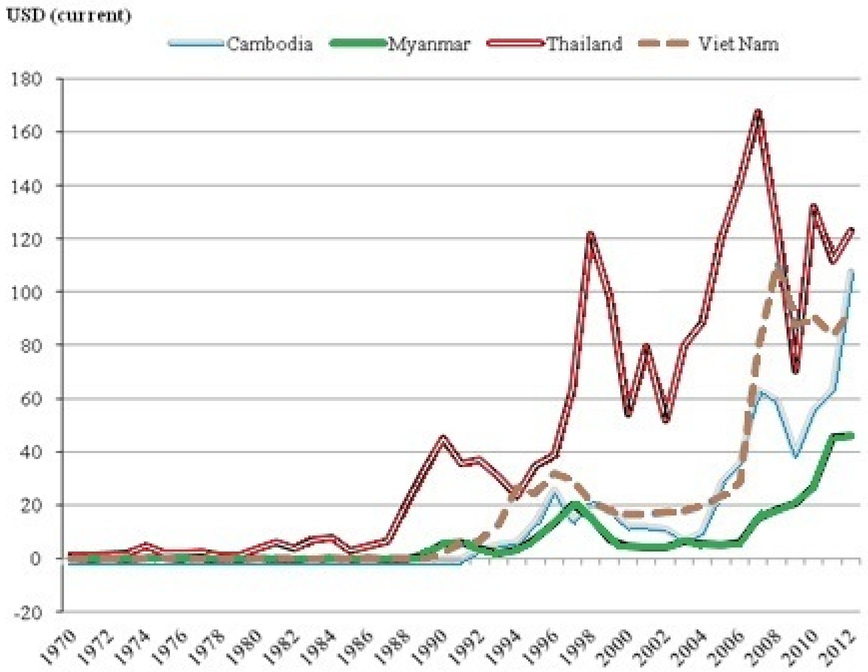
7 Quality investment is the investment that accompanies expected benefit of FDI such as; 1)creation of employment, technical transfer of efficiency in production, additional investment, technical transfer of knowledge and technique and environmentally sustainably development

which can contribute to economic as well as human resource development.

(2) FDI Statistics by UNCTAD[8]

51. Processed graphs of FDI inflow of Myanmar and the three neighbouring countries (Thailand, Cambodia and Vietnam) since 1970 and FDI stock of the four countries since 1980 are shown in Figure I.2.2 through I.2.4.

Figure I.3.2 FDI Inflow per Capita



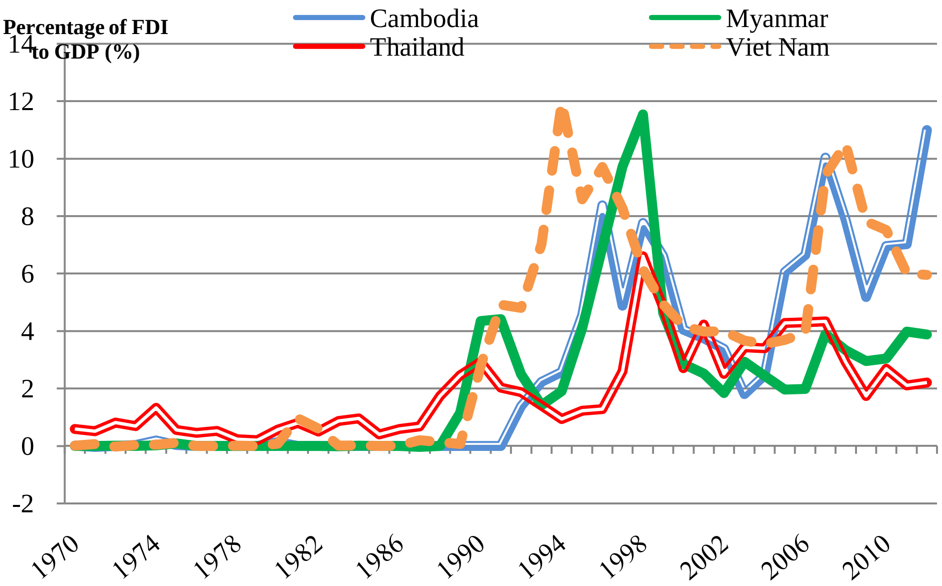
Source: UNCTADSTAT (http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx)

52. As indicated in Figure I.2.5, FDI inflow per capita for Myanmar is the lowest among the four countries. Cambodia and Vietnam experienced similar FDI inflow in the 1990s and in the beginning of the 2000s. However, Vietnam experienced a rapid increase (US$24 to US$114) during 2005-2008, and Cambodia also experienced a significant rise (US$10 to US$108) during 2004 -2012. So far Myanmar has not shown such a rapid increase.

53. Figure I.2.6 shows the proportion of FDI to GDP. Cambodia and Vietnam experienced waves of high percentage of FDI inflow to GDP twice. The first wave occurred in both countries in the 1990s when they opened the door to foreign investors. The second wave occurred in the second half of the 2000s. Cambodia's percentage has dropped after the Lehman Shock, however the percentage appears to have recovered in 2012. Myanmar experienced the same wave in the second half of the 1990s but has yet to experience a second wave. There is a large difference between Myanmar and the above two countries in terms of FDI inflow to GDP.

8 United Nations Conference on Trade and Development

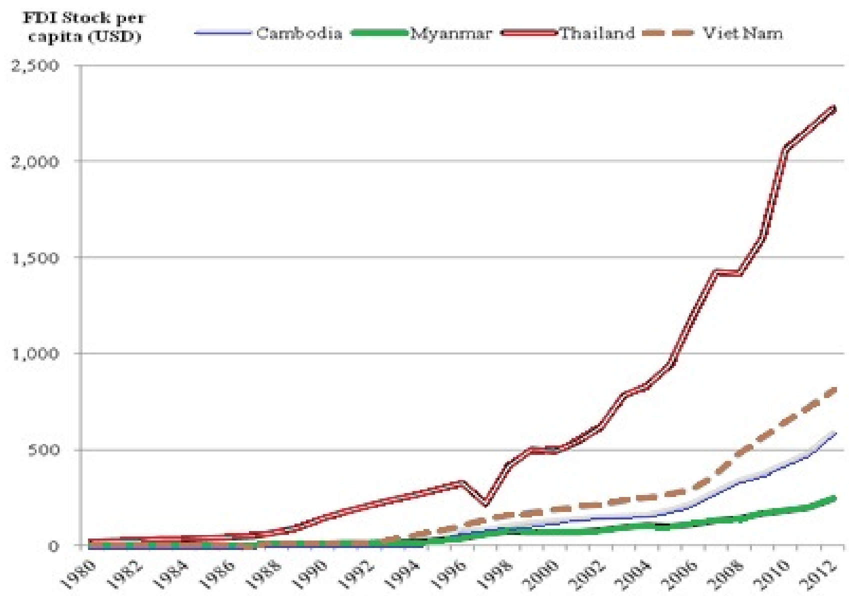
Figure I.3.3 Percentage of FDI Inflow to GDP



Source: UNCTADSTAT (http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx)

54. Figure I.2.7 shows FDI stock per capita. Due to limited FDI inflow per capita, Myanmar's FDI stock per capita is also the lowest among the four countries. Until the beginning of 1992, FDI stock per capita was less than US$10 in Myanmar, Cambodia and Vietnam. In 2012, the amounts were US$840 for Vietnam, US$581 for Cambodia and US$244 for Myanmar. Whilst the pace of accumulation in Cambodia and Vietnam had accelerated in the second half of 2000s, it is not as quick in Myanmar.

Figure I.3.4 FDI Stock per Capita



Source: UNCTADSTAT (http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx)

3.3 Future Perspective on Development Framework

(3) Socio-Economic Development and GDP Growth Scenario

55. As observed in Figure I.2.6 and Figure I.2.7, Myanmar's FDI is still below the levels of Cambodia and Vietnam in terms of inflow and stock. Apart from that, the economic boom has arrived following the country's economic and social reforms and the high economic growth target set by the government.

56. The JICA Study Team for the "National Transport Master Plan Project (MYT-PLAN)" prepared the population framework and GDP growth framework until 2035, which was approved by the steering committee meeting, the members of which consist of the relevant ministries. These frameworks are employed in this analysis. The ADB report entitled "Myanmar in Transition," which suggests that, "Myanmar could grow at 7%–8% per year for a decade or more and raise its per capita income to US$2,000– US$3,000 by 2030." In addition to the ADB report, Myanmar President U Thein Sein has set the target for annual GDP growth rate at 7.7% in the current five-year development plan[9].

57. In order to estimate Myanmar's future Gross Domestic Product, MYT-PLAN considered following three alternative economic growth scenarios.

- Scenario 1 – High Growth: Based on the growth target identified by President U Thein Sein, which seeks to achieve long-term annual GDP growth rates of at least 7.7%. The scenario assumes that annual growth will reach 7.7% by 2015 and continue growing at the same rate to 2035. New and on-going FDI, public and private investment in infrastructure and additional future private investment, will help sustain this growth. In this scenario, Myanmar's GDP will increase by about six times by 2035.
- Scenario 2 – Medium Growth: The GDP growth rate will increase to 7.2% by 2015, 0.5% lower than the High Growth scenario, and is sustained at this level from 2014 to 2035. At this rate of growth, GDP will double every 10 years, but will fall slightly short of the six-fold growth experienced in some peer countries.
- Scenario 3 – Low Growth: This scenario follows the IMF's debt sustainability analysis of Myanmar in 2011. In this analysis, annual GDP growth rates from 2014 to 2031 are set at 6.0%. As 6.0% future annual growth is roughly similar to the economic growth since 2010, the scenario can also be considered the "trend line" scenario.

58. MYT-PLAN selected the Scenario 2 for the study, which was also approved by the steering committee meeting, then calculated the necessary amount of investment[10] to achieve the GDP growth targeted in each scenario. Table I.3.7 tabulates GDP, share of investment to GDP and investment amount in 2015, 2020, 2025 and 2030. Percentages of investment to GDP which are estimated as 23.3% in 2013 will increase to 29% in scenario 1 and 27% in scenario 2 in 2020.

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9 The figure of 7.7% growth was presented in June 2010. According to latest information, the GDP growth target is raised to 7.9%.

10 Investment mentioned here includes both private sector and public sectors (public investment, investment in plant and equipment, housing investment, etc.)

Table I.3.7 GDP and Investment Amount in 2015, 2020, 2025 and 2030

Unit: Billion Kyat in 2010

Year	Scenario 1			Scenario 2			Scenario 3		
	GDP	Share of investment	Investment	GDP	Share of investment	Investment	GDP	Share of investment	Investment
2010	42,229	- -	- -	42,229	- -	- -	42,229	- -	- -
2015	56,565	26.3	14,857	56,565	24.6	13,891.9	55,982	20.5	11,457
2020	81,964	28.9	23,688	80,079	27.0	21,640.0	74,916	22.5	16,871
2025	118,769	31.8	37,768	113,369	29.7	33,709.5	100,255	24.8	24,842
2030	172,100	35.0	60,217	160,497	32.7	52,510.7	134,164	27.3	36,579

Source: JICA Study team

(4) Estimation of Annual FDI Inflow

59. The MYT-PLAN selected Scenario 2 as the most appropriate GDP growth scenario from the assessment of investment amounts up to 2035, and future population growth which will peak around 2040. Following the selected Scenario 2, annual changes of investment amount (total investment, and FDI) from 2014 to 2030 were calculated in US$ and summarized in Table I.2.16. The accumulated amount of all investment will be US$ 495 billion, and the accumulated amount of FDI will be US$138 billion during 2014 and 2030.

Table I.3.8 GDP, Necessary Amount of Investment and FDI

Unit: US$ million

Year and Period	GDP	Total of Investment	FDI
2014	54,704	11,899	3,282
2015	58,260	14,308	4,661
2016-20 Average	70,021	20,558	6,306
2021-25 Average	99,129	32,025	8,120
2026-30 Average	140,338	49,886	11,405
Total		495,091	138,429

Source: JICA Study Team

60. In this study, it is decided to follow the scenario and investment amount calculated by MYT-PLAN as it is the only available government approved long-term economic forecast scenario.

(5) Spatial Development and Economic Corridors in View of Investment Destination

61. The Spatial development plan is also important for the Myanmar government to understand the geographical location of major destinations. This would help the government to visualise the needs of infrastructure development such as road networks, which may link the infrastructure development in the national plan.

62. Currently, the Myanmar government has drafted the National Spatial Development Planning Act[11] which includes: spatial planning policy for three spatial levels (national, regional (region/state) and township), land use regulations, and development permission criteria. It proposes to give roles to

[11] Ministry of Construction of Myanmar, An Overview of Spatial Policy in Asian and European Countries, Ministry of Land, Infrastructure, Transport and Tourism, JAPAN (MLIT) http://www.mlit.go.jp/kokudokeikaku/international/spw/general/myanmar/index_e.html

districts, which are at the administrative level between region/state and township, of putting township plans together, but has not prepared a spatial development plan which shows the hierarchy of cities/towns and the network relation between the cities/towns. Ministry of Construction has a vision of integrating the Spatial Planning system with the system of NCDP which MNPED establishes. The JICA Study Team for the MYT-PLAN prepared a preliminary national spatial development framework conceptual diagram specified in Figure I.2.8.

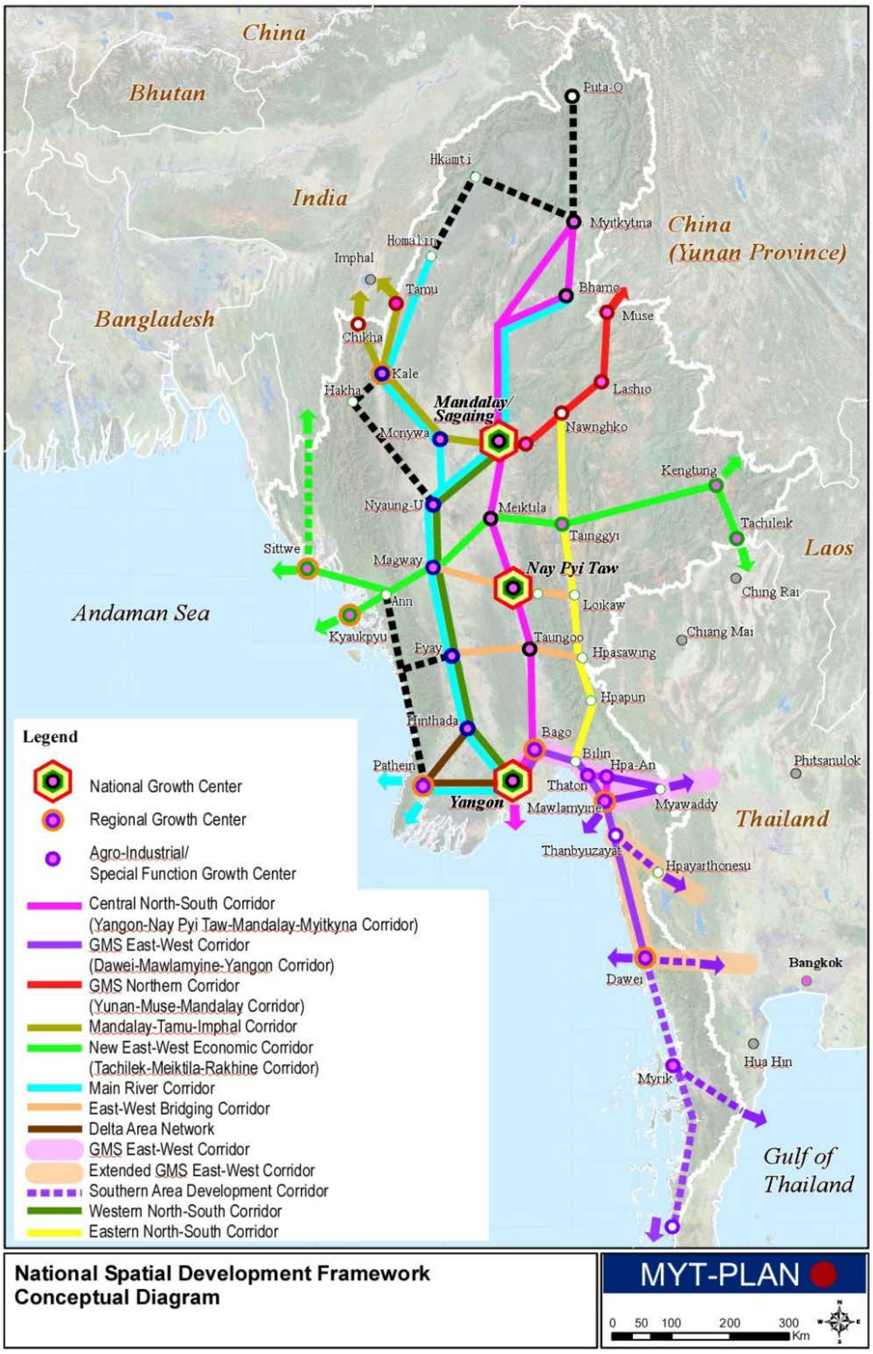
63. From the point of view of economic activities of foreign companies, FDI will be concentrated on the following destinations: Yangon, Mandalay, Bago, Special Economic Zone (SEZ) such as Thilawa, Dawei, and Kyaupyu, and towns along the Greater Mekong Subregion (GMS) East-West Economic Corridor. Yangon and Mandalay, which are first and second cities in terms of population and accumulation of companies, continue to attract new investments. It is highly likely that economic activity in Yangon will spread out to Bago and Thilawa SEZ. The other attractive area is the border area which could be connected to Thailand by road. As the condition of the GMS East-West Economic Corridor is improved and labour cost in Thailand rises, labour-intensive industry would be further relocated to the Myanmar side.

64. Industrial Zones in Yangon receive the most FDI inflow which spills over to Bago, the area between National Road No.1 and the expressway. Mandalay is expected to be the second destination for foreign companies as an industrial and service sector base, and gateway to tourist destinations such as Bagan and Inle Lake. It is necessary to enhance and improve the connection between both cities by National Road No.1, expressway and Yangon-Mandalay Railway.

65. As improvement of the road network in the south-eastern provinces (Mon and Kayin States) proceeds, Thai companies would invest in border towns such as Hpa An and Myawadi. In 2012, there were 400 garment factories located at Mae Sot, the border town in Thailand, with 20,000 Myanmar immigrants working in the factories. If the road network between Kawkareik and Myawadi and electricity supply were improved, these companies would shift to Myawadi and Hpa An to utilize Generalized System of Preferences (GSP).

66. SEZs also accommodate investment from foreign countries. Thilawa SEZ, which is expected to be developed first, would be a part of Yangon’s industrial cluster. Expected industries at SEZs are not contract manufacturing industry such as garment manufacturing, but industries producing component parts for vehicle and electrical and electric equipment because contract manufacturing, which requires lower initial investment, cannot afford it.

Figure I.3.5 Preliminary National Spatial Development Framework Conceptual Diagram



Source: JICA Study Team on "National Transport Master Plan Project"

(6) Legal Framework for Public-Private Partnership

67. As mentioned in the previous section, the Myanmar government started to tender for concession projects. However, those private-financed projects were started without a legal framework such as public finance initiative (PFI), public private partnership (PPP) and concession laws. As FESR describes, it is important and necessary to develop a legal framework outlining rules and regulations before new PFI/PPP projects are started. When introducing rules and regulations, demarcation of project risk between public sector and private sector has to be clearly defined, and the roles of the regulator and implementer within the government sector have to be separated. In addition, a specific

institutional design should be prepared by each infrastructure, for example, separation of power production from power distribution and transmission in power supply sector.

68. When introducing private companies to infrastructure service, it is also necessary to consider three kinds of infrastructure services: (1) infrastructure services applicable to foreign companies, (2) infrastructure services applicable to domestic companies and (3) infrastructure services the government should provide. Seaport and Airport falls under category (1), because infrastructure service providers receive foreign currency from beneficiaries. Independent power producing projects are also included in category (1). The unit cost of power purchase is in foreign currency. Since these projects operate in foreign currency, foreign companies can avoid currency risk in these projects.

69. Foreign companies will nevertheless face currency risk in toll-road projects, domestic airport projects and river-port projects. Domestic companies appear to be more appropriate to undertake these projects. It seems to be difficult for the private sector to undertake both construction and services projects under infrastructure service, which is more strongly associated with people's daily lives in areas such as water and sanitation. The reason for this is because initial investment is directly reflected in the tariff level. In most cases people cannot pay the tariff fixed by private companies based on cost recovery. In this sector, the government should have more responsibility in infrastructure services. The notion that the public sector is responsible for facility development and the private sector is responsible for efficient operation of the facility, is a practical one in this sector.

4. Improvement of FDI climate for the Myanmar's Economic Development

4.1 Investment Regulatory Framework

(1) Investment Authority

70. The Myanmar Investment Commission (MIC) and the Directorate of Investment and Company Administration (DICA) are the National Investment Promotion Agency

71. MIC consists of suitable persons from the Union level as

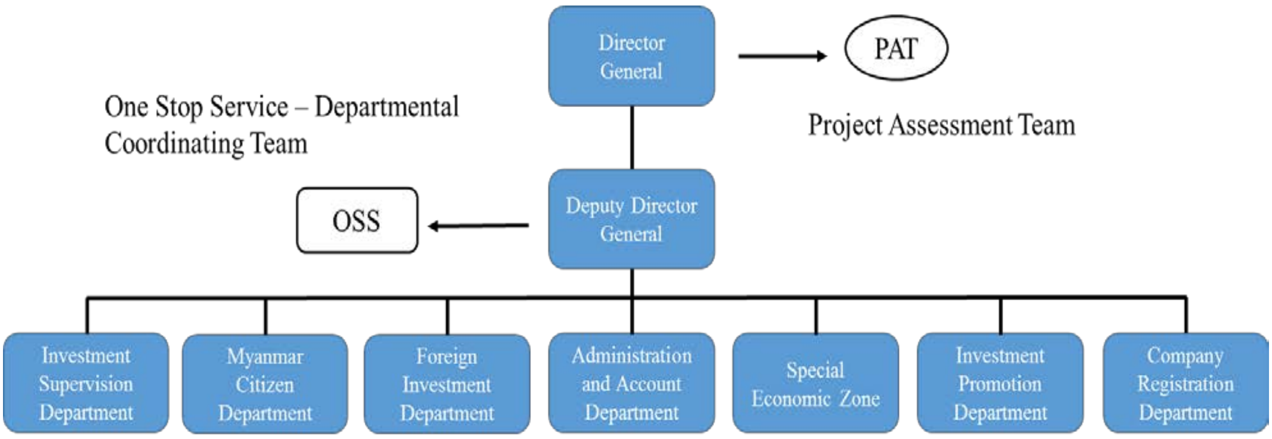
Chairman, experts and suitable persons from the relevant Union Ministries, Government departments, Government organisations and non-Governmental organisations as members.

72. DICA was established in 1993 under the Ministry of National Planning and Economic Development, as an agency to be responsible for investment promotion and to streamline the regulations and investment procedures. The objectives of DICA are:

- To increase investments (local investment & foreign investment)
- To encourage private entrepreneurship
- To take part in regional and international economic cooperation
- To develop institutional frames

73. DICA has two functions: investment promotion and investment administration as the Secretariat of MIC. It aims to provide necessary information for investors to prepare investment application through DICA's website. DICA consists of seven sections with 225 staff as of January 2014, and it plans to increase up to 415 staff by 2016 and assigned more officials in the regional branch offices (Figure I.3.1).

Figure I.4.1 DICA Organisation Chart



Source: DICA

74. To meet the growing number of investment applications and the demand for investment information by investors, DICA has expanded its department and increased its staff. In June, 2013, DICA opened its Yangon office with the One Stop Service (OSS) function and is planning to open three other new offices shortly starting from Mandalay.

75. The government has received advice from international organizations for the reform, and in partnership with the ASEAN Secretariat, OECD has conducted the first Investment Policy Review of Myanmar in 2013. The review covers all 10 policy areas in the Policy Framework for Investment (PFI). The assessment covered in the review can be used to build consensus and capacity within the government and to foster a whole-of-government approach to investment climate reform.

76. OECD is also conducting the Development Pathways study on Myanmar, which is a new series that looks at multiple development objectives. The government is trying to achieve economic, social and environmental objectives, with the understanding of the constraints they face, and to develop comprehensive and well-sequenced strategies for reform. A multi-dimensional country review (MDCR) aims to help developing countries to identify binding constraints by taking a crosscutting, rather than a sectoral perspective. Several reports on recent studies other than those of OECD recognized the investment climate in Myanmar, and the areas that are required to improve/develop further. PFI is especially helpful to understand the strength and the weakness of the investment promotion agency.

(2) Laws and Regulations

- Recent reform and future plans for further improvement of investment climate
- Regulation and Laws Related to Foreign Direct Investment and DICA's operation

77. The laws related to DICA's operation are as follows:[12]

1) Myanmar Company Act (1914) aims to facilitate the development of the private sector by encouraging business investments, providing both local and foreign investors incentives to businesses (e.g. tax breaks and land leasing) and by regulating business activities in

12 OECD (2013) Multi-Dimensional Review of Myanmar, Volume 1. Initial Assessment, OECD Development Pathways, OECD Publishing

Myanmar.

2) Myanmar Citizen's investment Law (1994) provides a level playing field for both domestic investors and foreign investors.

3) New Foreign Investment Law (2012) provides more generous concessions to foreign investors such as (tax breaks and land leasing rights).

4) The Myanmar Special Economic Zone Law (2011) aims to provide the necessary policy support to the developing economic zones (SEZs) in Myanmar. This SEZ Law was amended and promulgated in 2013 /14.

78. Myanmar is the only country among the ASEAN member countries which has separate investment laws, namely, the Foreign Investment Law and Myanmar Citizens Investment Law[13]. GOM will merge the two laws before the advent of the ASEAN Economic Community by 2015 and to secure the National Treatment for FDI

4.2 Improvement of Investment Opportunities

(1) Improving investment opportunities – two-way approach

79. FDI plays a significant role in upgrading export and domestic markets by bringing in capital, technology and employment. DICA already confirmed it would take initiatives to improve investment opportunities by a two-way approach: through 1) capacity buildings by international agencies such as OECD, UNCTAD, UNDP[14], IFC[15] and other bilateral development partners such as JICA, and 2) strengthening bilateral economic relations with important business partners.

(2) Roadmap for improving investment climate

80. DICA currently discusses the road map of FDI with the following directions:

1) Short-term focus on Labour intensive manufacturing – garment, shoes, etc.

2) Mid-term focus on value added industry – upgrading agriculture, introducing more manufacturing, and advanced and new service industry

3) Long-term focus on introducing heavy industry

For the realization of these directions, the two-way approach to facilitate diversification and upgrading of FDI, and strengthening of the bilateral economic relations with potential investors with contracting bilateral investment agreements, is considered.

Despite the discussion among policy makers to improve the investment climate, FDI may be wrongly interpreted as a threat. GOM continuously coordinates with domestic business communities to collaborate more with foreign partners and facilitate to increase FDI.

13 THOMSEN, S and PFISTER, M (2013) "Investment Policy Review of Myanmar", OECD
14 United Nations Development Programme
15 International Finance Corporation

Part II

Draft Long-term Foreign Direct Investment Promotion Plan

PART II Long-term Foreign Direct Investment Promotion Plan

1. Given the situation and prospects of Myanmar economic development through FDI discussed in Part I, the following section is drafted as the integral part of the final report of the project but also forms the draft Long-term FDI Promotion Plan (FDIPP) by itself for further finalization among the relevant Ministries and stakeholders.

2. FDIPP is under preparation as a government policy paper to improve the investment climate in Myanmar by addressing issues that hinder higher FDI inflow. FDIPP is expected to benefit investors and continuously improve the investment climate as a roadmap. FDIPP will be included in the National Comprehensive Development Plan (NCDP), a 20-year long-term development plan for Myanmar. It will be shared with concerned ministries to ensure coordinated actions once approved by Ministry of Planning and Economic Development (MNPED) and the Cabinet, and presented in the DICA's website.

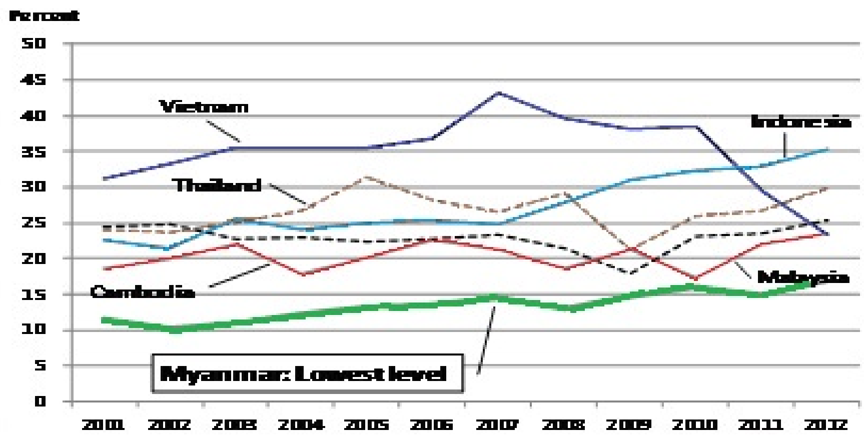
3. Following Chapter 1 -Background, Chapter 2 elaborates the vision and goals of FDIPP. Chapter 3 discusses issues to be addressed for FDI promotion, and Chapter 4 elaborates the strategies that underpin the vision and goals. The last Chapter 5 outlines the necessary actions required of DICA for effective coordination and acceptable policy implementation which will propel the country towards dynamic economic growth.

1. Background and Objective of the Long-term FDI Promotion Plan

1.1 Critical role of FDI

After launching economic and social reforms in Myanmar, foreign investors started to intensely look at Myanmar because of its high growth potential deriving from territorial and population size, geographical location, rich natural resources, and future economic integration with neighbouring countries. The new trend of FDI, i.e. a shift from investments on natural and energy resources sector to manufacturing sector, has been recently acknowledged; however, Myanmar's FDI growth has not been satisfactory compared to neighbouring countries. This is underpinned by the fact that Myanmar's investment share in GDP is considerably lower than that of neighbouring countries (Figure II.1.1). Also, the current status of inward FDI stock in Myanmar is also much lower than that of neighbouring countries (Table II. 1.1).

Figure II.1.1 Percentage of Investment against GDP



Source: IMF World Economic Outlook Database, April 2013

Table II.1.1 FDI Inward Stock (Million US$)

	2011	2012
Myanmar	9,123	11,910
Thailand	139,735	159,125
Vietnam	72,778	72,530
Cambodia	6,850	8,413

Source: UNCTAD World Investment Report 2012, 2013

4. Myanmar's percentages of investment and savings to GDP are 10% lower than neighbouring countries such as Thailand, Cambodia and Vietnam. In order to accelerate economic growth and catch up with these countries, it is necessary to raise saving and investment ratio. FDI plays significant roles for accelerating economic growth by way of bridging the gap between investment needs and national savings, and bringing management know-how, advanced technologies and techniques and market opportunity.

5. The ASEAN Economic Community (AEC) will result in ASEAN becoming a key investment destination, but it will increase competition within ASEAN countries. FDI plays significant roles in bridging the gap between investment needs and national savings, and bringing management know-how, advanced technologies, direct employment, and positive spill overs to domestic suppliers. The Government of Myanmar (GOM) needs to take full advantage of recent attention of FDI for further reforms to actual increase in various investments to materialise the diversified and sustainable economic development. In spite of current economic boom, many challenges remain unresolved in legal and administrative framework to further attract FDI. The improvement of investment climate is, thus, a matter of great urgency in Myanmar.

6. The Directorate of Investment and Company Administration (DICA), under MNPED, is the primary organisation serving as an investment promotion agency of the country which is responsible for investment promotion and facilitation besides all other important tasks of the department. DICA currently engages in reforming the investment policy to improve the investment climate and to increase both the quality and quantity of investment from domestic and foreign investors. Further, the GOM also recognizes the significance of quality investment as it has following features

   - Sustainable employment opportunities
   - Values and efficiency in national production
   - Generation of further capital flow
   - Technology transfer of knowledge and skills
   - Preservation of sustainable environment

7. There are challenges identified by various assessments done by international communities. The World Bank's "Doing Business Report" ranks 189 countries in 10 categories indicated in the following Table II.1.2 that measures the ease of doing business for a local entrepreneur. Myanmar was ranked 182^{nd} overall from 189 countries in the Doing Business (DB) report in 2014. Myanmar ranked 189th in "Starting a business" due to long registration process (72 days) and large amount of minimum capital required. This is the first time for Myanmar to be included in the ranking with rather far too low ranking compared to neighbouring countries. Singapore ranked 1st, followed by Malaysia at 6th, Thailand at 18th, Vietnam at 99th, and Cambodia at 137th. President U Thein Sein instructed concerned ministers to improve the investment climate right after the DB report was published in October 2013.

Table II.1.2 How Myanmar and neighbouring countries rank under the Doing Business 10 Topics

Category	Myanmar	Cambodia	Vietnam	Thailand
Starting a business	**189**	184	109	91
Dealing with construction permits	**150**	161	29	14
Getting electricity	**126**	134	156	12
Registering property	**154**	118	51	29
Getting credit	**170**	42	42	73
Protecting investors	**182**	80	157	12
Paying taxes	**107**	65	149	70
Trading across borders	**113**	114	65	24
Enforcing contracts	**188**	162	46	22
Resolving insolvency	**155**	163	149	58
Total Ranking	**182**	137	99	18

Source：Doing Business 2014, Doing Business 2014 Economy Profile: Myanmar

8. The OECD FDI Regulatory Restrictiveness Index (RRI) seeks to gauge the restrictiveness of a country's FDI rules based on the elements such as 1) foreign equity permitted, 2) screening and approval procedure, 3) restrictions on key foreign personnel, 4) land ownership, etc. In 2012 FDI RRI scored Myanmar as the second most restrictive economy for foreign investment out of 57 countries.

9. According to the survey report on overseas business operations by Japanese manufacturing companies, published by JBIC in 2013 and 2014, Myanmar ranking had improved from 10th in 2012 to 8th in 2013 by increasing the number of respondents which designated Myanmar as a promising country for overseas business from 51 to 64. As reasons for this, three major elements namely, inexpensive source of labour, future growth potential of local market, and risk diversification to other countries as a manufacturing base are mentioned by respondents in the survey of 2013. However, several concerns are also expressed by respondents in the survey. Among those, underdeveloped infrastructure, weak legal system, and lack of information on the country are highlighted by respondents in accordance with the degree of concerns, which is the same as the survey in 2012.

10. The following points are to be focused to bring out the main message to address "the significance of the emerging stage for Myanmar to introduce a concrete direction in its FDI promotion policy."

    i) the market opening along with the political shift, economic growth

    ii) the drafting stage of NCDP and other governmental policies to be aligned with,

    iii) the on-going process of constructing the foundation to support national development (legal foundation as well as hard infrastructures) under uncertainty of a set national policy,

    iv) the issues raised for the investment climate (especially in FDI area) in the booming trend of FDI,

    v) the necessity for introduction of the FDI policy even prior to the NCDP to sustain the momentum and capture opportunities created by FDI

11. The needs for long-term strategic plan have been advocated to streamline the various commitments to share the same vision among stakeholders. On the basis of above, a draft Long Term FDI Promotion Plan (FDIPP) has been outlined under the assistance of Japan International Cooperation Agency (JICA) and will be finalized in further consultation with and among the

relevant Ministries and stakeholders.

1.2 Objective

12. The objective of the FDIPP is to set out Myanmar's first comprehensive policy direction of FDI promotion, and to outline its transparent roadmap and consistent approaches with national/regional development plans to reach its overall goal, contributing to Myanmar's further development and integration into the global community. FDIPP also aims to streamline the vision, goals and strategies with a framework corresponding to that of the National Comprehensive Development Plan 2011-30 (NCDP).

2. Vision and Goals

13. FDIPP's goals are basically set in line with the four successive 5-year Development Plans under the "National Comprehensive Development Plan" (NCDP) being finalized. The first 5-year was set from 2011 to 2015, second; from 2016 to 2020, third; 2021 to 2025, and the last period; 2026 to 2030. In the NCDP drafting, the following implementation structure is being discussed at the 2nd Myanmar Development Cooperation Forum in January 2014;

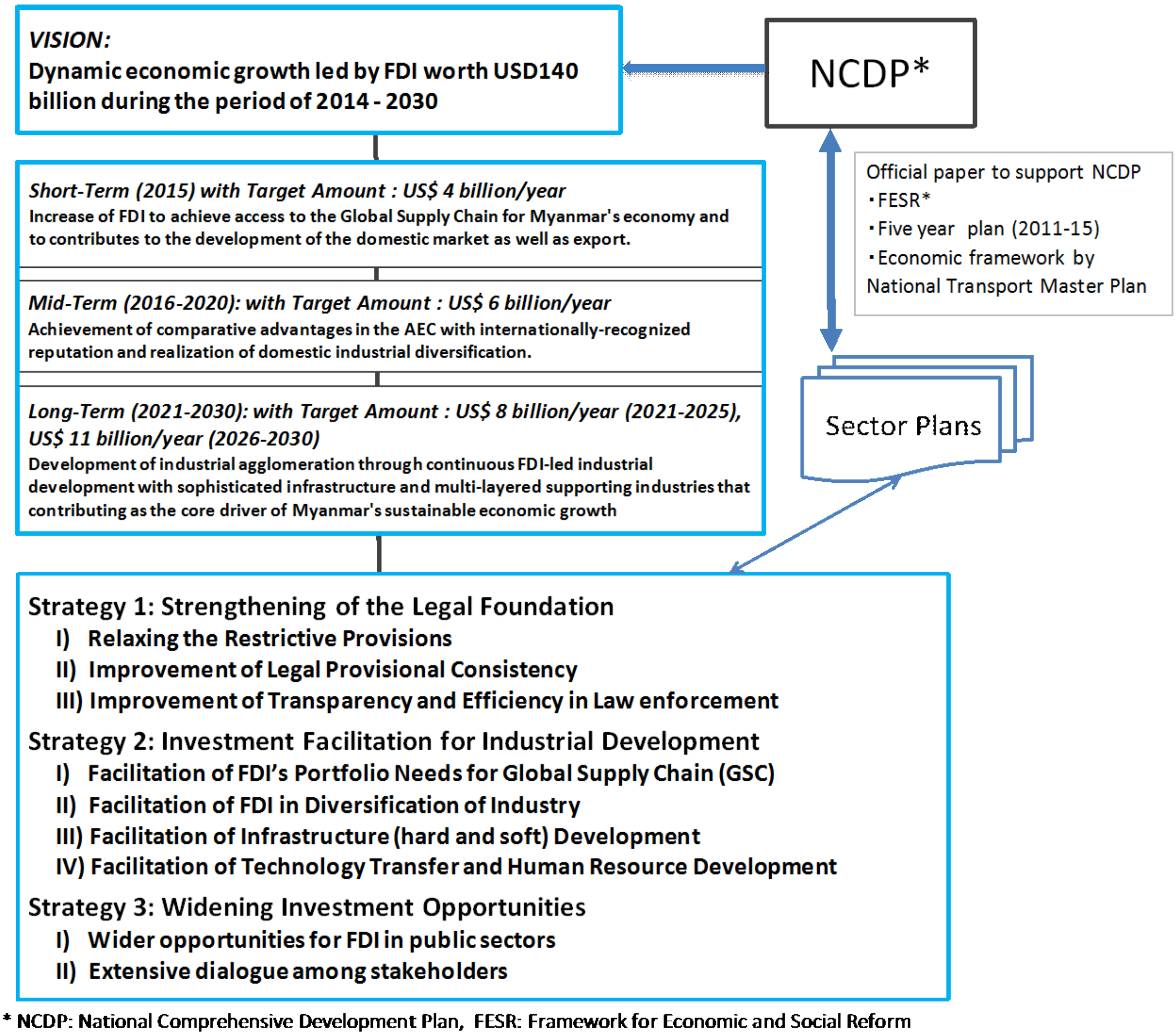
Stage 1:	Five Year Plan (2011-2015): "quick win" implementation
Stage 2:	Five Year Plan (2016-2020): Strengthen economic and investment base to reduce poverty
Stage 3:	Five Year Plan (2021-2025): Implementation of Mega Projects, Strengthening connectivity
Stage 4:	Five Year Plan (2026-2030): Higher level of diversification and upgrade of production base

Source: MNPED

14. FDIPP is required to be formulated even prior to NCDP in order to meet the momentum of foreign investors' expectations and opportunities. In order to envisage the preferable FDI, the vision and goals have been drafted in the FDIPP. Since the NCDP sets a band of GDP growth of between 6 ~ 9% during the planning period which aims to place Myanmar into the global classification of a middle income country by 2032; the GDP per capita between US$3,000 to US$5,000.

15. The FDIPP's vision is "Dynamic economic growth led by FDI worth US$ 140 billion during the period of 2014-2030" based on the FDI volume required to achieve NCDP's goal. Under this vision, the FDIPP's goals are set in short-, mid- and long- term basis with annual FDI target volume to attract. In short-term goal, it aims to increase FDI volume in order to achieve access to the Global Supply Chain (GSC) and to contribute to the development of the domestic and export market. In the mid-term goal, Myanmar targets to achieve comparative advantage in the AEC with an internationally-recognized reputation and realization of domestic industrial diversification. Finally, in the long-term goal, the development of industrial agglomeration is achieved through continuous FDI-led industrial development with sophisticated infrastructure and multi-layered supporting industries which become as the core driver of Myanmar's sustainable economic growth (Figure II.2.1).

Figure II.2.1 Framework of Long Term FDI Promotion Plan (FDIPP)



Note: * NCDP: National Comprehensive Development Plan, FESR: Framework for Economic and Social Reform

16. Target amount of FDI will increase in line with improved investment climate. In short term, increase by quantity will be focused. This increase will be materialised by active investment by the various types of multinational companies. These investments will eventually expand domestic markets as well as ensure products to have export quality. If the investment will increase by US$6 billion / year, Myanmar would be able to succeed in industry diversification to certain extent. In the long-term, agglomeration with infrastructure and industry will further improve investment climate in Myanmar and lead solid growth.

3. Issues to be addressed for Improvement of Investment Climate in the FDI area

17. The challenges addressed in the previous section are observed in various levels of investment activities. Among them, the following section will focus on major prior three areas, i) legal foundation, ii) facilitation measures, iii) further opportunities, and highlights issues raised in the recent development of investment climate.

3.1 Legal Foundation

18. While Myanmar is increasingly attracting the interests of foreign investors in recent development, it is also observed that the actual commitments for investment tend to demonstrate their hesitation in some areas. One of the major reasons for this is confusion in the current legal structure and law implementation in investment related areas. In the area of FDI, it is also observed that the relatively restrictive regime of FIL could be recognized as obstacles for foreign investors. In overall investment registration procedures, the inconsistencies among law provisions are creating confusion (namely the law prerequisites for registration), and there is a general concern among investors over capacity of law implementing authorities to facilitate them under the current legal system. The GOM is progressively carrying out reforms of various laws to meet the demands of domestic and international business communities starting from reviewing FIL, SEZ Law. The GOM also has plans to revise the 100 year-old Myanmar Companies Act (MCA) to update registration procedures, and to integrate the FIL and MCIL. Despite all these undertakings for improvement, it is true that there still remain a number of uncertainties in terms of a transparent and foreseeable investment climate.

(1) Restrictive Provisions for FDI:

19. The Joint Venture requirements and restrictive business permit requirements under Foreign Investment Law (FIL) for economic activities of FDI listed in the notification (Notification 1/2013, Classification of Types of Economic Activities) by Myanmar Investment Commission (MIC) leave certain ambiguities. The scope of the three restricted and prohibited categories, i.e. 1) prohibited business areas, 2) Economic activities to be allowed in the form of joint venture, and 3) Economic activities to be approved on special conditions, are detailed in Notifications 1/2013 and 11/2013. The listed sectors prohibited to foreign investors in both Notifications 1/2013 and 11/2013 are 1) national security environment, 2) forestry, 3) mining, 4) agriculture, 5) electricity, 6) transport, 7) media, 8) fishing, 9) health, and other communications, and 10) finance as well as those sectors which remain a monopoly of the state under the State-Owned Economic Enterprises Law (1989). The sectors requiring a joint venture is further described in 42 categories with specific conditions imposed.

20. The FIL states that FDI may be allowed even in prohibited sectors if the MIC allows. On the other hand, there were cases which were not approved by MIC despite the fact that FIL does not specifically prohibit the applied sectors. These provisions leave uncertainty as the criteria of MIC were not clearly defined. There is strong recommendation from the business community to employ international coding system such as ISIC (industry) and GATS W/120 (service) for classification of economic activities.

21. Due to limited business standard guideline for responsible business in the country which can be applied for MIC criteria, screening and approval process for FDI application may lead to improper FDI. If the Project Assessment Team (PAT) has capacity to enforce some guidelines for responsible business, safe-guard mechanism is built in the process. This would lessen concern over 100% FDI[1] At this moment, there are a number of sectors where it is hard to find JV partners. For small and medium enterprises (SMEs) who have limited information about the local partners, these requirements of JV is the practical restrictions which is hard to overcome in the short-run.

(2) Inconsistent and Unclear Provisions:

22. The structure of two investment laws; FIL and Myanmar Citizens Investment Law (MCIL) provides complexity in overall investment climate. While equal treatment between national and foreign companies is stipulated in some Bilateral Investment Agreements (BIA)[2], the existing two investment laws define the difference between foreign investment and Myanmar citizens' investment. According to the Myanmar Companies Act, a Myanmar company is defined as one whose capital share is owned entirely by Myanmar citizens. Under this term, a company which has a mere one per cent of foreign capital share is regarded as a foreign company. In this situation, a foreign company cannot enjoy the same treatment as a Myanmar company since foreign companies 1) have to pay more for various public services (dual pricing system), 2) are not allowed to purchase and possess properties nor cars, 3) are not allowed to export agricultural products, etc., which causes difficulties for invested foreign companies as well as domestic companies who are willing to collaborate with foreign companies. National Treatment (NT) is still not confirmed, and remains a challenge. This issue has been reiterated by foreign investors as well as foreign governments. The effect of the National Treatment standard is to create a level-playing-field between foreign and domestic investors in concerned markets.

23. Inconsistency in provisions between FIL and sector business permits regulations under other ministries remains substantially. For example, the period of the land use right by the FDI law is said to be initially 50 years. While under the Virgin, Fallow and Vacant Lands (VFVL) law, it is initial 30 years period of land use. In setting up the agro-based industry, raw material processing plants and field crops production should be parallel procedure, but not well coordinated in reality.

24. To obtain special permission from the Ministry of Hotel and Tourism (MOHT) is prerequisite for the sector when they apply for MIC approval. In fact, MIC approval requires the land lease permits, while consultation from MOHT needs to be done well before land lease permit. Investment required for hotel / tourism business need to comply with laws and regulations under MOHT. The authorisation of MOHT is more important than approval under the MIC which

1 Under the section 108 of FDI rule, it is stated that the investor is allowed in contracting farming on the farm land by forming the joint venture. In the case of natural rubber processing, the role of foreign investor could not only pursue rubber processing business but also procure the natural rubber raw products from growers on contractual basis. Since natural rubber industry consists of 90 % of small holders (less than 50 acres), rubber plantation could be encouraged and promoted for the small holders while foreign investors should be encouraged in playing the role of upstream and downstream commercial activities. This case might not be obliged for foreign investors to find local partners for JV required under the current rules. It might be too realistic to find native companies to conduct upstream and downstream commercial activities which are not fully developed yet in the country. FDI rules should not exclude responsible foreign investors who plan to conduct contract farming to attempt to its upgrading the quality products and processing. The current restrictive provisions can be further reviewed in order to encourage highly value industry to be attracted.

2 For example, Article 2 National Treatment of the BIA with Japan stipulates; Each Contracting Party shall in its Area accord to investors of the other Contracting Party and to their investments treatment no less favorable than the treatment it accords in like circumstances to its own investors and to their investments with respect to investment activities.

leaves inconsistency from FIL.

25. Under the new FIL, foreign investment takes place in one of the following forms:

- A foreign entity can invest 100 percent in the businesses that are open to foreign investment as prescribed by the MIC.
- A foreign entity can form a joint venture with citizens or governmental departments or organisations. In all joint ventures, the minimum shareholding of the foreign party is 35% of the total equity capital. For sectors that are not allowed for 100% foreign investment, the investment ratio for foreign investor is up to 80%.
- A foreign entity also forms certain business arrangement or contract.

26. In reality however, MIC criteria on capital requirement is not clearly written. Some foreign companies which received approval of MIC under the form of JV, were requested for their local partners to increase investment capital ratio more without initial indication or written instruction. There is no stipulation on what percentage of the capital contribution is appropriate for foreign and local partners. The basis of FDI related restriction is regarded as practice which does not have sufficient legal basis. With regard to investment application, there was a case where MIC requested the firm to include in the capital the loan from its parent company which the firm was supposed to utilize. This was not stipulated in the rules and regulations. Further, the profit remittance regulations are not clearly defined and subject to approval of authorities. These rules or practices leaves uncertainty and inconsistency, and prolongs the procedure for approval.

(3) Limited Transparency and Efficiency in Implementation of Registration Procedures in FIL:

27. Due to inefficient coordination with business permits of the individual authorities (Ministries), procedures for registrations of FIL have resulted in limited transparency. Further, due to drastic increase of FDI applications[3,] it is necessary to improve efficiency in registration procedures.

1) Consultation with relevant ministries or regional/state governments without deadline of approval

28. It is limited that relevant Ministries' concerned business operation stipulates rules and requirements for their approval. The deadline for approval from the submission of necessary documents from relevant ministries is not stipulated, thus it is unpredictable and inefficient for investors to prepare a more practical business plan. In many activities are required to obtain the approval of relevant ministries before the project proposal is submitted to the MIC, this requirement is not specified thoroughly in FIL. Approval procedure of relevant ministries causes some confusion among investors. For example, a company was about to start manufacturing products, having obtained business operation permission from DICA. However, it appeared additional approval from the relevant Ministry was needed for sales. It took another several months for the approval as the Ministry demanded additional documents. The relevant regulation does not define the deadline of the approval for this procedure.

2) FDI statistical management for improving efficiency and transparency

29. The limited accuracy in statistics data has been a crucial problem in all sectors for investors to prepare business plans. Challenges remain largely in tracking the process of registration, managing the monitoring information, and data management.

3 As shown in the Table I.3.4 Change of Number of Permitted Projects, the permitted FDI projects has been drastically increased from 13 approvals in 2011 to 94 approvals in 2012. It will be expected to be more than 100 approvals in 2013.

3.2 Investment Facilitation Measures

30. FDI promotion strategies based on their actual investment requirements are still limited. It is important to introduce appropriate investment management for attracting quality investment.

(1) Costly Establishment and Operation

1) Limited infrastructure for establishing office and factories

31. Besides cost for time and manpower needed in the registration process, one of the most significant problems for foreign investors is the cost of office and land for factories as shown in Table II.3.1. According to the interview survey by the JICA study team November – December 2013, the monthly office rent in the central business district (CBD) area in Yangon doubled in one year and now hovers around US$ 70~100 per square meter, which is around the same rate as office building in the CBD area in Singapore[4]. The rental fee in industrial zones in Yangon also doubled and tripled compared with a year ago. It is believed that the development of the Thilawa SEZ will considerably contribute to lower the price, but it will not be short-term solution as Thilawa starts operation only after year 2015. It is also believed that land prices are soaring due to speculative transactions among a few politically affiliated business entities. The rules and regulations relating to land property ownership/transaction need to be implemented transparently. In addition, foreign companies are levied much higher fees for utilities.

Table II. 3.1 Comparison of investment related costs among major cities in neighbouring countries

Unit: US$

Item		Phnom Penh	Bangkok	Manila	Hanoi	Ho Chi Minh	Yangon
Wage (Manufacturing)	Worker	74.0	345.0	301.0	145.0	148.0	**53.0**
	Engineer	298.0	698.0	452.0	342.0	297.0	**138.0**
	Management	563.0	1,574.0	1,070.0	787.0	653.0	**433.0**
Rent	Monthly Rent / m^2(Industrial Park)	0.10-0.11	6.90-7.22	3.67-6.60	0.2	0.10-0.28	**0.21-0.50**
	Monthly Rent / m^2 (Office)	24.0	21.0	20.0	17-25	34-36	**95.0**
Utility Bill	Electricity Rate / kWh	*0.19 - 0.28	0.2	0.14-0.17	0.04-0.18	0.04-0.18	**0.12 for foreigners 75 Kyat (around US$0.08) for Myanmar**
	Water Tariff / m^3	*0.3	0.31-0.53	1.84-2.23	0.34-0.58	0.46-0.81	**0.9**

* Referring to the rate of industrial park: Survey Period: 2012 Dec-2013 Jan

Source: JETRO "Comparison of Investment Cost" (http://www.jetro.go.jp/world/search/cost/)

2) Limited policy strategies to attract FDI meeting with their actual needs

32. The government support to business sectors is perceived as very much limited by Foreign Invested Enterprises (FIE) as well as local companies. The government formed “delivery unit” which is led by senior officials to solve urgent problems for business communities. However, there are neither policies nor roadmaps to serve as countermeasures against skyrocketing land

4 Based on the Appendix, B.1.2.2 Specific and detailed concerns, of B. Needs and Gap Analysis from the Perspective of Japanese Companies

price and poor infrastructure, nor there appropriate industry policies.

33. There is a number of business promotion elements stipulated under the FIL[5]. However, special support or incentives for developing these businesses are not clearly mentioned, and not available from governmental agencies. Although finding partners is a prerequisite for many sectors based on the rules of economic activities allowed under the FIL, it is hard to find comprehensive information on local partners. In addition, investors pointed out that there are no organisations to provide credit history of local companies while it is a vital procedure to verify the potential partners' financial position before making any commitment. Information on local suppliers and markets is also scattered not only due to limited data but also due to the absence of systematic data storage. Difficulty to access various information and statistics for business operation has to be overcome with support from the various ministries of the GOM.

(2) Vulnerable Domestic Business Support

1) Weak logistics, parts/services local supply and technical support

34. Limited logistics is a huge obstacle for promoting any industry. Technical support to research activities for a particular industry is also promoted to further develop industries. Improving higher education institutes or research institutes under relevant ministries is not well addressed, although, this will play an important roles in attracting FDI. Such business supports is rarely available in the country.

35. Development of basic logistics requires substantial cost, and normally a company or an industry cannot manage by itself a huge infrastructure development associated with its business. It is primarily the government's responsibility.

36. In order to develop sound business, infrastructure is prerequisite. However, past government funding was not sufficiently provided for infrastructure for business needs. Food processing and agro-industry sectors in Myanmar are considered having high potential. Poor logistics such as lack of cold chain, restriction on truck transport on highway, etc. are disincentives for development. For example, investors in palm oil business in Tanintharyi region will require a complete set of palm oil estates, assets, full set of machineries for infrastructural development, refinery, jetty, and ships for transport, bridge construction and feeder road networking, land development, and supply chains. It has been too risky for foreigners to invest in Greenfield investment unless there is strong support from the government. Further, developing value added products of palm oil has not been well explored due to limited funding from private sectors.

2) Limited policy support for the development of higher value-added industry

37. "Business applying high technology" is stated as applicable economic activities under FIL. In addition, the investment which does not utilise high technology, but conduct traditional farming

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5 Promoting business stipulated are; 1) Supporting the main objectives of the economic development plan, business which cannot be affordable and which are financially and technologically insufficiency by the Union and its citizen; , 2) Development of employment opportunities , 3) Promotion and expansion of exports; 4) Production of import substituted goods; 5) Production of products which require mass investment; 6) Acquisition of high technology and development of manufacturing business by high technology; 7) Supporting the business of production and services involving large capital; 8) Bringing out of business which would save energy consumption; 9) Regional development; 10) Exploration and extraction of new energy and the emergence of renewable energy sources such as bio - basic new energy; 11) Development of modern industry; 12) Protection and conservation of environment; 13) Causing to support for enabling to exchange the information and technology; 14) Not affecting the sovereign power and the public security; 15) Intellectual enhancement of citizens; 16) Development of bank and banking in accordance with the international standards; 17) Emergence of the modern services required for the Union and citizens; 18) Causing to be sufficient the local consumption of the energy and resources of the Union in terms of short term and long term period;

or livestock industry is not allowed in agriculture as well as livestock sectors. Without high technology, it seems difficult to have approval of MIC and a relevant ministry, but criteria are not so clear. Support for higher value-added industry is, not well stipulated in FIL. Many foreign companies that can transfer highly valued technology express concerns over the fact that legally binding intellectual property right is still weak in Myanmar, which makes it difficult for them to commit to investment.

3) Lack of transparency in land management

38. Agriculture sector investment relies on available land. However, due to the fact that quite a few land stocks are in the hands of limited speculators, there are limited land-based FDI flow in agriculture sector regardless of the liberalization of FDI rules and promotion effort of DICA. The land availability, application and concession of VFVL are under the control of the concerned authorities. In looking at the government monitoring report about the actual implementation on the assigned lands by the agri-business companies, the extent of the land development and plantation are not exceeding 20 to 25 percent of the total land even for more than ten years after land concession[6]. After change of democratic government, several protests by farmers broke out widely for the cases of land confiscation, and displaced settlement from the sites of massive land concession. Due to such weak transparency in land management, many investors in agriculture sectors end up “wait and see”. This is reflected in the FDI inflow in the agriculture sector with an extraordinarily low representation of 0.45 percent of the total of FDI value in the country.

(3) Limited Infrastructure (soft/hard)

1) Power/communication/road/railway/bridge/port/regional development

39. Myanmar faces most limited infrastructure among ASEAN countries, especially in ICT, electricity and transport. It is still a huge obstacle to attract investment especially in manufacturing due to insufficient power / communication/ road / railway /bridge / port, etc. A stable power supply is a must and prerequisite especially for manufacturing, such as a precision industry, while factories in the light industry manage to cope with short periods of blackouts using self-installed generators. In any case, the usage of generators pushes up operation costs. Even factories located in the Industrial Zones of Yangon City experience rolling blackouts in the dry season. Investments in manufacturing sectors are expected to increase only after the required level of power and water supply is reached at a competitive cost, and adequate and efficient transport system is available.

40. Yangon and Mandalay which are 1st and 2nd cities in terms of population and accumulation of companies continue, to attract new investments. It is highly likely that economic activity at Yangon will spread out to Bago and Thilawa SEZ. The other attractive area is border area which could be connected to Thailand by road. As the condition of the GMS East-West Economic Corridor and Three Pagoda Pass Road are improved and labour cost in Thailand rises, labour-intensive industries would be further relocated to Myanmar side. However, the current infrastructures in these attractive locations for investors are still limited.

2) Financial mechanism for business enabling environment

41. GOM has been reforming important monetary and financial policies starting from unification of exchange rates, removing exchange restrictions and establishing an autonomous central bank.

6 Based on the sector paper prepared for the FDIPP, see Appendix C.1 Agricultural Sector “Issues and Barriers in Farmland –Based Investment and Suggested Strategies for FDI Promotion in Agriculture Sector in Myanmar “

Remittance of foreign currency for trade settlement, dividend payment, so-called "parent-subsidiary loan" has been relaxed after the new FIL in 2012. However, investors have been facing difficulties for taking out loans for business operation from domestic banks under the current financial framework, and need to obtain loans from overseas. This is a cumbersome procedure which incurs considerable costs to foreign investors.

(4) Inadequate Human Resources

42. Investors reiterate the lack of managerial level human resources and weak capacity of vocational and higher education to meet the demand of FDI. It may well be considered difficult to hire manager-class employees who possess a reasonable command of English and management skills.

43. Human resource development (HRD) policies in response to the vast demand from business sectors are not yet well considered in Myanmar. Interaction among industry, government and educational and training institutions is not well functioning yet.

44. Human resources with vocational and tertiary education are prerequisites to attract quality investments and to lead to industrial development.

45. In the ICT sector, for example, there are over 6,000 graduates of ICT universities or colleges per year. However, this figure is not regarded as sufficient, as once a giant IT company invests, it employs more or less 1,000 employees.

46. A significant number of Myanmar trained workers or Myanmar educated left for neighbouring countries. While it is difficult to differentiate those with higher education from those without, it is estimated that more than two to four million are working in Thailand, 150 to 500 thousand in Malaysia, 100 to 200 thousand in Singapore, and 7 to 15 thousand in Japan[7]. Myanmar's brain drain is a severe bottleneck for inviting highly valued industry.

3.3 Limited Options on Investment Opportunities

47. There are limited opportunities to participate in large-scale construction projects or public works for foreign investors. Ministry of Transport, for example, consider that BOT and JV system are desirable to materialise massive investment requirements in line with the provisions of FIL, MCIL, SEZ Laws. Under the current legislation, however, due to the absence of appropriate regulations such as Public Private Partnership (PPP)/concession laws, there is limited sound financial framework for foreign investors to participate in large-scale construction projects, e.g. construction in Special Economic Zone (SEZ), under the current legislation[8].

48. Private sector participation in infrastructure requires capacity to properly assess the project's cost and benefits and institutional framework in relevant government bodies to prioritise and implement based on sound assessment. In order to institutionalise credible government body to pursue private participations, coordination between public and private sectors in Myanmar has not been formalised yet. Dialogues between the private sector and the government at various levels to substantiate further business opportunities in public sectors are still insufficient. While PPP projects must be selected and prepared with substantial care to ensure that they are sustainable and beneficial to the public, the current both public and private sectors' experiences are limited to introducing PPP system.

7 Myanmar comprehensive education sector review Phase 1:Rapid Assessment Technical Annex on the Higher Education Subsector, 2013.

8 Granting concessions for three international airports and cellular phone license, etc. has started recent years without solid legal basis applicable to public private partnership (PPP).

4. Strategies for GOM

49. Corresponding to the issues and challenges pointed out by various papers and through bilateral consultations elaborated in the previous chapter, the GOM as a whole should specify the directions, then elaborate actions in order to present the GOM's commitment to improve investment climate towards domestic stakeholders as well as foreign investors. It is necessary, therefore, to draft strategies which substantiate the vision and goals stated in the Chapter 2 of this Part II.

50. In order to implement strategies into actions, specific institutional framework is required. DICA will take initiative to set up a FDIPP Task Force at working level among line-Ministries and related authorities in order to implement FDIPP into actions. The function and duties of the FDIPP Task Force are to implement FDIPP including monitoring and evaluation of the progress. In order to ensure its efficient conduct of duties, it should have an appropriate authority to represent the consensus of the GOM on FDIPP issues. In this respect, it is to be considered the Task Force may well be located under a higher authority.

4.1 Strategy 1: Strengthening of the Legal Foundation

51. The GOM will conduct more open and transparent/efficient supporting measures through accelerating improvement of investment climate responding to FDI needs. Legal system is the very base of it and, thus, required to be strengthened in the following way.

(1) Relaxing the Restrictive Provisions

52. In pursuance of a more open investment climate, where relevant, the restrictive provisions are to be reviewed including those of the economic activities requiring Joint Venture and/or business permits/conditions (e.g. Notification No1/2013). The conformity of those provisions also needs to be reviewed with principles of international agreements such as World Trade Organisation (WTO) and Bilateral Investment Agreements (BIAs). The reviews are for relaxation, simplification and preservation of consistency with FIL; namely on "List of Economic Activities to be allowed only in the form of Joint Venture with Myanmar Citizens" and "List of Economic Activities Permitted with the specific condition". There are many concerns expressed by investors about the definition and criteria of approval of relevant sectors.

Relevant ministries: The 13 ministries[9] which participate in the OSS and the Ministry of Tourism and the Ministry of Construction.*

(2) Improvement of Legal Provisional Consistency

1) Coordination between FIL and individual business laws

53. In order to preserve clear consistency between FIL and business laws, the conditions of both sides are to be reviewed and necessary amendments are to be prepared, where relevant. The procedures for business permits required for FIL registration are to be simplified and to be coordinated with FIL registration procedure in terms of consistency of the provisions.

2) Review of legal structure between FIL and MCIL

54. In order to improve overall investment climate, the consistency of provisions is to be reviewed

9 *) List of the 13 Ministries1.Ministry of Agriculture and Irrigation(MOAI), 2.Ministry of Mining(MOM), 3.Ministry of Livestock and Fisheries(MLF), 4.Central Bank, 5.Ministry of Environmental Conservation and Forestry(MOECF), 6.Ministry of Electrical Power (MEP) ,7.Ministry of Industry(MOI),8.Ministry of Immigration and Population, 9.Ministry of Labor, Employment and Social Security(MOLESS), 10.Custom Department (Ministry of Finance and Revenue), 11.International Revenue Department (Ministry of Finance and Revenue), 12.Ministry of Commerce(MoC), 13. Directorate of Investment and Company Administration (Ministry of National Planning and Economic Development /MNPED)

between FIL and MCIL primarily for ensuring the principle of national treatment. The further consideration can be taken, when relevant to integrate the two laws for the better investment climate. On-going undertakings for integration of FIL and MCIL, and reviews on MCA are to be accelerated. These processes are to be shared efficiently with line-Ministries where relevant.

Relevant ministries: The 13 ministries which participate in the OSS and the Ministry of Tourism and the Ministry of Construction.

(3) Improvement of Transparency and Efficiency in Law enforcement

55. Responding to the needs of Foreign Invested Enterprises (FIEs), focus areas in enforcing laws/regulations of FIL registration and other business permits of relevant ministries are to be highlighted for improving transparency and efficiency of implementation of laws and regulation. Sharing information with relevant ministerial organisations is required for providing relevant business permits. In order to shorten the time required for registration system, online system connected with relevant organisations is to be developed.

1) Upgrading FDI database for further transparent management

56. Information sharing among relevant ministries and DICA internally is not functioning well under the current paper-applications system of FDI. A framework to maintain transparency and efficiency is still not established among concerned ministries. Since applications are still not digitalised, DICA cannot access the status of the other ministries' approval status as well as MIC approval status promptly. The approval of the registration, business permits are still largely unpredictable.

2) Improving OSS by strengthening collaboration mechanism with relevant ministries and regional / state governments

57. Investment application procedure for foreign investors through the establishment of one-stop service (OSS) started in June 2013 improved convenience of investors; Investors do not have to travel to Nay Pyi Taw for collecting information and submitting application forms. Currently, there are two OSS centres in Yangon and Nay Pyi Taw and an additional DICA Office is expected to be opened in Mandalay in 2014, and expected to have functions of OSS later on. An increase in the number of OSS is expected to significantly reduce the burden on foreign investors as it saves transaction cost and time because it eliminates the need for investors to communicate with concerned ministries and agencies. However, in order for investors to benefit from OSS services, the operation of OSS needs to become more investor-friendly; First, the collaboration mechanism with other ministries and regional / state governments needs to be strengthened. For some reasons, there are remaining cases which investors need to consult the ministries in Nay Pyi Taw This has to be improved by way of strengthening networking system whereby OSS Yangon Office can facilitate all. There are limited existing sector master plans; tourism, ICT, at this moment. Issues of FDI have not been incorporated very much in those plans.

58. Clear visions and strategies of FDI are to be set in relevant ministries in accordance with FDIPP and NCDP. DICA, together with the Planning department of MNPED, is to coordinate and consolidate them for FDI's disposal to meet their requirements.

Relevant ministries: The 13 ministries which participate in the OSS and the Ministry of Tourism and the Ministry of Construction.

4.2 Strategy 2: Investment Facilitation for Industrial Development

59. In order to pursue the FDI-led development highlighted in Part I, the “win-win” scenario is essential for providing benefit to FDI while expecting advantages from them. Following facilitations is required for more FDI supportive arrangements in promoting FDI-led development.

(1) Facilitation of FDI’s Portfolio Needs for Global Supply Chain (GSC)

60. Strengthen the promotion activity to further attract manufacturing industry by grasping the FDI needs not only through business missions to Myanmar, but also through the embassies located in various countries. The importance of initial consultation, monitoring and aftercare of the discussion needs to be addressed.

1) Response to the practical needs of FDI - Research & Analysis of investors' portfolio strategy, global economy, neighbouring country's strategy

61. As learnt from experiences of FDI promotion policies in neighbouring countries, the sectoral priority by the FDI destined country’s favour does not always directly meet the FDI requirement to be attracted. Certain FDI behaviour observed to be affected more by the portfolio needs, i.e. alternative production base for risk hedge in its GSC. Given that the relevant facilitation is provided for this requirement, FDI will realize its objectives in favourable conditions while Myanmar can extend the linkage with GSC through FDI. (Thailand+one, China+one for the case of Japanese investors)”

62. Foreign investors always compare the alternative destination. While there are many attractive attributes in Myanmar, investors regard current investment policy still insufficient regarding policies and incentives for technical training, introducing new technology, and environmental consideration. In response to the needs of investors who are looking for alternative production base, GOM needs to consolidate the governmental platform for “Invest Myanmar” under the DICA’s leadership to integrate the global business communities.

2) Establishing Joint Investment Promotion Scheme

63. Although DICA is expected to promote Myanmar as a destination of investment for foreign investors, currently the plan for promotion activity has not been fully implemented. One of the reasons is that the required information of investors varies in sectors and regions. It will be desirable for DICA as IPA to grasp investment potential both in sector and region-wise, and practical business information (industrial zones, utility services, human resources, etc.), but this requires substantial collaboration among stakeholders, such as ministries, embassies, and business associations such as Union of Myanmar Chamber of Commerce and Industry (UMFCCI) including sector /regional associations.

64. In addition, it is expected that DICA will have a role facilitating the needs and requirements of Foreign Invested Enterprises (FIE) which have already established business in Myanmar. The country desk such as the JAPAN DESK, which will be established in Yangon and Nay Pyi Taw in 2014, will be expected to bridge the gap between investors and DICA, and Embassies play a pivotal role for investors as a window to the latest investment information in Myanmar. As for the office in Nay Pyi Taw, Japan-DESK is also tasked to improve operational efficiency at DICA.

3) Linking with the domestic industry

65. Further, GOM shall take the opportunity of FDI to link domestic industry with the FIE for its access to GSC, and for the prospective and possible supporting industry development. For

example, automobile industry requires components over 20,000 to 30,000. Attracting large manufacturing industry has, therefore, huge impact not only in employment, but also in developing supporting industry in the country.

4) Revise FDI Policy in response to economic environment

66. MNPED plays a major role in regional and international economic cooperation and together with other ministries. DICA is responsible for proposing necessary changes in current FDI policies in response to external economic environment. Domestic economic environment will also drastically change for years to come. The GOM needs to propose revision of relevant policies in order to cope with various changes, starting from the forthcoming AEC. First, the GOM shall form a team to analyse economic and industrial development. The team prepares periodic reports on major events in investment activities, economics and industries in Myanmar and neighbouring countries. The team starts to analyse further and propose necessary actions to revise FDI policy such as incentives, SEZ rules, and legislative matters. The reports are shared with ministries and local governments through MIC, task force and networks with local governments. Based on the analysis, if FDI policy needs to be modified, DICA will make a draft for change of FDI policy after discussion with relevant ministries and submit to the parliament.

Relevant ministries: The 13 ministries, which participate in the OSS and the Ministry of Tourism and the Ministry of Construction., DICA, UMFCCI and business associations, embassies, other countries' IPAs, int'l organizations such as the IFC, Academic sector such as Universities and research institutions

(2) Facilitation of FDI in Diversification of Industry

Coordination with priority sectors/areas designated in specific policies/strategies of authorities for FDI promotion

67. Priority sectors / areas designated in other policies should be respected in FDI promotion. It is essential to coordinate the FDI promotion policy with the industrial development policy. The GOM needs to prepare appropriate strategies to balance the structure of industry after concentration of initial FDI in-flow to labour-intensive/foot-loose industries which industrial development policy may address. At the initial stage, CMP[10] sector ignites growth, but need to facilitate to take roots in local industry by supporting local SMEs. In Cambodia, production value of garment sectors accounts for over 65% in GDP in 2012. Most of them are CMP based manufacturing, which might be relocated when GSP terminates and labour costs substantially increase. It is, thus, necessary for Myanmar to pay more attention to facilitate FDI in order to diversify domestic industry.

68. In this respect, the FDI promotion policies are to assist the industrial development policy by attracting any higher value-added industry and/or industry which may accompany subsidiary supporting industries. As a part of FDI attraction, the FDI promotion policy may well include the aspects of bridging FIE with domestic industry which can provide FIE with operational supplies/services at the initial stage. FIE's activities have potentials to enhance the industry linkage in Myanmar. Necessary actions will be taken in the promotion of domestic small and medium enterprises (SMEs). Comprehensive industrial development policy in line with FDI promotion needs to be drafted.

10 Cutting, Making and Packing. In Myanmar, contract manufacturing is called CMP. It means cutting, making and packing. Companies that conduct CMP business receive exemption of import tax for materials in case the company receives a permission of CMP from MIC.

69. By attracting FDI, assist various sector policies, domestic industries which leads to industry diversification - strong concerns might be shown by some stakeholders, but DICA advocates advantages of introducing FDI in various sectors for the purpose of developing domestic industry in the end. Linkages with SMEs policies are strongly required. For example, large automobile companies require various types of parts, which lead to fostering SMEs in Myanmar.

Relevant ministries: The 13 ministries which participate in the OSS and the Ministry of Tourism and the Ministry of Construction., UMFCCI and business associations, embassies,

(3) Facilitation of Infrastructure (hard and soft) Development

70. Infrastructure development needs to be accelerated in the area of on-going and prospective industrial agglomeration including SEZ.

1) Prioritise the infrastructure in order to respond to business development needs

71. Under past control regime, developing industrial zones are more based on political requests rather than market demands. The GOM will facilitate to develop first class infrastructure for SEZ and industrial zones to serve FDI through collaborating with private management companies and local governments. DICA also grasps the condition of infrastructure; development plans of potential areas to deliver the investors enhance roles of investment promoters. In order to materialise large scale regional development for strategic industrial zones and its huge economic impacts, as in the case of the Hanoi – Haiphong development in Vietnam, the eastern seaboard development in Thailand can be a good reference. Systematic and large scale overall infrastructure development is important to attract more manufacturing, highly valued industry and heavy industry.

72. As the condition of the GMS East-West Economic Corridor and Three Pagoda Pass Road are improving gradually and labour cost in Thailand rises, labour-intensive industry would be further relocated to Myanmar side. However, the current infrastructures in these attractive locations for investors are still limited. Improving the infrastructure in border areas utilising the neighbour's' resources such as power from Thailand, and international funding for increasing connectivity will facilitate more business opportunities in border areas and regional centres nearby.

2) Modernise financial scheme for activating business transaction

73. Developing the financing sector is one of the urgent issues. Various international organisations are currently supporting to modernize the financial scheme. This has to be further accelerated.

Relevant ministries: DICA, Ministry of Communication, Port and Telegraph, Ministry of Construction, Ministry of Electric Power, Ministry of Energy, Ministry of Transport, Ministry of Mines, and MOFR

(4) Facilitation of Technology Transfer and Human Resource Development

74. GOM will take necessary and relevant actions to encourage investors for technology transfer initially on up-grading skills and technical knowledge of their employees through implementation of provisions of FIL. It is also important to promote further human resource development to facilitate investors' employment needs and technology transfer support, and prepare further efficient system for its employment.

75. Human resource development should be delivered strategically, as it is a long-term process. For that, establishment of more required courses in universities/colleges, increase of number of

students, and improvement of quality of curriculum (more practical training than class room lecture), are necessary. Current weak capacity of vocational and higher education needs to be enhanced for various other sectors.

1) Promotion of technology transfer and up-grading skills and technical knowledge of their employees

76. There are no specific incentives for investors under the current legislative framework regarding technology transfer in Myanmar. Neighbouring countries such as Thailand[11] and Vietnam[12] placed emphasis on transfer of skills, supporting Research and Development (R&D), and fostering innovation by way of providing incentives such as Exemption of import duty on equipment for R&D, etc. The policies of encouraging technology transfer will promote skills, and attract quality investment. Specific policies should be drafted among stakeholders, such as providing incentives for establishing in-house training centres for a large scale investment, etc.

2) Further human resource development to facilitate FIEs' employment needs, and efficient employment

77. In addition to promoting technical training, encouraging Myanmar Diasporas to return will be effective in the short run. A significant number of Myanmar trained workers left for neighbouring countries. While it is difficult to differentiate those with higher education and those without, it is estimated that more than two to four million working in Thailand, 150 to 500 thousand in Malaysia, 100 to 200 thousand in Singapore, 7 to 15 thousand in Japan[13]. Myanmar's increasing openness, and solid economic growth will encourage new opportunities for those scholar, well-trained intellectuals to contribute to national development. China is well known to implement such foreign talent/knowledge diaspora schemes, which might be a good reference to grasp the costs and benefits of financing such a model scheme. There are strong needs for qualified workers especially in ICT sector as the domestic education system does not meet the requirement for the ICT business.

78. In the long run, GOM needs to upgrade the educational /vocational training institutions for training and facilitate business to university cooperation However, by utilizing technical assistance of various institutions and development partners, Myanmar can accelerate the increase in the number of enrolments in science and technology, engineering, and business, and investment in R&D to meet the demand of investors. Direct incentives for investing in education sector should be also well taken into account.

Relevant ministries: The 13 ministries, which participate in the OSS of DICA. Ministry of Tourism and Ministry of Construction, and Ministry of Labour, Employment and Social Security.

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11 Additional tax incentives are offered to encourage the development of skills, science technology, and innovation under the STI (Skill, Technology and Innovation) scheme.(BOI website: http://www.boi.go.th/index.php?page=additional_incentives_under_the_skill)

12 LAW ON TECHNOLOGY TRANSFER (No. 80/2006/QH11) (http://www.noip.gov.vn/noip/resource.nsf/vwResourceList/56EB8F7FC1A2FE554725767200205417/$FILE/Law%20on%20TecTechnol%20Transfer.pdf)

13 Myanmar comprehensive education sector review Phase 1:Rapid Assessment Technical Annex on the Higher Education Subsector, 2013.

4.3 Strategy 3: Widening Investment Opportunities

79. Relaxing the restrictive provision contributes to wide investment opportunities, but providing more opportunities for investors will also widen further opportunities. More proactive and interactive efforts are required for widening and diversifying FDI opportunities.

(1) Wider opportunities for FDI in public sectors.

80. Public sector can be efficiently developed with private initiatives with careful coordination among stakeholders as have been seen in other countries. GOM will designate appropriate projects, especially large-scale infrastructure development, regional development, privatization and /or JV with public enterprises, etc. GOM will consider, where relevant, encouragement of private sector initiatives introducing PPP and/or concession on regional development projects and/or public works to make available for FDI. Even before formulating a legal framework for PPP or BOT, infrastructure business opportunities are widely discussed, especially, power, communication, airport, and water, so on. In order to widen investment opportunities in public projects, it is imperative for GOM to formulate relevant laws such as concession law, PPP law, etc**.,** In addition, capacity to assess the costs and benefits of infrastructure projects, or value the services or outputs of state-economic enterprises (SEEs) needs to be developed.

Relevant ministries: DICA, Ministries related infrastructure, and local governments

(2) Extensive dialogue among stakeholders

81. The GOM promotes dialogue on opportunities of interest and necessary coordination among stakeholders for proactive and interactive coordination towards solutions to the FDI needs. Dialogue with foreign private sectors for accurate analysis of current business communities is currently conducted wherever appropriate. Comprehensive dialogue with foreign business communities such as Myanmar–Japan Joint Initiative will be also effective to materialise practical outputs. The One-stop shop in Yangon started operation in June 2013, and setting up the Japan Desk in Yangon and Nay Pyi Taw in 2014 will be one of those outputs based on extensive dialogue. The dialogue and feedback system needs to be done more proactively and interactively in order to further improve investment climate for expanding the investments of existing FIEs as well as attracting new foreign investors. It is also important to facilitate networking with regional/state governments. Besides two growth poles, namely, Yangon and Mandalay, there are other growth centres in the regions / states, and border areas which are booming also attractive destination of investments. The GOM jointly coordinates with regional/state governments to attract investments by strengthening networking, gathering information on the attractiveness for investment and drafting the investment proposals.

Relevant ministries: DICA, UMFCCI, and relevant ministries

5. DICA's Actions

82. DICA is the primary organisation serving as a national Investment Promotion Agency (IPA). In order to materialise the three strategies elaborated in the previous chapter, the following actions under the respective Strategies are drafted as DICA's action plan for implementing FDIPP

83. As a broader perspective, DICA has an important mission as promoter of FDIPP, and will take the lead to coordinate the GOM as a whole to pursue the implementation of strategies. Establishing an FDIPP Task Force as the platform to build consensus for FDI promotion is urgently required. Further, DICA's respective sections will elaborate the relevant actions under their mandate. The actions of respective sections responsible for investment promotion, registration, policy formulation, need to be specified. For example, the registration section can set the numerical targets as to the days required for registration system, and can elaborate how DICA can collaborate with other relevant ministries, etc. Investment promotion section might be able to draft the target figures of investment amount by sectors, by country of origin and elaborate promotion activities by increasing overseas seminars, improving the content of DICA's website, and publishing brochures.

5.1 Actions under the Strategies 1: Strengthening of the Legal Foundation

(1) Improvement of Legal Provisional Consistency

<Actions>

1) Review and possible integration of FIL & MCIL and, modernise and coordination of MCA in relations with FIL (Strategy 4.1-(2)-2)),

2) Review and concrete implementation of SEZ Laws (Strategy 4.1-(2)-1))

84. Under the Strategy 1, DICA will facilitate to strengthen overall legal system for the relevant investment management. Besides, FIL, MCIA, SEZ Law, and MCA which DICA directly manages, DICA will coordinate and harmonise with the other laws related to investment.

85. DICA takes initiatives to coordinate with relevant ministries and stakeholders to review restrictive provisions. Further, procedural provisions need to be reviewed and consider amendments where relevant in order to improve registration procedure. DICA needs to facilitate to strengthen overall legal system for the relevant investment managements. Short-term actions are required for 1) review and possible integration of FIL & MCIL and modernise and coordination of MCA in relations with FIL, and 2) concrete implementation of SEZ Laws, and so on.

<u>Action 1) Review and possible integration of FIL & MCIL and, modernise and coordination of MCA in relations with FIL:</u>

86. These two actions are already committed in 2013, and international organisations, such as ADB provide technical support. When merging the two laws, it is important to ensure compliance of provisions related performance requirement with WTO and other international arrangements. When revising MCA, it is important to ensure consistency and efficient relations with FIL; it should permit incorporation without further scrutiny after investors receives MIC approval, FDI acceptance.

<u>Action 2) Review and concrete implementation of SEZ Law;</u>

87. It is essential to ensure the monitoring system in the SEZ Law and accelerate to prepare

necessary sub-degrees / notifications. Coordination with line ministries in order to comply with concerned ministries.

88. In mid-and long-term, it is important to proceed with amending the provision of registration where necessary and on relevant points in accordance with the development of coordination among line ministries.

(2) Improvement of Transparency and Efficiency in Law enforcement

<Actions>

1) Strengthening, registration supporting system (Strategy 4.1-(3)-2))

2) Strengthening investment management support system (Strategy 4.1-(3)-1)),

3) Strengthening FIE/Investment assistance system for registration (Strategy 4.1-(3)-2)),

4) Organise FDI statistics for investment management (Strategy 4.1-(3)-1)),

Action 1) Strengthening FIL registration system:

89. DICA designs and sets forth internal plan for assisting registration improvement. Currently, the standard procedure of registration is not well documented, and not included in the website. In order to ease burden, it is important to introduce business flow to clarify the documents required and the officials in charge.

Action 2) Strengthening investment management support system:

90. DICA conducts strengthening assistance system for registration, ensuring transparent / efficient law enforcement to improve the MIC approval procedure. DICA, therefore, reviews current registration process for analysing investors' opinions in coordination with relevant ministries, and tries to ensure further transparency and efficiency.

Action 3) Strengthening FIE/Investment assistance system for registration:

91. In order for investors to update the information instantly, DICA introduces a system to update information related to registration issues regularly.

Action 4) Organise FDI statistics for investment management

92. In order to improve investment management such as registration improvement, DICA will take specific actions to improve the database of FDI registration to organise reliable FDI statistics. In the mid-and long-term, most needed improvement in investment management is in MIC's approval procedure with more transparent, efficient law enforcement.

5.2 Actions under the Strategies 2: Strategies for Investment Facilitation for industrial Development

(1) Facilitation of FDI's Portfolio Needs for Global Supply Chain (GSC)

<Actions>

1) Build up the mechanism to grasp global FDI trends (Strategy 4.2-(1)-1)),

2) Strengthen the proactive promotion function (Strategy 4.2-(1)-2) &3)),

3) Strengthen the needs oriented policy formulation support mechanism (Strategy 4.2-(1)-4))

Action 1) Build up the mechanism to grasp global FDI trends:

93. In order to facilitate foreign investors who are looking for alternative production bases, DICA needs to build up the mechanism to grasp global FDI trends. Based on the fair understanding of FDI, and their portfolio requirements, DICA further strengthens the proactive promotion function.

94. First, DICA enhances the overall research and analysis capacity on development of global FDI in terms of their portfolio requirements in order to identify the priorities of FDI through periodic publication of outcomes, such as database, newsletters, reports, etc. and draft implementation plan for standard information compiling procedure and information dissemination through website and media.

95. DICA also prepares the guidelines or criteria for FDI management on linking to GSC by gaining the inputs and advice from relevant external organisations such as donor agencies, research institutes. Since most investors related to GSC are new to MIC, DICA needs to provide guidance to lead appropriate approval decisions.

Action 2) Strengthen the proactive promotion function:

96. Finding suitable JV partners for investors related to GSC is also important. It will require necessary coordination among relevant ministries through the Task Force.

Action 3) Strengthen the needs oriented policy formulation support mechanism:

97. Further, DICA strengthens the support to FIEs to provide relevant information on domestic resources and to prepare a systematic mechanism to improve the business environment responding to requests from FIEs. For example, DICA facilitates relevant ministries to establish safety standards, quality standards, etc. which apply to investors' products. DICA also facilitates relevant authorities to promote domestic industries in relation with FDI. DICA can assist in drafting and finalising SME law, Industrial zone law, or various sector plans by conveying the FDI's needs. DICA specifically strengthens the policy formulation to support MIC for appropriate policies. For example, it is essential for MIC to receive proper guidance when they receive an application which is the first of its kind and for an industry inevitably linked to GSC, such as automobile, electric appliances production.

(2) Facilitation of FDI in Diversification of Industry

<Actions>

1) Develop appropriate promotion tools and organize seminars to provide necessary information to overseas investors as well as promote Myanmar as an investment destination (Strategy 4.2-(1)),

2) Strengthen invested FIE support system in accordance with the industrial diversification objectives (Strategy 4.2-(2)),

3) Design mechanism to encourage relevant Authorities to promote domestic industries in relation with FDI (Strategy 4.2-(2))

Action 1) Develop appropriate promotion tools and organize seminars to provide necessary information to overseas investors as well as promote Myanmar as an investment destination:

98. In view of the limited public budget, the capital amount of FDI has great significance on achieving the economic growth targeted by the government. While concerns are often expressed by domestic business communities over anticipated influx of foreign investors, which might reduce their market share, DICA is also expected to convince these domestic business communities and those supporting concerned ministries the importance and significance of FDI

capital inflow and possible collaboration with FDI more intensively. DICA needs to set forth inter-Ministerial forum and/or within the MIC's function in order to tackle with promotion for the linkage of domestic resources with FDI. The initial initiative needs to be taken in the areas of: potential JV partners, domestic parts/services supplying sector, SME, including assistance for drafting the SME development plan, reform SEE plan and various sector plans by conveying the FDI's needs.

99. Business events such as investment seminars and trade shows are important channels to deliver DICA's message to potential investors and to solicit their views and opinions. Potential investors' views and opinions should be used for improving legislative framework and improvement of business environment.

100. "Myanmar Investment Guide[14]" which is available as a printed brochure as well as in soft copy in the DICA website requires revision urgently. The guide needs to be improved continuously by adding appealing elements which are compiled into the presentation material and simple guidance of investment procedures. In addition to that, it is necessary for DICA to cooperate with the same kind of brochures produced by other ministries or private companies. Typical examples are brochures for tourism development, SEZ and Industrial Zones.

<u>Action 2) Strengthen invested FIE support system in accordance with the industrial diversification objectives:</u>

101. DICA needs to link incoming FDI actively with existing local industries which contribute to participate in major industries. For example, FDI of automobile industry can impact on existing rubber industry. In order to response to requests from invested FIEs, a systematic mechanism to improve the business environment is necessary. Formulating standards of quality of products, safety, and environmental management, etc. will inevitably improve investment climate. Manufacturers can comply with the appropriate standard to guarantee quality products to consumers and to differentiate them from low quality products. Since such requests to improve soft infrastructures play pivotal roles for investment decision, DICA needs to address relevant issues to concerned ministries.

102. DICA needs to improve its website (http://www.dica.gov.mm) step by step. English pages are recommended to be separated with Myanmar language pages, and both language pages needs to present information on presentation material, investment procedures, incentives to investors, investment statistics in recent years, etc.

<u>Action 3) Design mechanism to encourage relevant Authorities to promote domestic industries in relation with FDI:</u>

103. DICA also sets forth inter-Ministerial forum and/or within the MIC's function in order to tackle with promotion for the linkage of domestic resources with FDI. The initial initiative needs to be taken in the areas of: potential JV partners, domestic parts/services supplying sector, SME, including assistance for drafting the SME development plan, reform SEE plan and various sector plans by conveying the FDI's needs

14 http://www.dica.gov.mm/Investment%20Guide.htm

(3) Facilitation of infrastructure development

<Actions>

1) Strengthen FIE support system to facilitate access to required level of infrastructure (Strategy 4.2-(3)-1)),

2) Design mechanism to encourage relevant Authorities to promote domestic infrastructures in relation to FDI (Strategy 4.2-(3)-2))

Action 1) Strengthen FIE support system to facilitate access to required level of infrastructure:

104. DICA has to grasp the urgent needs of infrastructure development of investors and facilitate with relevant ministries and state / region governments. It is important to set forth a procedure to encourage the authorities to take urgent measures to improve infrastructures in response to specific investors' needs in terms of both upgrading individual infrastructure and prioritising regional development designation where relevant. In order not to discourage investors, DICA monitors the progress of the implementation of the projects and provide the information when required.

Action 2) Design mechanism to encourage relevant Authorities to promote domestic infrastructures in relation to FDI:

105. DICA also strengthens the knowledge on available and planned infrastructure and expected reforms in policies of soft infrastructure, such as finance, sector related regulations for providing the appropriate information to investors. DICA regularly follows the policies of relevant ministries and update the information for delivering investors. Further, DICA compiles and provides the most updated information on available and planned infrastructure, master plans including specific states /regions. DICA needs to provide consultations on access to designated infrastructure where investors show interests and clarify the situations.

(4) Facilitation of technology transfer and human resource development

<Actions>

1) Strengthen FIE support system to facilitate access to human resources (Strategy 4.2-(4)),

2) Design mechanism to encourage relevant Authorities to improve and strengthen human resources in relation with FDI (Strategy 4.2-(4)-2))

Action 1) Strengthen FIE support system to facilitate access to human resources:

106. DICA strengthens FIE support system to facilitate access to human resources. Since limited information on vocational / educational institutions is available in the country, FIE needs support to grasp the quality and quantity of semi-skilled workers, and professionals. This will start from initial consultation during the investment promotion activities in seminars or inquires, or direct consultation through economic attachés in designated countries. Basic information on human resources, especially those who have expertise, special training are collected by DICA in order to provide information to investors when necessary. In this aspect, reliable data needs to be obtained through relevant ministries or private sectors, such as educational institutions, UMFCCI, relevant sector organisations and even from private staffing companies.

Action 2) Design mechanism to encourage relevant Authorities to improve and strengthen human resources in relation with FDI:

107. DICA also facilitates reform with concerned education / vocational institutions and Ministries by conveying FIE's employment needs. They also consider Human Resource Development facilities attached to SEZ and / or designated areas or sectors when designated. For example, large scale investment in automobile industry requires substantial number of semi-skilled workers; so do giant IT companies. DICA needs investors who are interested in investing in existing training institutes or establishing training facilities to be supported by DICA and relevant ministries.

5.3 Actions under the Strategies 3: Strategies for Widening Investment Opportunities

(1) Wider opportunities for FDI in public sectors

<Actions>

1) Strengthen FIE support system to facilitate access to public works and/or regional development works (Strategy 4.3)

2) Design mechanism to encourage relevant Authorities to provide further investment opportunities (Strategy 4.3)

Action 1) Strengthen FIE support system to facilitate access to public works and/or regional development works:

108. Through discussion with relevant ministries and private sectors, DICA will take initiative to strengthen FIE support system to facilitate access to public works and /or regional development works which is not yet formalized. FDI shows great interests in participating in public works, but no formal organization engages in facilitation. DICA strengthens FIE support system to facilitate access to public works and / or regional development works.

Action 2) Design mechanism to encourage relevant Authorities to provide further investment opportunities:

109. DICA as a front line to consulting investors will strengthen coordinating function with line ministries for specific projects. DICA will facilitate discussions referring to the Public Investment Plan (PIP), and analyse the possibility to invite FDI. These consultations and facilitation will be further strengthened by establishing a committee for concession / PPP projects. Under the committee, DICA will facilitate not only relevant ministries, but also region/state governments to comprehend the necessity of private participation, especially foreign investors. DICA staff is required to deepen the knowledge of PPP and to learn from neighbouring countries. This can be facilitated by the development partners, such as JICA, IFC, World Bank and ADB, etc. In this regard, DICA shall play an important role in formulating concession laws and PPP laws.

(2) Extensive dialogue among stakeholders

<Actions>

Promotes further dialogues on opportunities of interest and conducts necessary coordination among stakeholders proactively and interactively towards solutions to the FDI needs (Strategy 4.3-(2))

110. DICA takes initiative to promote dialogue on opportunities of interest and necessary coordination among stakeholders for proactive and interactive coordination towards solutions to the FDI needs. Special attention is required to develop network with regional/state governments.

For business location and information on local business, investors need to discuss with local governments and local business associations. However, unlike large business communities in bigger cities, foreign investors face difficulties to initiate business discussion with stakeholders in other locations in the different regions / states. It is ideal for DICA to provide upfront basic information of local businesses and facilitate dialogue with local governments. For this purpose, establishing a good network with regional/state government is a prerequisite.

5.4 Institutional Capacity Development Aspects

111. In addition to the actions described above, institutional capacity development aspects which cover all DICA sections are drafted in order to implement the Strategies into actions. DICA has already started to increase the number of staff, and to conduct trainings extensively utilising internal or external resources. In order to improve quality of the internal training and standardise it for further dissemination, DICA staff should seize available opportunities to the maximum to attend courses / seminars supported by various organisations for further building up of the overall capacity of staff.

112. DICA, as mentioned in Part I, has been extensively increasing staff from 165 to 225 during the year 2013, to facilitate the increased application and inquiries. In June, 2013, DICA opened its Yangon office with the One Stop Service (OSS) function and is planning to open three more new offices shortly with the first one in Mandalay. Since DICA has a plan to increase regional offices, it is their urgent requirement to increase the number of staff with improvement of its capacity to provide appropriate investment information to investors. It is crucial to provide appropriate training, including how to standardise procedure and increase efficiency, and how to correspond to investors' inquiries in an appropriate manner. Enhancing English language as well as ICT skill of DICA staff, especially at the OSS centres, is urgently required in order to handle increasing amount of investment proposals and coordinate with relevant ministries promptly.

113. Capacities to deal with and to assess FDI applications need to be improved. It is challenging to correspond on and respond to the issues promptly. Due to the fact that the project application forms of FDI have significantly increased and the procedure has been already criticised as slow, capacity building of overall DICA's staff and the Project Assessment Team (PAT) for enhancing project evaluation skills is of primary importance.

114. DICA's responsibilities are broadly divided into three categories, namely promotion, policy formulation, and registration. Under the respective strategies, actions are elaborated in time scale, namely short-term, and mid- and long-term. The DICA's section and relevant ministries for respective categories are also drafted in the following matrix, Table II.5.1 Draft DICA's Action Plan for Implementing FDIPP and summarised in the following sections.

Table II.5.1 DICA's Action Plan for Implementing FDIPP

Action/ Strategy	Short-Term Actions (- 2015)	Mid- and Long-Term Actions (2016- 2030)	DICA's section and relevant ministries
Actions under Strategies 1: Strengthening of the Legal Foundation			
(1) Improvement of Legal Provisional Inconsistency			
Action 1) Review and possible integration of FIL & MCIL and, modernise and coordination of MCA in relations with FIL			
	<u>Reviews on FIL:</u> <Restrictive provisions> ・Consult relaxation of restrictive provisions for foreign direct investment including the provisions on Notification 1/2013. ・Ensure compliance of provisions related performance requirement with WTO and other international arrangements <Procedural provisions> ・Consider amendments, where relevant, for efficient registration <u>Integration of FIL and MCIL:</u> ・Ensure the compliance of National Treatment (NT) provisions with WTO and other international arrangements ・Reviews on MCA ・Ensure consistency and efficient relations in company registration provisions with Investment Law	<u>Reviews of the Investment Law:</u> ・Review the achievement of the related Laws and regulations and make a further improvement <u>Amendment of relevant laws for digital registration:</u> ・Proceed with amending the provisions of registration where necessary and on relevant points in accordance with the development of coordination among line Ministries/Authorities. <u>Development of guidelines for investment management:</u> ・Maintain sustainable capital inflow, diversification of domestic industry in line with industrial policy and regional development plan	・Investment Promotion Section (former Legal Section), SEZ Section, Myanmar Citizen Investment Section, Company Administration Section, Foreign Investment Section. ・The 13 ministries[i], which participate in the OSS and the Ministry of Tourism and the Ministry of Construction.
Action 2) Review and concrete implementation of SEZ Laws			
	<u>Strengthening overall legal system for the relevant investment management:</u> ・Set force the mechanism to review and reform related laws and regulations, such as those of business permits, to be consistent with the Investment Law. ・Employ international coding system such as ISIC (industry) and GATS W/120 (service) for classification of economic activities. <u>Concrete implementation of SEZ Law</u>: ・Ensure the surveillance mechanism in the SEZ Law and necessary sub-decrees/notifications are to be prepared for further effective implementation of provisions of the Law	<u>Harmonise with laws related to industrial regional development policies</u> ・Coordinate with line Ministries/Authorities to be consistent with SEZ Law and other industrial/regional development policies such as SME Law, Industry Law, and Law on industrial zone	

Action/ Strategy	Short-Term Actions (- 2015)	Mid- and Long-Term Actions (2016- 2030)	DICA's section and relevant ministries
Actions under Strategies 1: Strengthening of the Legal Foundation			
(2) Improvement of Transparency and Efficiency in Law Enforcement			
Action 1) Strengthening FIL registration system			
	・Review current registration process for further improvement by analysing the investors' opinions in coordination with relevant Ministries. ・Improve the process to ensure further transparency and efficiency including simplification of application documents and procedure –e.g. upgrade website to inform updated laws, regulations, notification thoroughly available in English ・Standardize the improved process both within DICA and, where relevant, with other Ministries – introduce business flow to clarify documents required and officers in charge. ・Introduce a digitalise registration system	・Review the results according to the benchmarks for improvement: ・Shorten the registration procedures in order to increase competition against neighbouring countries	・Investment Promotion Section, SEZ Section, Foreign Investment Section. Administration and Accounts Section. ・The 13 ministries, which participate in the OSS, and the Ministry of Tourism and the Ministry of Construction.
Action 2) Strengthening investment management support system			
	・Improve the registration statistics and information collection and utilization system ・Ensure transparent/efficient law enforcement to improve the MIC approval procedure	・Build a sustainable system for the reviews and renewal of the plan for registration improvement	ditto
Action 3) Strengthening FIE/Investment assistance system for registration			
	・Formulate a guideline to pursue efficient and transparent implementation of registration in order to improve OSS functions ・Introduce system (procedure) for regular updating of information related to registration issues such as obtaining business permits, contents of brochures, and leaflets related to investments	・Update and revise investment promotion tools ・Implement full-cycle promotion starting from initial consultation, assisting registration, and monitoring problem shooting and expanding business.	・Investment Promotion Section, SEZ Section ・The 13 ministries, which participate in the OSS the Ministry of Tourism and the Ministry of Construction.
Action 4) Organise FDI statistics for investment management			
	・Design a follow-up mechanism to provide FDI with assistance as required Improve the database of FDI registration and follow-ups/tracking for transparent monitoring	・Build a sustainable system for the reviews and renewal of the plan for registration improvement	・Investment Promotion Section, Foreign Investment Section.

Action/ Strategy	Short-Term Actions (- 2015)	Mid- and Long-Term Actions (2016- 2030)	DICA's section and relevant ministries
Actions under Strategies 2: Strategies for Investment Facilitation for Industrial Development			
(1) Facilitation of FDI's Portfolio Needs for Global Supply Chain (GSC)			
Action 1) Build up the mechanism to grasp global FDI trends			・Investment Promotion Section, Foreign Investment Section. ・The 13 ministries, which participate in the OSS of DICA. Ministry of Tourism and Ministry of Construction, Central Bank and MOFR (Ministry of Finance and Revenue Economic /research section) ・UMFCCI and business associations, embassies, other countries' IPAs, int'l organizations such as the IFC, Academic sector such as Universities and research institutions
	・Enhance the overall research and analysis capacity on development of global FDI in terms of their portfolio requirements in order to identify the priorities of FDI through periodical publication of outcomes (database, newsletters, reports, etc.) ・Introduce FDI portfolio needs collecting system including recording and tracking of inquiries, introduction of periodical needs survey, and periodical networking with international IPAs.	・Extend the plan stated in the short-term plans.	
Action 2) Strengthen the proactive promotion function			
	・Design more FDI portfolio needs oriented promotion based on the outcomes from research and analysis of DICA including strategic planning of "Top-sales" in targeted sectors and/or country. ・Improve domestic business environment in the area of targeted FDI including coordination with relevant Ministries/Authorities, regional governments/authorities, and business associations ・Increase promotion activities by developing promotion tools though seminars, website, and direct consultation in Myanmar as well as through embassy economic attaches abroad ・Plan a scheme to bridge between FDI and potential JV partners in Myanmar	・Extend the plan stated in the short-term plans.	
Action 3) Strengthen the needs oriented policy formulation support mechanism			
	・Prepare for the systematic procedures (ex. relevant recommendation process) to provide timely outputs from the research and analysis from DICA to MIC to support formulation of the appropriate policy, including designing specific facilitation measures and coordination with industrial policy	・Extend the plan stated in the short-term plans.	

Action/ Strategy	Short-Term Actions (- 2015)	Mid- and Long-Term Actions (2016- 2030)	DICA's section and relevant ministries
Actions under Strategies 2: Strategies for Investment Facilitation for industrial Development			
(2) Facilitation of FDI in Diversification of Industry			
Drafted Action 1) Develop appropriate promotion tools and organize seminars to provide necessary information to overseas investors as well as promote Myanmar as an investment destination			
	・Prepare a systematic mechanism to improve the business environment responding to requests from invested FIEs not limited to the domestic resources but soft infrastructures such as standards ・Improve promotion tools such as Myanmar Investment Guide and DICA website periodically and timely	・Implementation of investment management compliant with guidelines:	・Investment Promotion Section, SEZ Section ・The 13 ministries, which participate in the OSS of DICA. Ministry of Tourism and Ministry of Construction.
Action 2) Strengthen invested FIE support system in accordance with the industrial diversification objectives			
	・Provide relevant information on domestic resources and facilitate to connect with them	・Further strengthening of invested FIE support system: ・Introduce actual facilitation consulting services to invested FIEs	・Investment Promotion Section, SEZ Section ・The 13 ministries, which participate in the OSS of DICA. Ministry of Tourism and Ministry of Construction.
Action 3) Design mechanism to encourage relevant Authorities to promote domestic industries in relation with FDI			
	・Set forth inter-Ministerial forum and/or within the MIC's function in order to tackle with promotion for the linkage of domestic resources with FDI. The initial initiative needs to be taken in the areas of: potential JV partners, domestic parts/services supplying sector, SME, including assistance for drafting the SME development plan, reform SEE plan and various sector plans by conveying the FDI's needs	<u>Further initiatives in diversification:</u> ・Initiative needs to be extended to regional development and/or public works ・Utilize and strengthen the function to bridge between foreign investors and potential domestic partners	・Investment Promotion Section, SEZ Section ・The 13 ministries, which participate in the OSS of DICA. Ministry of Tourism and Ministry of Construction.

Action/ Strategy	Short-Term Actions (- 2015)	Mid- and Long-Term Actions (2016- 2030)	DICA's section and relevant ministries
Actions under Strategies 2: Strategies for Investment Facilitation for industrial Development			
(3) Facilitation of infrastructure development			
Action 1) Strengthen FIE support system to facilitate access to required level of infrastructure			
	・Set forth a procedure to encourage the authorities to take urgent measures to improve infrastructures in response to investors' needs in terms of both upgrading individual infrastructure and prioritising regional development designation where relevant ・Provide consulting on access to designated infrastructures	・Review the achievement of short-term plans	・Investment Promotion Section, SEZ Section ・The 13 ministries, which participate in the OSS of DICA. Ministry of Tourism and Ministry of Construction. Ministry of Transport, Ministry of Railway Transport. Ministry of Electric Power
Action 2) Design mechanism to encourage relevant Authorities to promote domestic infrastructures in relation to FDI			
	・Compile and provide the most updated information on available and planned infrastructure including specific region/location designated for the infrastructural development, and/or preferable access procedures, when designated.	・Review the achievement of short-term plans	・Investment Promotion Section, SEZ Section ・The 13 ministries, which participate in the OSS of DICA. Ministry of Tourism and Ministry of Construction. Ministry of Transport, Ministry of Railway Transport. Ministry of Electric Power

Action/ Strategy	Short-Term Actions (- 2015)	Mid- and Long-Term Actions (2016- 2030)	DICA's section and relevant ministries
Actions under Strategies 2: Strategies for Investment Facilitation for industrial Development			
(4) Facilitation of technology transfer and human resource development			
Action 1) Strengthen FIE support system to facilitate access to human resources			
	・Collect basic information on human resources in order to provide information to investors. Reliable data needs to be obtained through relevant ministries or private sectors	・Review the achievement of short-term plans	・Investment Promotion Section, SEZ Section ・MNPED, MOFA, MOC, MOLESS
Action 2) Design mechanism to encourage relevant Authorities to improve and strengthen human resources in relation with FDI			
	・Facilitate reform with concerned educational/vocational institutions and Ministries by conveying FIEs' employment needs ・Consider HRD facilities attached to SEZ and/or designated areas and/or sectors when designated	・Review the achievement of short-term plans	・Investment Promotion Section, SEZ Section ・The 13 ministries, which participate in the OSS of DICA. Ministry of Tourism and Ministry of Construction. Ministry of Transport, Ministry of Railway Transport. Ministry of Electric Power

Action/ Strategy	Short-Term Actions (- 2015)	Mid- and Long-Term Actions (2016- 2030)	DICA's section and relevant ministries
Actions under Strategies 3: Strategies for Widening Investment Opportunities			
(1) Wider opportunities for FDI in public sectors			
Action 1) Strengthen FIE support system to facilitate access to public works and/or regional development works			
	・Discuss with line ministries and private sectors to take initiative to strengthen FIE support system to respond to the FDI's interest in participating in public works	・Review the achievement of short-term plans	・Investment Promotion Section, SEZ Section ・The 13 ministries, which participate in the OSS of DICA. Ministry of Tourism and Ministry of Construction. Ministry of Transport, Ministry of Railway Transport. Ministry of Electric Power
Action 2) Design mechanism to encourage relevant Authorities to provide further investment opportunities			
	・Discuss with line ministries and regional governments on the projects (could be started from the projects on the PIP list) ・Facilitate to formulate concession laws and PPP laws ・Take initiatives to establish a committee for strengthening function of concession/PPP projects preparation	・Review the achievement of short-term plans	
(2) Extensive dialogue among stakeholders			
Action: Promotes further dialogues on opportunities of interest and conducts necessary coordination among stakeholders proactively and interactively towards solutions to the FDI needs			
	・Take initiative to promote dialogues and coordination among stakeholders towards solutions to the FDI needs ・Develop network with regional/state governments to provide basic information of local business and facilitate dialogue with local governments	・Review the achievement of short-term plans	・Investment Promotion Section, SEZ Section ・The 13 ministries, which participate in the OSS of DICA. Ministry of Tourism and Ministry of Construction. Ministry of Transport, Ministry of Railway Transport. Ministry of Electric Power

Action/ Strategy	Short-Term Actions (- 2015)	Mid- and Long-Term Actions (2016- 2030)	DICA's section and relevant ministries
Actions for Institutional Capacity Development Aspects for DICA			
	Take initiative to set up a FDIPP Task Force at working level among line-Ministries and related authorities under the higher authority in order to implement FDIPP into actions	Review the overall progress and results of monitoring & evaluation, and refine FDIPP based on it for the remaining years.	・Foreign Investment Section, Investment Promotion Section ・The 13 ministries, which participate in the MNPED (to negotiate with Int'l organizations for technical assistance)
	・The function and duties of the Task Force is to implement FDIPP including monitor and evaluate the progress. In order to ensure its efficient conduct of duties, it should have an appropriate authority to form and represent the consensus of the GOM on FDIPP issues.	・Strengthen the mechanism hen the mechanism to improve the function of OSS by integrating all DICA's function: ・Introduce digital system in each DICA's function to support OSS activities (internally for DICA OSS and interactively for investors/stakeholders) ・Increase participation of other ministries such as Ministry of Tourism and Ministry of Construction in the OSS.	
	Construct a mechanism to strengthen the function of OSS by integrating all DICA's function :		
	・Strengthen and centralize coordination function with line Ministries and other stakeholders ・Delegate clear duties and responsibilities to the relevant section for the internal coordination		
	・Arrange and staff the adequate number of personnel to each section for the appropriate conducts of DICA's duties		
	・Conduct a thorough review of duties of DICA including operational procedures and identify the appropriate balance of human resources. ・The review and adjustment process will include the DICA's external functions such as Economic Attaché of selected countries		
	・Further strengthen human resource development in each function of DICA:		
	Introduce periodical and systematic training programs and set out the standardized guidelines for their contents and conducts ・Conduct capacity building of Project Assessment Team (PAT) to enhance project evaluation skills		

[1] List of the 13 Ministries 1.Ministry of Agriculture and Irrigation(MOAI), 2.Ministry of Mining(MOM), 3.Ministry of Livestock and Fisheries(MLF), 4.Central Bank, 5.Ministry of Environmental Conservation and Forestry(MOECF), 6.Ministry of Electrical Power (MEP) ,7.Ministry of Industry(MOI),8.Ministry of Immigration and Population, 9.Ministry of Labor, Employment and Social Security(MOLESS), 10.Custom Department (Ministry of Finance and Revenue), 11.International Revenue Department (Ministry of Finance and Revenue), 12.Ministry of Commerce(MoC), 13. Directorate of Investment and Company Administration (Ministry of National Planning and Economic Development /MNPED)

Republic of the Union of Myanmar

Directorate of Investment and Company Administration (DICA)

Long-term Foreign Direct Investment Promotion Plan in Myanmar

Final Report

Appendix

Japan International Cooperation Agency

ALMEC Corporation

International Development Centre of Japan

Daiwa Institute of Research Ltd.

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JR
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CONTENTS OF APPENDIX

LIST OF FIGURES

LIST OF TABLES

Abbreviations

ADB	Asian Development Bank
AEC	ASEAN Economic Community
AFTA	ASEAN Free Trade Area
AHTN	ASEAN Harmonized Tariff Nomenclature
APINDO	Indonesian Employers Association
ASIA	Alliance for Supporting Industries Association
ATIGA	ASEAN Trade in Good Agreement
BCC	Business Cooperation Contract
BIMESTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BKPM	Indonesia Investment Coordinating Board
BOI	Board of Investment
BOT	Build Operate Transfer
BSI	Better Sugarcane Initiative
BT	Build-Transfer
BTO	Build Transfer Operate
BUILD	BOI Unit for Industrial Linkage Development
CBD	Central Business District
CBM	Central Bank of Myanmar
CD	Custom Department
CDC	Council for the Development of Cambodia
CEPT	Common Effective Preferential Tariff
CF	Contract Farming
CIB	Cambodian Investment Board
CKD	Complete Knockdown
CMP	Cutting Making and Packaging
CP	Charoen Pokphand Group
CPF	Charoen Pokphand Foods
CPO	Crude Palm Oil
CSEZB	Cambodian Special Economic Zone Board
CSR	Cooperate Social Responsibility
CWR	Child to Women Ratio
DICA	Directorate of Investment and Company Administration
EBA	Everything But Arms
EDB	Economic Development Board
ENT	Economic Needs Test
EPZ	Export Processing Zone
EU	European Union
EXIM	EXIM Bank
F&B	Food and Beverages
FAO	Food and Agriculture Organisation
FDA	Food and Drug Administration
FDI	Foreign Direct Investment
FDIPP	Foreign Direct Investment Promotion Plan
FERD	Foreign Economic Relations Department
FIEs	Foreign Investment Enterprises

FIL	Foreign Investment Law
FIT	Free Independent Travel
FOB	Free on Board
FPIC	Fair, Prior Informed Consents
FSD	Fire Services Department
GDP	Gross Domestic Product
GEL	General Exception List
GFCF	Gross Fixed Capital Formation
GIZ	General Industrial Zone
GMS	Greater Mekong Subregion
GSP	Generalized System of Preferences
GVC	Global Value Chain
HRD	Human Resource Development
HSL	Highly Sensitive List
ICOR	Incremental Capital-Output Ratio
IEAT	Industrial Estate Authority of Thailand
IMF	International Monetary Fund
IPO	International Procurement Office
IRD	Internal Revenue Department
JBIC	Japan Bank for International Cooperation
JETRO	Japan External Trade Organization
JICA	Japanese International Cooperation Agency
JTB	Japan Tourist Bureau
JV	Joint Venture
LDC	Least Developed Country
MAPC	Myanmar Agribusiness Public Corporation
MCIT	Ministry of Communication and Information Technology
METI	Ministry of Economy, Trade and Industry
MFDBA	Myanmar Food and Drug Board of Authority
MIC	Myanmar Insurance Cooperation
MIC	Myanmar Investment Commission
MJRI	Myanmar Japan Rice Industry Co., Ltd
MNPED	Ministry of National Planning and Economic Development
MOAI	Ministry of Agriculture & Irrigation
MOC	Ministry of Commerce
MOC	Ministry of Construction
MOE	Ministry of Energy
MOFA	Ministry of Foreign Affairs
MOFR	Ministry of Finance & Revenue
MOHT	Ministry of Hotels & Tourism
MOI	Ministry of Industry
MOIP	Ministry of Immigration & Population
MOLESS	Ministry of Labour, Employment and Social Security
MORT	Ministry of Rail Transportation
MOST	Ministry of Science and Technology
MOT	Ministry of Transport
MYT-PLAN	National Transport Master Plan
NCDP	National Comprehensive Development Plan
NPV	Net Present Value
ODA	Official Development Assistance

OECD	Organisation for Economic Cooperation and Development
OSS	One Stop Services
PP	Public and Private
PPP	Private Public Partnership
QIP	Qualified Investment Project
ROH	Regional Operation Headquarters
RSPO	Roundtable for Sustainable Palm Oil
RSS	Ribbed Smoke Sheet
SEZ	Special Economic Zone
SKD	Semi Knockdown
SL	Sensitive List
SME	Small and Medium Sized Enterprise
STI	Skill, Technology and Innovation
SUDP	Strategic Urban Development Plan
TEL	Temporary Exclusion List
TFR	Total Fertility Ratio
TISO	Trade and Investment Support Office
TRIMS	Trade Related Investment Measures
UMFCCI	Union of Myanmar Chamber of Commerce and Industry
VAT	Value Added Tax
VFVL	Vacant, Fallow, Virgin Lands
WTO	World Trade Organization
YCDC	Yangon City Development Committee

A

Experiences of Neighbouring Countries

A.1 Trends in ASEAN Countries

Regarding the promotion of foreign direct investment in ASEAN, it is necessary to consider two points: 1) Whether the relevant authorities concerned with invitation should enter into talks on individual issues with investing companies and discuss proposals on specific incentives; and 2) the effects on investment invitations of the elimination of intra-ASEAN tariffs under the AFTA （ASEAN Free Trade Area） and ASEAN Economic Community (AEC) schemes. Removing intra-ASEAN tariffs is a result of processes launched in 1992.

A.1.1 Differences of invitation stances by inviting organizations—Do they grant specific incentives through separate negotiations?

First of all, it is important to consider whether it is acceptable for inviting organizations to grant specific incentives to individual companies through face-to-face negotiations. There are some advantages to such an approach. For example, if through individual negotiations, an organization successfully invites investment by companies that assemble automobiles or electronic devices, it can anticipate that investment by related makers of auto parts or electronic parts would follow.

The most typical organization that has granted specific incentives is the Economic Development Board (EDB) of Singapore. While the EDB has a package of incentives as a standard, it has agreed with foreign companies on specific incentives with their details having been kept in secret. In cases of specific need, the EDB grants further preferential treatment on taxes and in other areas. Typically, talks with investing companies involve slashing the 17% corporate tax for a certain period, depending on the details of the investment, i.e., depending on the extent of technology transfer. This method allows for flexible negotiations according to each company’s specific conditions, but it is impossible to maintain transparency and fairness of incentives.

In contrast, the Board of Investment (BOI) of Thailand sets incentive packages by target region, and now plans to set incentive packages by industrial sector, saying that it will not talk about specific incentives with particular investors. Though the BOI may not be able to offer tailor-made incentives to investing companies, investing companies may be relieved to see that transparency and fairness are secured.

Other countries provide examples of cases that are midway between these two approaches. For instance, there was the successful invitation of South Korea’s Samsung to Vietnam and there are media reports on an investment plan by Taiwan’s Hon Hai Precision Industry in Indonesia.

In the former case, Vietnam was reported to have succeeded in inviting Samsung as a result of talks between the central government and the company, with incentives such as a land tract rental offer by a regional government being effective. Accordingly, Samsung and its suppliers have made large-scale investments in Vietnam, helping exports of electric and electronic products to win the No. 1 spot in terms of value in the country’s list of exported items in 2012. In this case, the Foreign Investment Agency of the Ministry of Planning and Investment has barely retained transparency since it did not modify central government policy regarding not providing the sort of preferential treatment for direct foreign investments seen in Singapore.

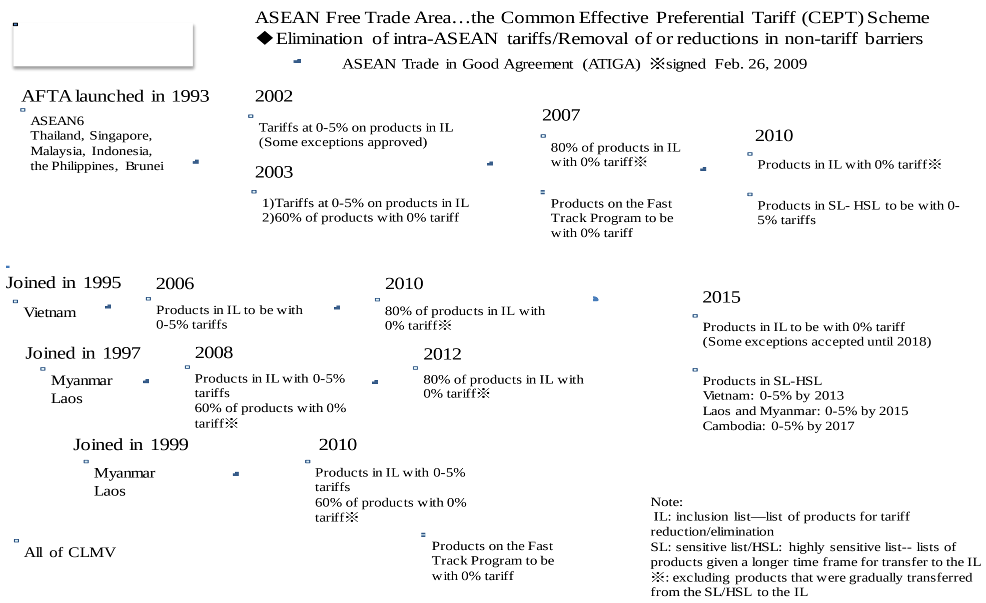
In the latter case, media reports on Hon Hai’s decision on an investment plan in Indonesia suddenly appeared in the middle of 2012. However, details of the plan were not disclosed for a long time, and there were reports that Hon Hai would decide on the size and other details of investment depending on offers from the Indonesian government. During the process, Sofjan Wanandi, chairman of APINDO (Indonesian Employers Association), emerged as a prime negotiator commissioned by the government. Hon Hai later announced a plan for the first phase of investment to build a plant for cell phones in the suburbs of Jakarta, but no progress was seen in 2013. In the case, we cannot help casting doubt about fairness and transparency of the policy to attract foreign enterprises. The Investment Coordinating Board (BKPM) should have led the negotiations with Hon Hai, but it was ignored and replaced by a business mogul, and details of the negotiations have not been disclosed.

On Myanmar’s investment promotion policy, foreign investors and companies already operating in the country have raised questions about transparency of the standards for investment approvals and other issues. One cannot rule out the possibility that if other ASEAN member nations adopt the “Singapore method” in negotiating with foreign companies, investors may remain distrustful of the fairness of any preferential treatment for investments. For Myanmar, a method similar to that of Thailand is considered appropriate, i.e. clarifying the standards for preferential treatment as much as possible and not conducting individual talks on specific incentives as part of invitation activities.

A.1.1.1 Schedule for the elimination of intra-ASEAN tariffs and the effects of elimination

The second point for discussion is the potential effects of the elimination of intra-ASEAN tariffs based on the ASEAN Free Trade Area (AFTA） and ASEAN Economic Community AEC. The six initial member countries of the AFTA—Thailand, Malaysia, Singapore, Indonesia, Brunei and the Philippines--had removed tariffs on almost all products by 2010 (Figure A.1).

Figure A.1 Schedule for Elimination of, or Reductions in, Tariffs on Listed Products of AFTA



Source: Japan External Trade Organization (JETRO), Jan 2012

Table A.1 shows analysis by Japan External Trade Organization (JETRO) of the ASEAN members' tariff reductions as of August 2009. Myanmar had an average tariff rate of 1.11%, the lowest among the four newcomer states and very close to the level of Thailand's 1.01%. Therefore, Myanmar's domestic market is already virtually opened up in terms of import tariffs.

New investments in the manufacturing sector for Myanmar's domestic market become increasingly difficult unless a certain level of output can be expected based on demand estimates and unless unit production cost is lower than cost of imported goods, including distribution cost. For example, there are many cases of goods imported from Thailand, where output is higher, having an advantage.

Table A.1 Analysis by JETRO of the ASEAN members' tariff reductions as of August 2009 based on the scheme of AFTA

	List		Tariff0%		over5%	0%≤5%	The others	TEL	GEL	SL/HSL	The others	CEPT tariff (Ave.)
				Share								
Brunei	8300	8223	7239	88.0%	0	984	0	0	77	0	0	0.61
Indonesia	8737	8632	6900	79.9%	7	1,725	0	0	96	9	0	1.05
Malaysia	12335	12239	10157	83.0%	32	2,016	34	0	96	0	0	0.94
Philippines	8980	8934	7354	82.3%	77	1,503	0	0	27	19	0	1.01
Singapore	8300	8300	8300	100.0%	0	0	0	0	0	0	0	0.00
Thailand	8300	8300	6643	80.0%	13	1,644	0	0	0	0	0	1.01
	54952	54628	46593	85.3%	129	7,872	34	0	296	28	0	0.79
Cambodia	10689	10537	755	7.2%	1,998	7,784	0	0	98	54	0	5.83
Laos	8300	8214	5844	71.1%	314	2,056	0	0	86	0	0	1.54
Myanmar	**8300**	**8240**	**4992**	**60.6%**	**0**	**3,248**	**0**	**0**	**49**	**11**	**0**	**1.11**
Vietnam	8300	8099	4575	56.5%	90	3,434	0	0	144	0	57	2.72
	35589	35090	16166	46.1%	2,402	16,522	0	0	377	65	57	3.00
ASEAN 10	90541	89718	62759	70.0%	2,531	24,394	34	0	673	93	57	1.65

Notes: 1) IL (list of products subject to tariff elimination/cuts); 2) Temporary Exclusion List (TEL)—list of products temporarily excluded from tariff elimination/cuts; 3) General Exception List (GEL)—list of products permanently excluded from tariff elimination/cuts (for reasons of national security, academic value, etc.); 4) Sensitive List (SL)—list of products given a longer time frame for transfer to the IL (unprocessed agricultural products); 5) Highly Sensitive List (HSL) (rice-related products).Products with tariffs of over 5% include those subject to specific duties instead of to ad valorem duties. The number of products is based on AHTN (ASEAN Harmonized Tariff Nomenclature) 2007, except for Cambodia (AHTN 2002). Original source: ASEAN Secretariat (2009 Consolidated CEPT Package)

Source: Japan External Trade Organization (JETRO),Jan 2012

Meanwhile, even after the planned removal of import tariffs, imported automobiles will remain subject to a virtual tariff in Myanmar in 2015 onwards in the form of a high-level "commercial tax." In addition, foreign companies are banned from directly importing products that are not manufactured in Myanmar. Instead, they are obliged to designate domestic companies as sales agents for those products. Foreign companies have strongly requested that direct imports of such products be approved, but we have to recognize that this kind of non-tariff barrier has driven domestic production by foreign companies. In particular, the success of the barrier is indicated by a series of investment announcements in the manufacturing sector in 2013, made by Japan's Suzuki Motor and Nissan Motor, Siam Cement of Thailand, and some others.

It is unclear, however, how far the likes of the non-tariff barrier would be accepted in the framework of the AEC. The Ministry of Commerce apparently plans to reinforce the collection of the commercial tax and other taxes on imports of finished automobiles even though it has once relaxed the tax rates. We believe that the only way forward is for Myanmar to continue improving the infrastructure (including utilities) and the environment for investments in a bid to increase foreign direct investments in key sectors while the non-tariff barriers are still accepted.

A.2 Thailand

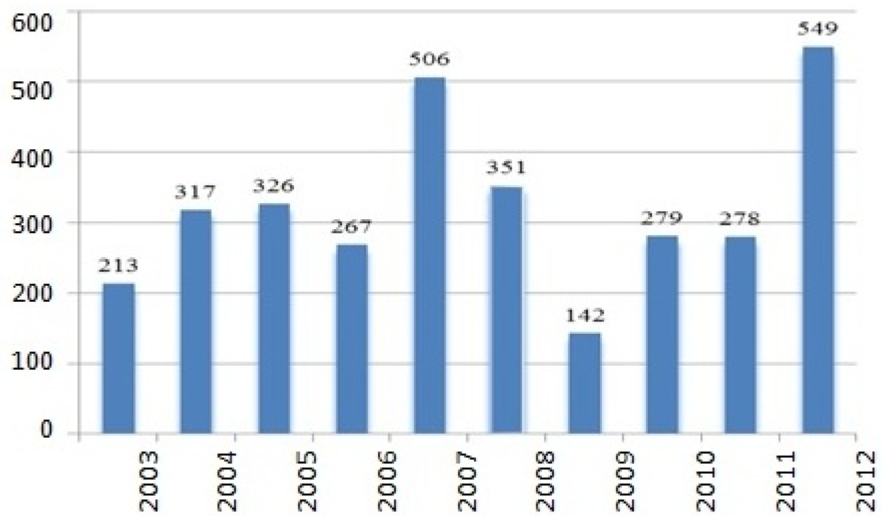
Foreign Investment Enterprises (FIEs) have played a substantial role in economic development in Thailand. Therefore, the government positioned foreign direct investment (FDI) policy as one of the important measures for administering economic and industrial policies. The country has various attractive investment incentives, but it also has a tendency to tighten regulations on FIEs. Just as in other developing countries, this is due to their threat to domestic industries. In the context of this threat, the government enacted the Investment Promotion Act and laws restricting FIE business areas and foreign employment.

Although there was some backlash against foreign investment promotion, the stance of the government and BOI toward the introduction of FDI has been consistently positive. When the oil crisis hit the country and its economy fell into a severe downturn in the late 1970's, the solution for economic recovery was to attract FIEs.

A.2.1 Current Trend of Foreign Direct Investments

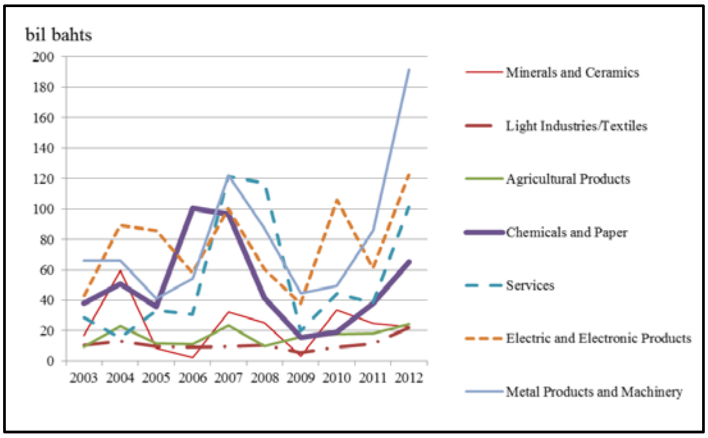
Approved foreign investments for the past 10 years were influenced by the world economic conditions. They peaked out at 506 billion baht in 2007 and declined sharply to 142 billion baht in 2009 as the Thai economy was affected by the global economic crisis. However, investments increased substantially to 549 billion baht in 2012 and surpassed those recorded in 2007 as the Southeast Asian economy recovered. This growth is primarily because of the sharp increase in foreign investment approvals in the metal products and machinery sector in 2012.

Figure A.2 Total Foreign Investment Value



Source: The Board of Investment of Thailand (BOI)

Figure A.3 Trend of investment approvals of foreign investment by sector



Source: BOI

A.2.2 FDI related Schemes

A.2.2.1 The Authority

Based on the Investment Promotion Act, Thailand's investment policy is managed according to investment promotion methods determined by The Board of Investment of Thailand (BOI).

BOI, an affiliate organization of the Ministry of Industry, defines investment promotion target sectors and particulars of promotion, along with screening and selection of investment projects. BOI is chaired by the prime minister, and its vice-chairman is the minister for industry. BOI consists of economic ministers, representatives of the leading private organizations and others.

BOI has the sole authority to decide incentive packages, including tax incentives, for the foreign investors. The Ministry of Finance and other relevant ministries do not have the authority to veto BOI`s incentive packages. This is partly because the board is headed by the prime minister and consists of the representatives of the relevant Ministries, including the Ministry of Finance and the Ministry of Commerce. As the result BOI is able to adjust the strategy of inward foreign investments in a comprehensive, integrated and flexible manner.

A.2.2.2 Investment policy

FDI promotion policy of BOI consists of tax incentives and non-tax incentives applied to target sectors for investment promotion defined by BOI. In addition, the country is divided into three zones. The further from Bangkok, the more favourable the incentives that are provided. This policy aims at decentralization of industry, encouragement of local industry, and removal of income gaps.

BOI Zoning has been adopted since 1987, and decentralization is a major theme in devising the BOI incentive scheme. Recently, however, BOI has also offered incentives for investment in target industries which the government deems as strategically important regardless of the investment zone.

In particular, BOI promotes investments that will enhance the country's competitiveness in science and technology, encourage the improvement of manufacturing quality, and reduce environmental impact. Areas promoted include energy conservation, alternative energy utilization or reduction of environmental impact. It also includes production efficiency improvements through technology upgrades for manufacturing new products.

A.2.2.3 Law on Investment

The Investment Promotion Act was enacted in 1977 and revised in 1991 and 2001. The law strengthened BOI's authority and stipulated establishment of investment service centres for both foreign investors and domestic investors. The Investment Promotion Act defines the functions of BOI and the framework of incentives given to the investors.

A.2.2.4 Investment promotion incentives

(1) Incentives for specific sectors

BOI designates 7 industries and 129 sub-industries as activities eligible for promotion. BOI adjusts criteria for activities eligible for promotion in order to respond to current economic and investment situations. It makes adjustments if it deems that activities will facilitate the economic development and improve national welfare in Thailand. For instance, activities "6.3 Manufacture of eco-friendly chemicals" and "6.4 Manufacture of Eco-friendly products" in Section 6: Chemicals, Paper and Plastics were added after the discussion with Japanese companies. Since BOI can arbitrarily add, delete or modify the eligible activities and incentives, investors need to check announcements on the BOI website from time to time.

List of Activities Eligible for Promotion (Information as of February 2011)

Section 1: Agriculture and Agricultural Products

Section 2: Mining, Ceramics and Basic Metals

Section 3: Light Industry

Section 4: Metal Products, Machinery and Transport Equipment

Section 5: Electronic Industry and Electric Appliances

Section 6: Chemicals, Paper and Plastics

Section 7: Services and Public Utilities

Some of these eligible activities are classified as "a priority activity" or "a priority activity of special importance and benefits to the country." Additional incentives are offered for such activities.

Activities classified as a priority activity will be granted the following tax incentives:

- Exemption of import duties on machinery for all zones

- Eight-year corporate income tax exemption for all zones (subject to the corporate income tax exemption cap)
- Other relevant location-based incentives

Activities classified as a priority activity of special importance and benefits to the country" are granted the above tax incentives. In addition, corporate income taxes are not subject to the corporate income tax exemption cap.

For example, all the activities included in "Section 1 Agriculture and Agricultural Products" are classified as either "a priority activity" or "a priority activity of special importance and benefits to the country". The production of electricity or steam power using alternative energy, such as energy from agricultural material, biogas and wind energy is classified as a priority activity of special importance and benefits to the country in 7.1 Public utilities and basic services of Section 7 Services and Public Utilities. For some activities related to agriculture and services, Thai nationals must hold shares totalling not less than 51 percent of the registered capital.

(2) Incentives by zoning

BOI divided the country into three zones. Under BOI incentive schemes utilizing this investment zoning, different privileges are given to projects depending on the investment zone.

Zone 1: Bangkok, Nakhon Pathom, Nonthaburi, Pathoum Thani, Samut Prakan, and Samut Sakhon

Zone2: Ang Thong, Ayutthaya, Chachoengsao, Chon Buri, Kanchanaburi, Nakorn Nayok, Ratchaburi, Samut Songkhram, Saraburi, Supanburi, Phuket, and Rayong.

Zone 3: The remaining 59 provinces with low income and with less-developed infrastructure, which are designated as Investment Promotion Zones.

36 Provinces: Krabi, Kamphaeng Phet, Khon Kaen, Chanthaburi, Chai Nat, Chumphon, Chiang Rai, Chiang Mai, Trang, Trat, Tak, Nakhon Ratchsima, Nakhon Si Thammarat, Nakhon Sawan, Prachuab Khiri Khan, Prachin Buri, Phangnga, Phattalug, Pichit, Phitsanulok, Phetchaburi, Phetchabun, Mukdahan, Mae Hong Son, Ranong, Lop Buri, Lamphang, Lamphun, Loei, Songkhla, Sa Kaew, Sing Buri, Sukhothai, Surat Thani, Uttaradit, and Uthai Thani.

23 Provinces: Kalasin, Nakhon Phanom, Narathiwat, Nan, Buri Ram, Pattani, Phayao, Phrae, Maha Sarakham, Yasothon, Yala, Roi Et, Si Sa Ket, Sakhon Nakhon, Satun, Nong Bua Lamphu, Chaiyaphum, Nong Khai, Ubon Ratchathani, Udon Thani, Amnatcharoen, and Bueng Kan.

Zone 1, which includes Bangkok, is the area with relatively high income households and established infrastructure. Zone 2, which includes the central area such as Ayutthaya, and Zone 3, which includes the north, north east and south regions, are areas with low income and inadequate facilities.

Therefore, additional incentives are offered to projects in Zone 2 and Zone 3 while privileges are rather limited for investment in Zone 1.

The duration for corporate income tax exemption ranges from 3 to 8 years, depending on the zone. In some designated areas in Zone 3, 50 percent reduction of corporate income tax is offered for 5 years after the exemption period. Regardless of the zone, the corporate tax exemption is cut short once the cumulative amount of the exemption reaches the amount of the initial investment, except for "priority activities of special importance and benefits to the country". Other privileges include reduction of import duties on machinery and exemption of import duty on raw or essential materials used in the manufacturing of export products.

(3) Incentives for enhancement of competitiveness

Recently, BOI emphasizes strengthening science and technology and upgrading to knowledge based industry. It also encourages manufacturing that reduces environmental impact in order to achieve sustainable development and enhance the country's competitiveness.

The related investment promotion policy includes: "Investment Promotion Policy for Sustainable Development", "Additional Incentives under the Skill, Technology, and Innovation (STI)scheme", and "Measures to promote research and development cooperation between industrial sectors and education institutions".

a) Investment Promotion for Sustainable Development

In April 2010, BOI announced "Investment Promotion for Sustainable Development" (Board of Investment 2/2553). This policy aims to enhance domestic industrial growth and upgrade industry to knowledge-based industry that uses advanced technology. Targeted areas are: 1) Energy conservation and alternative energy, 2) Eco-friendly materials and products, and 3) High-technology businesses.

Eligible activities are given the following incentives:

- Import duty exemption on machinery
- Eight-year corporate income tax exemption without being subject to a corporate income tax exemption cap
- Fifty percent reduction of corporate income tax on net profit for five years after expiry of tax holiday
- Double deduction of transportation, electricity and water supply costs for ten years from the date of income derivation from promoted project
- Twenty five percent deduction of the cost of installation or construction of facilities in addition to normal depreciation deduction

In order to be eligible for the above incentives, projects must be located anywhere except Bangkok and the applications must be submitted to BOI by December 31, 2014.

Additional promotions target Non-BOI promoted projects as well as BOI promoted projects whose tax exemption or reduction period expires. They include 1)Energy conservation, alternative energy utilization or reduction of environmental impact, 2)

Production efficiency improvement by technology upgrades for manufacturing new products, and 3) Solving environmental problems.

b) Additional Incentives under the Skill, Technology, and Innovation (STI) scheme

BOI also offers incentives to encourage the development of skills, science technology, and innovation under the STI (Skill, Technology and Innovation) scheme. Depending on the size of investment or expenditure, the period of corporate tax exemption is extended, with the total duration of the exemption not exceeding 8 years.

c) Tax incentives

These corporate income tax exemptions are in addition to those received on the basis of the Board of Investment Announcement No. 1/2543 and 2/2543. The exemptions are granted if there are investments or expenditures in specific areas and meeting specific conditions. The investments or expenditures need to be in the areas of research and development or design, in advanced technology training, in supporting an educational or research institution or in donation to Technology and Human Resources Development Fund. The total duration of corporate income tax exemption shall not exceed 8 years, as follows:

- One additional year of corporate income tax exemption will be granted if there are investments or expenditures in these areas, on the condition that such investments or expenditures are not less than 1 percent of the revenue from the investment project in the first 3 years, or not less than 150 million Baht, whichever is less.

- Two additional years of corporate income tax exemption will be granted if there are investments or expenditures in these areas, on the condition that such investments or expenditures are not less than 2 percent of the revenue from the investment project in the first 3 years, or not less than 300 million Baht, whichever is less.

- Three additional years of corporate income tax exemption will be granted if there are investments or expenditures in these areas, on the condition that such investments or expenditures are not less than 3 percent of the revenue from the investment project in the first 3 years, or not less than 450 million Baht, whichever is less.

Projects granted STI incentive approval and meeting the applicable conditions are not subject to the corporate income tax exemption cap.

Exemption of import duties on machinery for all zones :

Conditions:

- Investments or expenditures by the promoted entity to develop Skill, Technology & Innovation can be made throughout the duration of corporate income tax exemption.
- Projects that have been granted corporate income tax exemption under Section

31 and are already generating income must submit an STI application any time before their corporate tax exemption period expires.

- Projects that are not eligible for corporate income tax exemption and that want to apply for STI incentives are required to submit their STI applications at the same time they submit the BOI application
- The promoted entity shall apply for the aforementioned rights and privileges according to the criteria prescribed by the Office of the Board of Investment.

d) Investment Incentives to service industry

BOI offers incentives for an International Procurement Office (IPO) for components and semi-finished products. BOI also offers incentives for a Trade and Investment Support Office (TISO)

e) Investment incentives to Regional Operating Headquarters (ROH)

In 2002, the first ROH incentives, both tax and non-tax, are introduced to investors with the aims of attracting more investment to Thailand. In August 2010, the government introduced attractive new incentives. Until 2015, investors can choose either the current ROH tax regime (Option #1) or a new ROH tax regime (Option #2).

After 2015, these two options will be unified.

Qualifying companies that set up regional operating headquarters in the country are entitled to a 10-year corporate income tax rate of 0% on the portion of income derived from their overseas operations. A rate of just 10% is levied on income from their domestic operations.

Nissan and Hitachi received ROH incentives. Nissan relocated its ROH from Singapore to Thailand in July 2011, and Hitachi also established an ROH to manage its business in ASEAN and India.

(4) Entry regulations and restriction for foreign investment

The Foreign Business Act is the most important law affecting ownership of business by foreigners. It regulates and restricts foreign ownership in 43 specified categories of business activities.

Schedule 1. Foreigners cannot engage in these businesses.

- Newspaper business, radio broadcasting station or radio/television business
- Farming, cultivation or horticulture
- Animal husbandry
- Forestry and timber conversion from natural forests
- Fisheries, especially fishing in Thai territorial waters and in specific economic areas of Thailand
- Extracting Thai herbs
- Trade and auction sale of Thai antiques or objects of historical value
- Making or casting Buddha images and alms bowls
- Trading in land

Schedule 2. Foreigners can engage in these businesses with a license from the Minister of Commerce and approval from the Cabinet.

Businesses concerning national safety and security or which have an impact on arts, culture, customs, local handicrafts or natural resources and the environment

(5) Manufacturing, distribution, repair or maintenance of:

- Firearms, ammunition, gunpowder, and explosive materials
- Components of firearms, ammunition and explosive materials
- Armaments, ships aircraft or vehicles; and
- Equipment or parts of any type of military equipment

(6) Domestic land transport, water transport, and air transport; including domestic aviation

Businesses which have an impact on art, culture, customs, local handicrafts:

- Trading of old objects or artifacts which are Thai works of art or handicrafts
- Manufacture of wood carvings
- Breeding silkworms, manufacture of Thai silk thread, Thai silk weaving or printing
- Manufacture of Thai musical instruments
- Manufacture of products from gold, silver, niello, bronze or lacquer
- Manufacture of crockery or porcelain relating to Thai art and culture

(7) Businesses which have an impact on natural resources or the environment:

- Production of cane sugar
- Salt farming, including the production of efflorescent salt
- Production of rock salt
- Mining, including stone quarrying and crushing
- Wood processing for the manufacture of household furnishings and utensils

Schedule 3. Businesses in which Thais are not yet prepared for competition with foreigners.

- Rice milling and the manufacture of flour from rice and field crops
- Fishery, only in relation to the cultivation of marine life
- Forestry (plantations)
- Manufacture of plywood, wood veneer, chip-board or hard-board
- Manufacture of lime
- Accounting services
- Legal services
- Architectural services
- Engineering services

- Construction, except:
  - The construction of things providing fundamental services to the public such as public utilities or transportation where special equipment and machinery, technology or expertise is required, and where the minimum capital of foreigners is Baht five hundred million or more.
  - other types of construction as prescribed in Ministerial Regulations
- Brokerage or agency businesses, except:
  - brokers or agencies trading securities or services connected with the forward trading of agricultural commodities or financial instruments or securities
  - brokers or agencies providing goods and services necessary for manufacture or provision of services to an affiliate's enterprises
  - brokers or agencies trading, purchasing or distributing or procuring markets both domestic and foreign for the sale of goods manufactured in Thailand or imported from abroad, which involve international trade and where the minimum capital of foreigners is Baht 1,000,000 or more
  - other types of brokerage or agency as prescribed in Ministerial Regulations
- Public auctions, except:
  - public auctions involving international bidding and which does not involve the bidding for old objects, antiques, or artifacts which are Thai works of art, handicrafts or antiques or which are of historical value to the nation
  - other types of public auction as prescribed in Ministerial Regulations
- Domestic trade in indigenous agricultural products which are not prohibited by law
- Retail businesses trading all types of products, with a total minimum capital of less than Baht 100,000,000 or a minimum capital for each establishment of less than Baht 20,000,000
- Wholesale businesses trading all types of products, with a total minimum capital of less than Baht 100,000,000 per establishment
- Advertising
- Hotels, except hotel management services
- Tourism
- Sale of food and beverages
- Cultivation, reproduction and improvement of plant species
- Other service businesses except those prescribed in Ministerial Regulations

A.2.2.5 Investment promotion by BOI

(1) Business matching

BOI offers two types of 'business matching'. The first type is group business matching meetings. BOI sets up the meeting in Thailand or in locations outside Thailand for business matching between Thai firms and potential foreign investors. The other type of business matching is to act as an intermediary for information concerning the potential investors. If a potential investors fills in a ‘Company Match-making form’ on the website of BOI, the filled-in form will be automatically distributed to local firms that are willing to link their businesses with the foreign investors. The form will be directly mailed to the Thai firms on the list that BOI has.BOI calls this an 'online business match’. The Alliance for Supporting Industries Association (ASIA) supports these business matching and networking activities.

(2) Technology matching

If potential investors seek to procure components from Thai manufacturers, the investor can also fill in another type of form on the website. It will be automatically sent to BOI Unit for Industrial Linkage Development (BUILD). The BUILD staff read the form and contact Thai manufacturers which might be potentially interested in the content of the form. If the investors seek technological alliances, BOI will introduce them to Bureau of Supporting Industries.

(3) SME support

(1) and (2) are primarily targeted at connecting potential small and medium sized enterprise (SME) investors with Thai SMEs. BOI also introduces SME investors to Thai and foreign banks operating in Thailand.

A.2.2.6 SEZ／Industrial Zone

(1) Types of Industrial parks

The first industrial park in Thailand、Ban Chiang industrial park in the suburbs of Bangkok was established in 1967 by the Ministry of Industry. Then, the Industrial Estate Authority of Thailand (IEAT) was established in 1972. IEAT is an organization for constructing industrial parks and managing them in a comprehensive manner. The objectives and operations of IEAT were defined by the 1979 Estate Authority of Thailand Act, with amendments in 1996 and 1991.

There are two types of industrial park in Thailand. The first type is the industrial parks that are designated 'industrial estate' and managed by IEAT. Some of them are constructed directly by IEAT but the majority of them are constructed and sold by the private sector. The name ‘industrial estate’ is only allowed to be used by industrial parks managed by IEAT. This is defined by Article 40 of 1979 Thailand Estate Authority Act. The second type is the private industrial parks promoted by BOI, which are not managed by IEAT. Most of the industrial parks spread all over Thailand are industrial estates managed by IEAT. The number of ‘industrial estates’ is currently 47 according to the IEAT website.

(2) Types of industrial estates

The industrial estates are classified into two types, namely General Industrial Zone (GIZ) and Export Processing Zone (EPZ). In an EPZ, import duties for raw materials, machinery, equipment, tools, plant, building construction materials, value-added tax and excise duty are exempted if the products are exported from the EPZ (Article 48). The same is true when you export to other EPZ with the permission of IEAT (Article 49 and 56). However, these taxes are imposed if the products are sold in the domestic market from the EPZ (Article 51).

(3) One stop service provided by IEAT

Some of the authority for approvals and permissions by the other governmental organization are delegated to IEAT.

Construction permits for factories are given based on the Factory Law, Construction Standard Law and Urban Planning Law. However, IEAT has the authority to issue permits to tenants. IEAT also issues visas to foreign workers and their families of the tenants instead of the immigration office.

The Land Law allows firms with foreign stakes not exceeding 49% to own land in Thailand. However, firms with foreign stakes over 49% can own land in industrial estates based on the Land Law.

(4) Difference of incentives offered by IEAT and BOI

The incentives offered by IEAT and BOI are different. BOI offers exemption or reduction of corporate tax and exemptions of various taxes of imported materials in export processing zones for limited periods.

On the other hand IEAT offers one-stop services and the removal of regulation on land ownership in their industrial estates by firms with foreign stakes. Moreover, IEAT offers the various tax exemptions explained above without any time limit. However, IEAT is not able to offer incentives on corporate taxes. Investors can take all the incentives offered by both BOI and IEAT.

Table A.2 Difference of incentives offered by BOI and IEAT

	IEAT	BOI
Exemptions of import duties on raw materials, machinery, equipment, tools, plant, and building construction materials,	○	For limited period stipulated by BOI
Exemptions of value-added tax and excise duty	○	×
Construction permits for factories	○	×
Exemption or reduction of corporate tax reduction	×	○
Double deduction of public utility costs	×	○
Deductions for infrastructure construction/installation costs	×	○

Source: BOI and Industrial Estate Authority of Thailand (IEAT)

A.2.3 Challenges

According to BOI, it will review the current promotion based on investment zones and shift its strategy to promoting specific industries and forming industry clusters. Thai policy for investment promotion is entering the next stage as Asia's other emerging countries start attracting greater attention as the new frontiers for investment. The current incentive schemes are valid until 2014. However, the announcement of new schemes starting from 2015 is delayed due to the political conflicts. The announcement was supposed to be in December 2013.

A.2.4 Lessons applicable to Myanmar

A.2.4.1 Sole authority to decide the incentive package

BOI has the sole authority to decide and adjust incentive packages, including tax incentives, for the foreign and domestic investors based on the Investment Promotion Act. Once the board determines its incentive packages based on the Act, other relevant ministries do not have authority to veto the packages. This is partly because the head of the board is the deputy prime minister and representatives of the relevant ministries including Ministry of Finance, Ministry of Commerce and Ministry of Industry are board members. BOI unilaterally makes minor changes to its incentives almost every year.

A.2.4.2 Transparency

BOI`s incentive packages are clearly defined and well communicated to investors. According to an interview, one of the Japanese automobile vendors in Thailand highly evaluated the experience of applying for BOI's investment incentive packages as they are clearly and transparently defined. Changes to packages are performed by board decision. This approach would also be effective for attracting FDI to Myanmar by making the incentive package as clear as possible.

A.2.4.3 Support to investment by foreign SMEs

BOI focuses on increasing the investment by foreign SMEs by offering support schemes. These schemes help SMEs make investment decisions when seeking joint venture partners and procuring the local components in Thailand. BOI acts as an intermediary of information between the local firms and the potential investors in Thailand. Large firms are able to conduct market research by themselves and to employ consultants to research potential local business partners and local components. However, it is difficult for foreign SMEs to maintain the budgets and networks required to do this. Therefore, BOI helps them by offering a matching system for JV partners and locally-made components through a company database. These activities include arranging JV partner matching through group meetings. They also include 'online business match' and component matching through BUILD and BIDS. In order to increase direct investment in Myanmar, increase in investment by foreign SMEs is the key. To raise the technological level of local manufacturers in Myanmar, there is a particular need for investment not only by the large manufacturers but also by SMEs with excellent technical skills, such as Japanese SMEs. BOIs attempts to connect foreign and local SMEs by offering foreign SMEs as much useful information as possible are good reference for DICA.

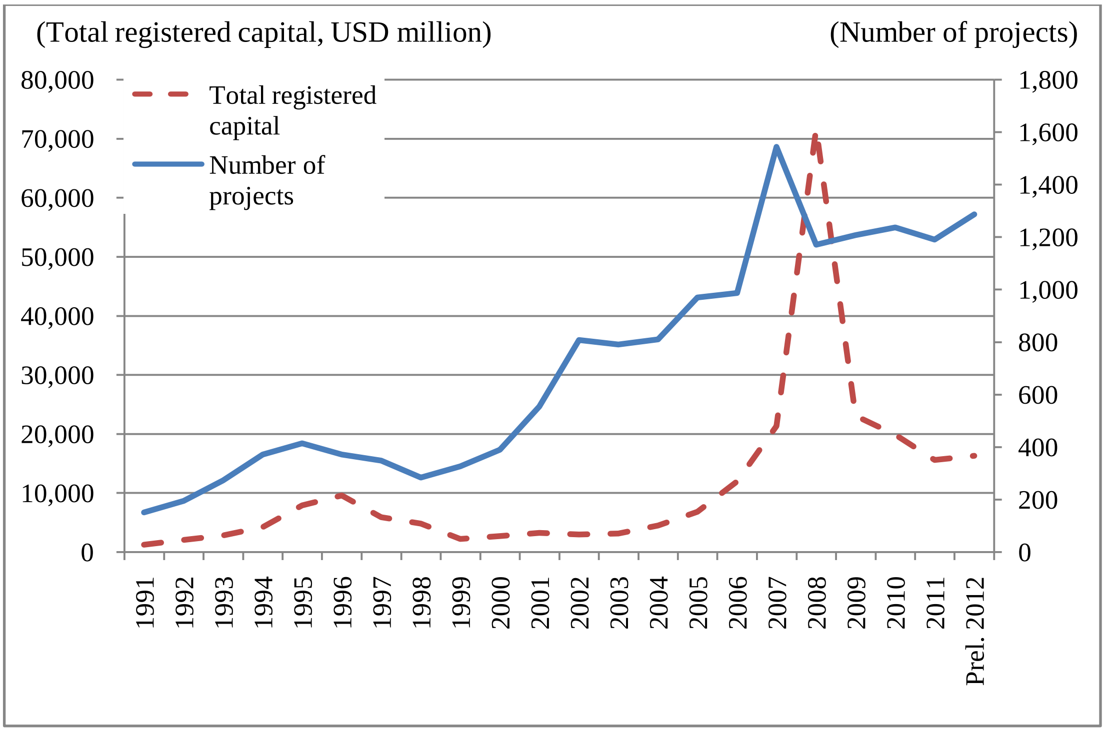
A.3 Vietnam

Vietnam made its appearance on the world economic scene in 1986 with the Doi Moi reforms. It then enjoyed the first boom of foreign investments when the US lifted its economic sanctions against Vietnam in 1994. However, foreign investments stagnated from1998 to around 2004. Reasons for the stagnation include the Asian financial crisis in 1997 and restrictions on foreign companies (foreign companies were only allowed to participate in joint ventures). Other reasons include partners in Vietnam retaining habits from the Socialist period, and delays in restoration of infrastructure after the Vietnam War. Meanwhile, other countries such as Thailand and China made remarkable progress in industrialization through promoting foreign investments. Seeing that progress, Vietnam decided in earnest to develop conditions that would promote foreign investment.

A.3.1 Current Trend of Foreign Direct Investment in Vietnam

Since 1991, the number of investment projects has generally been on the rise. Number of projects grew at 11% per annum, and reached a maximum of 1,544 projects in 2007. From early to mid-2000s, registered capital per project was rather small. Registered capital per year in this period was also small in spite of an increase in the number of projects. Total amount of registered capital from 1989 to 2012 reached USD 246.3 billion.

Figure A.4 FDI projects licensed in period 1988 - 2012



Source: General Statistics Office of Vietnam

As of 31st December 2012, the manufacturing sector accounts for 56% (8,072 investments) of total investments in number, and 50% (USD 106 billion) in value.

Table A.3 FDI projects licensed, by type of economic activity (Cumulative, as of Dec. 31, 2012)

	Number of projects		Total registered capital (Mill. USD)	
Agriculture, forestry and fishing	493	3.4%	3,263	1.5%
Mining and quarrying	78	0.5%	3,182	1.5%
Manufacturing	8,072	55.6%	105,939	50.3%
Electricity, gas, stream and air conditioning supply	87	0.6%	7,489	3.6%
Water supply, sewerage, waste management and remediation activities	28	0.2%	1,234	0.6%
Construction	936	6.4%	10,052	4.8%
Wholesale and retail trade; Repair of motor vehicles and motorcycles	902	6.2%	2,898	1.4%
Transportation and storage	350	2.4%	3,493	1.7%
Accommodation and food service activities	331	2.3%	10,606	5.0%
Information and communication	828	5.7%	3,942	1.9%
Financial, banking and insurance activities	76	0.5%	1,322	0.6%
Real estate activities	388	2.7%	49,761	23.6%
Professional, scientific and technical activities	1,336	9.2%	1,102	0.5%
Administrative and support service activities	114	0.8%	193	0.1%
Education and training	163	1.1%	463	0.2%
Human health and social work activities	82	0.6%	1,222	0.6%
Arts, entertainment and recreation	137	0.9%	3,629	1.7%
Other service activities	121	0.8%	733	0.3%
Total	**14,522**	**100.0%**	**210,522**	**100.0%**

Source: General Statistics Office of Vietnam

The manufacturing sector still gathers the largest number of investments. However, investments in the wholesale and retail trade sectors are increasing in number, and the amount of registered capital invested in real estate activities is growing.

Table A.4 FDI projects licensed in 2012 and 2011, by type of economic activity

2012 **(Mill.USD)**

Actibity	Number of Projects		Total registered capital	
Manufacturing	549	42.7%	11,701.90	71.6%
Wholesale and retail trade; Repair of motor vehicles and motorcycles	220	17.1%	772.8	4.7%
Professional scientific and techanical activities	180	14.0%	98.8	0.6%
Information and communication	99	7.7%	416.9	2.6%
Construction	96	7.5%	346.0	2.1%
Transporation and storage	32	2.5%	227.1	1.4%
Agriculture,foresry and fishing	17	1.3%	99.4	0.6%
Electricity,gas, stream and air conditioning supply	15	1.2%	97.2	0.6%
Accommodation and food service activities	15	1.2%	108.2	0.7%
Real estate activities	13	1.0%	1979.9	12.1%
Education and training	11	0.9%	105.1	0.6%
Arts, entertainment and recreation	9	0.7%	60.6	0.4%
Other service activities	8	0.6%	20.5	0.1%
Mining and quarrying	7	0.5%	167.5	1.0%
Administrative and support service activities	7	0.5%	5.3	0.0%
Human health and social work activities	6	0.5%	140.2	0.9%
Water supply,sewerage,waste management and remediation activities	2	0.2%	0.5	0.0%
Financial, banking and insurance activities	1	0.1%	0.1	0.0%
Total	**1,287**	**100%**	**16,348.0**	**100.0%**

2011 **(Mill.USD)**

Actibity	Number of Projects		Total registered capital	
Manufacturing	464	39.1%	7,788.8	49.9%
Wholesale and retail trade; Repair of motor vehicles and motorcycles	170	14.3%	499.1	3.2%
Professional scientific and techanical activities	169	14.2%	265.5	1.7%
Construction	149	12.6%	1,296.4	8.3%
Information and communication	86	7.3%	897.4	5.8%
Accommodation and food service activities	25	2.1%	476.8	3.1%
Real estate activities	25	2.1%	869.9	5.6%
Agriculture,foresry and fishing	21	1.8%	141.5	0.9%
Transporation and storage	19	1.6%	74.9	0.5%
Education and training	13	1.1%	11.2	0.1%
Other activities	11	0.9%	79.9	0.5%
Arts, entertainment and recreation	9	0.8%	153.0	1.0%
Electricity,gas, stream and air conditioning supply	7	0.6%	2,528.5	16.2%
Administrative and support service activities	7	0.6%	5.1	0.0%
Mining and quarrying	5	0.4%	98.4	0.6%
Water supply,sewerage,waste management and remediation activities	3	0.3%	323.2	2.1%
Human health and social work activities	3	0.3%	88.5	0.6%
Total	**1,186**	**100.0%**	**15,598.1**	**100%**

Source: General Statistics Office of Vietnam

The Vietnamese economy can be broadly divided into two parts: northern Vietnam with a focus on Hanoi, and southern Vietnam with a focus on Ho Chi Minh. Between northern and southern Vietnam, the central Vietnam area is growing, with a focus on Da Nang, but its economic scale is still moderate. In southern Vietnam, investments tend to be made in sectors targeting local markets, such as retail sales, food industry, and so on. In northern Vietnam, the trend is for investments in export processing of office equipment, motorcycles and automobiles for local markets.

A.3.2 FDI related Schemes

A.3.2.1 Authority

Detailed enforcement regulations were issued on September 22, 2006 (Decree No. 108), and came into the force in October the same year. The Law on Foreign Investment originally divided supervisory authorities on foreign investments into two categories. Now, the detailed enforcement regulation divides investments into three categories according to the approval required: projects requiring approval by the Prime Minister, those requiring approval by provincial people's committees, and those requiring approval by the management committee for an industrial zone. According to their location, projects are either supervised by the provincial people's committee or by the management committee for the industrial zone.

Table A.5 Supervising Ministries and Agencies on Investment Projects

Projects for which the Prime Minister of the Government approves investment policy (Article 37)

1. Investment projects in the following sectors, irrespective of the source of invested capital and scale of investment (Article 37.1):

- (a) Construction and commercial operation of airports; air transportation
- (b) Construction and commercial operation of national sea ports
- (c) Exploration, production and processing of petroleum; exploration and mining
- (d) Radio and television broadcasting
- (e) Commercial operation of casinos
- (f) Production of cigarettes
- (g) Establishment of university training institutions
- (h) Establishment of industrial parks, export processing zones, high-tech zones and economic zones

2. Investment projects not covered by clause 1 of this article, irrespective of the source of capital, with an invested capital of VND 1,500 billion or more in the following sectors (Article 37.2):

- (a) Commercial operation of electricity; processing of minerals; metallurgy
- (b) Construction of railway, road and internal waterway infrastructure facilities
- (c) Production and business of alcohol [and/or] beer

3. Foreign investment projects in the following sectors (Article 37.3)

- (a) Commercial operation of sea transportation
- (b) Establishment of networks for and supply of postal and delivery, telecommunications and internet services; establishment of wave broadcasting transmission networks
- (c) Printing and distributing newspapers; publishing
- (d) Establishment of independent scientific research establishments

Projects for which provincial people's committees issue investment certificates (Article 38)
Provincial people's committees shall carry out investment registration and issuance ofinvestment certificates for the following projects:

1. Investment projects outside industrial zones[1] (including investment projects for which the Prime Minister of the Government has approved the investment policy) (Article 38.1)
2. Investment projects for development of infrastructure facilities in industrial zones which have not yet established a management committee for industrial zones (Article 38.2)

Projects for which management committees of industrial zones issue investment certificates (Article 39)

Management committees of industrial zones shall carry out investment registration and issuance of investment certificates for the following projects

1. Investment projects in industrial zones (including investment projects for which the Prime Minister of the Government has approved the investment policy)
2. Investment projects for development of infrastructure in industrial zones.

A.3.2.2 Policy on FDI Promotion

Vietnam promoted foreign investments with The Law on Foreign Investment in Vietnam (as amended in 2000)and made steady progress towards opening up of the Vietnamese market. That law ensures that foreign companies will not be nationalized and that assets owned by foreign investors will not confiscated. In 2006, the Law on Investment and the Law on Enterprises were implemented. Both laws envisage a level-playing-field business environment for domestic and foreign companies. The Vietnam government's priority in its long-term development plan is continuous acceptance and leverage of foreign investments going forward.

In addition, Vietnam has been actively promoting foreign trade, not only within Asia but also worldwide. Measures taken include implementation of policy to accept foreign capital in 1988, full-fledged participation in the ASEAN Free Trade Area (AFTA, envisaging free trade among ASEAN countries) in 1996, and accession to WTO in 2007. The country has been also liberalizing bilateral trade and enhancing economic cooperation by signing the US-Vietnam Bilateral Trade Agreement (2000) and the Vietnam-Japan Joint Initiative (since 2003).

A.3.2.3 Regime on Investment

(1) Law on Investment

<u>Aims of New Laws and Changes</u>

The Law on Investment (which replaced the old Law on Foreign Investment) and the Law on Enterprises are most important laws for companies entering Vietnam.

The Law on Investment replaced the Law on Foreign Investment (as amended in 2000). This has brought greater freedom in investment for foreign investors. The Law on Enterprises treats foreign companies and domestic companies equally, eliminating negatives for foreign companies such as dual pricing systems.

<u>Aims of the Law on Investment:</u>

a) Higher flexibility in investment.

b) Eradicating differences between treatment of domestic and foreign investors to comply with international agreements (including WTO). This includes implementation of a level playing field for foreign and domestic companies.

c) Enhancement of ability to manage investments.

(2) Law on Enterprises

The Law on Enterprises defines the types of corporation and the establishment of required organizations in accordance with the type of corporation. It also defines the rights and obligations of workers (investors in limited liability companies) and shareholders, and the qualifications and authority of members in organizations. Before the creation of the Law on Enterprises, foreign companies were only allowed to establish limited liability companies. However, after the implementation of the Law on Enterprises, they are allowed to establish shareholding companies. As a result, more and more foreign companies have established shareholding companies. When foreign companies enter Vietnam, they typically establish limited liability companies or shareholding companies.

Aims of the Law on Enterprises:

Implementation of the level playing field for foreign and domestic companies. The economy becomes more market driven and more integrated into the international economy under the socialist-oriented market regime.

Looking at details of the Law on Investment and the Law on Enterprises by items, there are a large number of revisions. Overall, investments by foreign companies became more flexible, including diversification of investment types, and elimination of performance criteria such as export ratio or local content.

a) Investment type: Wider variety of investments allowed compared to the Law on Foreign Investment

b) Rules on investment ratio: No restriction in principle (abolished a rule which required minimum holdings of 30% by domestic companies upon a creation of a joint venture)

c) Investment area: No restriction in principle except for restricted areas (there are areas where certain conditions are imposed)

d) Investment procedures: Raised investment cap under which investment certificates can be obtained only through registration without investment review.

e) Performance requirement: No requirement on export ratio or local contents

f) Types of corporation: Previously, only limited private companies were allowed. Now, shareholding companies are also allowed.

g) Unanimous rule: Resolutions shall be conducted in a way stated in the article of incorporation. No unanimous resolution is forced.

A.3.2.4 Investment Styles

(1) Entry/Investment Styles into Vietnam

As shown below, there are various investment/undertaking styles for foreign investors when they want to expand their businesses into Vietnam.

a) 100% foreign-owned company

- In this investment style, foreign investors fully fund the establishment of a company.
- Either one single foreign company or a group of foreign companies can fund the establishment.
- Full foreign ownership is allowed in many service sectors, while 100% foreign ownership is restricted in some service sectors (transportation and others).

b) Joint venture

- Vietnamese enterprises (state-owned/private sector/individual) and foreign investors together provide funds to establish a company in accordance with the joint venture agreement.

c) Business Cooperation Contract (BCC)

- In this investment style, Vietnamese enterprises and foreign investors share the profits and assets/liabilities without establishing a body corporate.
- This style is used to undertake joint operations such as exploration, experimental drilling and mining of petroleum and other natural resources. It is also used to invest in short-term projects and specific enterprises under government restrictions including telecommunication and so on.

d) BOT (Build-operate-transfer), BTO (Build-transfer-operate) and BT (Build-transfer)contract

- When foreign investors and the Vietnamese government organizations build infrastructure together under any agreement, and the structures are to be transferred to the government of Vietnam, there are three types of contracts: BOT, BTO, and BT Contracts. This classification is based on the timing of the transfer, and the method of operation.
- Foreign investors establish a company either with 100% ownership or jointly financed with the government of Vietnam.
- These contracts are used to build infrastructure such as roads, ports, airports, railroads, bridges, water supply and electricity utilities.

e) Indirect investment (Purchase of stocks, merger & acquisition)

- In compliance with the securities exchange law and other related laws and regulations.
- The ownership of foreign investors in listed companies is limited to

49% at the most. The ownership percentage for investment in each sector is determined by government regulations.

f) Setup of branches/representative offices

- Including a branch opening by law firms, accounting firm, and banks.
- Representative offices are only for the purpose of market research, information gathering, and managing the contract manufacturing. No commercial activities are allowed.
- Details are stipulated in the commercial law.

g) Others (Contract manufacturing and so on)

- There are two types of contract manufacturing: one is to purchase the products by only paying for the processing fees (free-of-cost contract manufacturing), and the other is to supply materials and then purchase the products at the price including both the material costs and processing fees (paid contract manufacturing).
- Other types of business styles include: construction installation contracts for which construction permission is required for each project and operation is based on the contract with the owner; technology transfer contracts under which patents/expertise are transferred; and agent/distributor contracts in which local shops in Vietnam are used to sell products.

* Source: Article 21 of the Law on Investment; prepared using some parts from “Practical Q&A for Entry/Investment into Vietnam” published by the Nikkan Kogyo Shimbun Ltd. in 2010.

Item a) to c) were restricted under the old Law on Foreign Investment. However, under the present Law on Investment, there are more varieties in the investment styles for foreign investors. For example, as described in item 5), purchase of stocks and mergers & acquisitions are newly provided. Along with this Law on Investment, the Law on Enterprises which became effective on July 1, 2006 made it possible to establish holding companies.

Investment through BOT and BTO item d) were already allowed in the past, but the Law on Investment provides clearer definitions of these undertakings.

A.3.2.5 Incentives

Investment incentives to foreign companies are defined by the investment law in principle. The specific contents are defined by decrees issued by the government or circulars by ministries.

Preferential treatment primarily consists of reduction and exemption of income taxes. Other incentives, such as preferential treatment on land use fees and exemption of import duties, are defined separately.

(1) Enterprise income tax

By circular No. 130/2008/TT-BTC issued from the Ministry of Finance in December 2008, incentives to corporate tax are defined as below.

The standard tax rate is 25%. Companies located in the areas with socio-economic difficulties and companies working in particular industries such as high technology or development of water plants enjoy tax reductions. These reductions apply for 10 to 15 years, including tax exemption for 2 to 4 years and 50% tax reduction after the fifth year. For example, "new enterprises under investment projects in geographical areas with socio-economic difficulties" receive tax exemption for the first 2 years, a 10% tax rate for the following 4 years, and a 20% tax rate for the next 4 years.

(2) Import duty

Incentives on import duty are offered according to sector, business location, and other conditions

Degree No.87/2010/ND-CP issued in August 2010 defines exemption of import duties based on type of investment sector, location of investment, and other conditions. Exemption of import duties defined in the Law on Investment and the Law on Import Tax and Export Tax validated in July 2006 is applied to foreign companies, and also to both foreign and local companies in a "preferential sector of investment".

(3) Land use fee

As foreigners cannot have ownership of land, they pay rent for land use to the government or municipality. There are cases where exemption of the land use fee is applied, depending on the investment sector and area.

(4) Preferential investment fields that are set forth in the investment law

The investment law defines fields of investment preferential targets as "DOMAINS ENTITLED TO INVESTMENT PREFERENCES" and "DOMAINS ENTITLED TO SPECIAL INVESTMENT PREFERENCES". At initial enforcement of the Investment Law, incentives on enterprise income tax had been defined according to those categories. However, the scope has been narrowed considerably.

In the retail sector, if a foreign company plans to open a second or further shops, the Vietnamese authority conducts a market survey, the "Economic Needs Test". The main purpose of this test is to protect local small retailers, and criteria and procedural rules are not specifically clarified by the authority. In reality, this measure can be considered an entry barrier. Therefore, it is subject to improvement.

(5) Industrial Parks, Export Processing Zones, and High-tech Zones

The Vietnamese government has established industrial parks, export processing zones, and high-tech zones. The aim is to attract investors to manufacture industrial products, export-oriented products, and high-tech products as well as to provide services related to manufacturing of these products. In these industrial zones, it is possible to set up companies to manufacture industrial products (or export products and high-tech products). It is also possible to provide services to support manufacturing of these industrial products (or export products and high-tech products).

The current number of industrial zones throughout Vietnam is nearly 300. Until 2008, newly established foreign companies in industrial zones enjoyed partial reduction of corporate income tax. However, this incentive has been terminated at present. The government has a policy to foster supporting industry. In line with this policy, and for the purpose of attracting small and medium-sized enterprises, an increasing number of industrial zones have smaller land plots or factories for rent. Export processing zones on the other hand target companies manufacturing products subject to export only. Import duty exemption and value added tax exemption are applicable to companies in export processing zones.

A.3.3 Challenges

A.3.3.1 Improving Environment in Vietnam for Foreign Investments

Key efforts of improvements in foreign investments in Vietnam are as follows:

(1) Acceleration of Approval Procedures

- It typically took roughly one year to obtain investment certificates from application to issuance. However, it has been decided recently to approve investments within 15 business days from the date of application. A quick response of roughly one week to 10 days has become possible.

(2) Level Playing Field for Domestic and Foreign Companies

- Amendment of the Law on Corporate Income Tax: setting corporate taxes at 28% for both domestic and foreign companies (2004).
- Amendment of the Labor Code: foreign companies were allowed to directly hire workers (2002).
- Establishment of the Law on Investment and the Law on Enterprises (2006).

(3) Decentralization

- Broadening the scope of authority of provincial and city people’s committees and city level in approving investments (2006). (When investing less than VND 300 billion in non-restricted areas, the investment certificate can be obtained by registering the investment either with the provincial people's committee or the Management Committee of the Export Processing Zone or Industrial Park.)

(4) Supporting industry

Supporting industry has not developed as quickly as expected in Vietnam, and local companies capable of supplying parts and materials to foreign companies are still scarce. Foreign companies have to rely on imports to procure parts. Hence, higher procurement costs are a concern. The Vietnamese government is promoting supporting industry development through implementation of the development master plan, but not much progress has been made so far. To further develop supporting industry in Vietnam, it is important to attract foreign companies that could transfer technology to local companies. That would contribute to supporting industry development. Supporting industry tends to be led by small and medium-sized enterprises, but the sizeable land plots available in the industrial zones did not match their demands. Industrial zones should continue to consider offering smaller land plots or rental factories in order to promote development of small and medium-sized enterprises.

A.3.4 Lessons Learnt

(1) Deregulation by the amendments of both Law on Investment and Law on Enterprises.

Enactment of the Law on Investment and the Law on Enterprises in 2006 achieved diversification in foreign investment types, reduction in the disparity between domestic and foreign prices such as the public utilities, and abolishment of foreign ownership restrictions. Other achievements of these laws include simplification of investment application procedures. Deregulation has not only improved the efficiency of the investment application procedures, but also enhanced the investment climate for foreign companies.

The Investment climate has started to improve in Myanmar as the Foreign Investment Law has been amended. Further improvements are expected in promoting investments by foreign companies in fields such diminishing the gap between domestic and foreign prices, and deregulation of foreign ownership shares.

(2) Transition of power

As described above, in Vietnam, rather than being concentrated in one agency, the authority for approval of investment projects is divided into the several regulatory authorities according to the size and location of the project. Thus, it is possible to handle procedures quickly. In addition, in the case of a project that does not correspond to conditional investment fields and does not exceed certain amount of investment, investment review is not necessary for obtaining approval. An investor can obtain the investment certificate, which is required for starting business in Vietnam, by registering the investment project with the industrial park management committee or provincial-level People's Committee.

In Myanmar, in the case of investment projects in the SEZ, the management body of the SEZ will approve or decline the project. But generally, all projects are to be reviewed by MIC. By transition of power, these procedures could be expedited.

(3) Promotion of supporting industry

Vietnam attracted FDIs because of its abundant labor force and cheap labor costs. But Vietnam failed to establish a linkage between foreign factories and the local economy due to lack of local providers of materials and parts. Foreign manufacturing companies have to procure most of their materials from abroad. The Vietnamese government developed the master plan to foster supporting industry, but it is taking a long time to achieve.

Myanmar is a member of WTO, so it cannot pursue protective policies for supporting industry. However, facing the start of AEC, supporting industry cannot develop in Myanmar without a promotion policy. To improve the investment climate for foreign SMEs and promote of technical transfer, preparing smaller plots of land or factories for rent in industrial zones would be a positive approach.

(4) Transparency of investment procedures

Vietnam increased transparency and accelerated investment procedures by clarifying the fields where investment by foreign investors is restricted or banned. However in case of investment projects in the retail sector, if foreign investors plan to open a second or further shops, the Vietnamese authority conducts a survey of demand, called an “Economic Needs Test (ENT)”. However, the criteria and procedure of this survey are not clarified, and applications are often declined. This procedure is viewed by foreign investors with suspicion. Foreign companies require abolishment of this procedure. Myanmar should prevent a repetition of this problem by clarifying criteria.

A.4 Cambodia

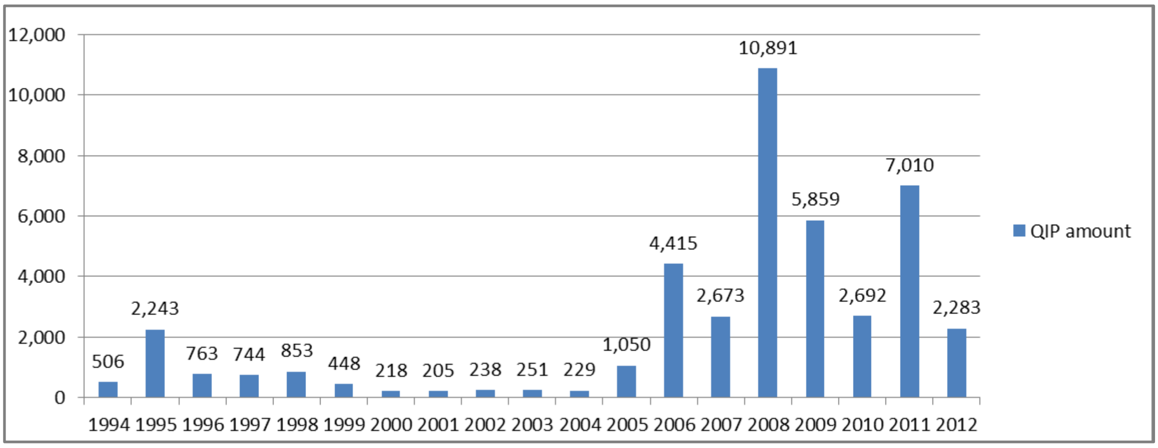
The Cambodia's FDI related law and regulations are one of the most open set of rules among those in other countries complying with the provisions of the WTO Agreement on Trade-Related Investment Measures (TRIMS), and provide very wide opportunities for investors based on the principle of the National Treatment.

The current Cambodia's Investment Law[1] (2003) and related decrees (Sub-Decree No. 111[2] (2005)) stipulates incentives (preferential treatments) for QIP (Qualified Investment Project). Foreign capital share is not restricted, almost fully open. The prohibited investment activities are limited just indicated in the negative list of the annex to the said Sub-Decree of which prohibited activities are mostly to secure the national security and public welfare objectives rather than requirement for economic reasons. Investment activities not eligible for incentives are also listed in the said Sub-Decree, but they are not restricted or being conditioned for their investment activities.

A.4.1 The Current Trend of Foreign Direct Investment in Cambodia

After the introduction of the amendment of the Investment Law of 1993 in 2003 and introduction of Sub-Decree No. 111 in 2005, the upward and increasing trend of foreign direct investment (FDI) is marked. The QIP approved value jumped approx. 5 times as much from the previous year in 2005 when the Sub-Decree was introduced. After that, constant increasing trend has been shown. With regard to the big leap in 2008, it is reflecting on the booming investment from China. It can be recognized as the effect of the "Top Sales" by the Prime Minister Hun Seng conducted in Asian countries namely focusing on China in 2007

Figure A.5 Approval-base QIP Value Trends (unit: million of USD) (except for investment to SEZ)



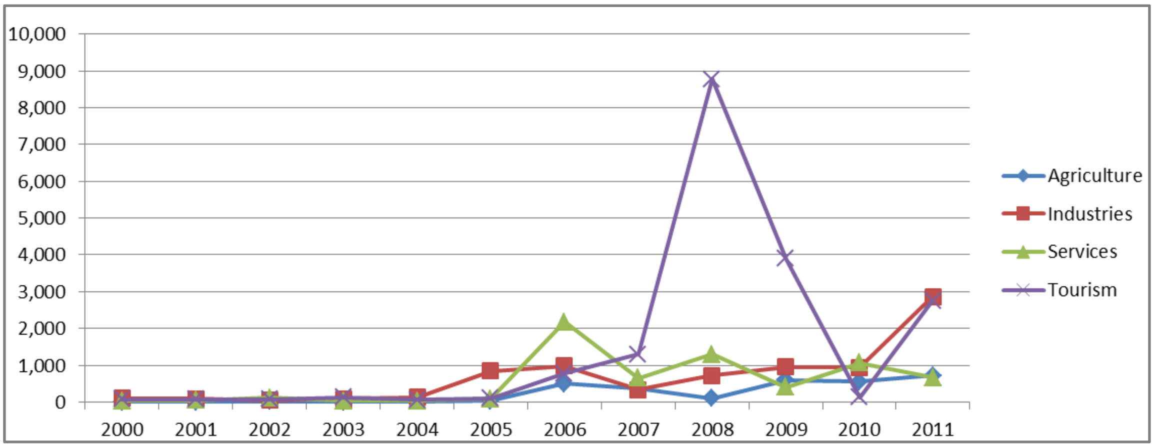
Source: Cambodian Investment Board

[1] Law on Investment of the Kingdom of Cambodia (August 05, 1994) and Law on the Amendment to the Law on Investment of the Kingdom of Cambodia (March 24, 2003)

[2] Sub-Decree on the Implementation of the Law on the Amendment to the Law on Investment of the Kingdom of Cambodia (No. 111 ANK/BK dated September 27, 2005)

At the initial stage, the major FDI was brought in on the real estate (the land purchasing for urban area development) and then moved to the industrial sector, namely garment sector at the beginning, services, and tourism. The irregular increase in tourism sector in 2008 is reflecting on the booming FDI from China which was addressed to Koh Kong resort development heading by the large-scale project with 4 billion USD. Unfortunately, the most of them were not executed. The overall trend is found to be increase in both industry and tourism sectors.

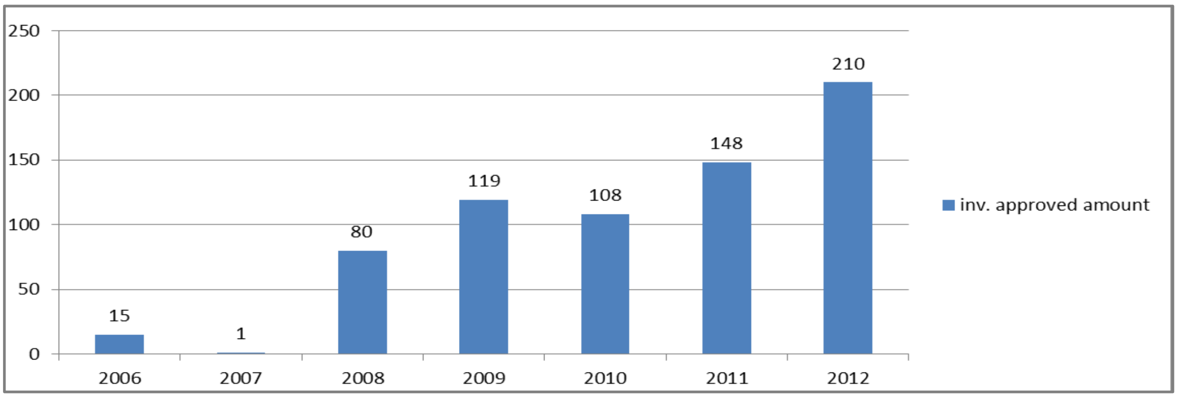
Figure A.6 Approval QIP Value Trends by Sector (unit: million of USD)



Source: Cambodian Investment Board

With regard to the investment addressed to SEZ (Special Economic Zone), the steady increase is observed after the introduction of SEZ regime in 2005. All the investors approved to SEZ can enjoy same incentives as QIP in terms of tax and tariff, and VAT (10%) is exempted in all sectors.

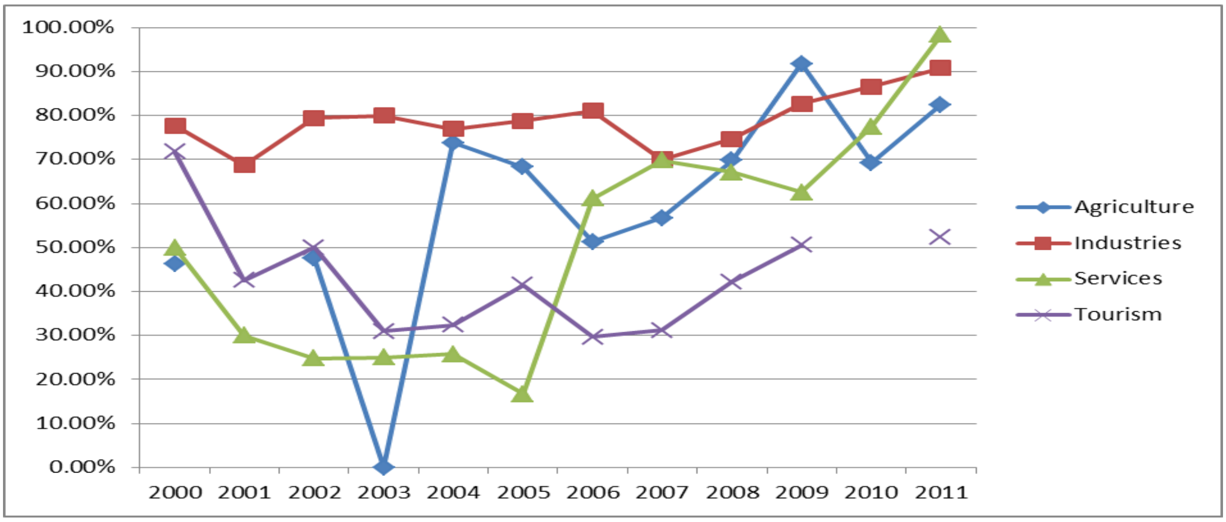
Figure A.7 Approval Investment Value Trends by Sector (unit: million of USD) (investment to SEZ)



Source: Cambodian Investment Board

Before the Sub-Decree 111, the share of foreign capital was high in the industry sector. The trend was shifted after Sub-Decree. Over 80% is recognized as foreign capital in most of sectors, except tourism sector, - which shows the increase of FDI especially after introduction of the open regime for investment in 2005.

Figure A.8 The Share of Foreign Capital by Sector (QIP Approval base)



Source: Cambodian Investment Board

A.4.2 FDI related Schemes

A.4.2.1 Policy on FDI Promotion

Although there is not a policy/strategy specifically addressed to the investment and/or foreign direct investment promotion, the "Rectangular Strategy-Phase III", an initial policy framework for the formulation of the "National Strategic Development Plan", clearly states the significance of investment promotion in practically all the strategic areas for the national development. In the Strategy, FDI is regarded as one of the key factors to be promoted, through the linkage with domestic economy, for promoting transfer of technology, knowledge and know-how, increasing productivity, and enhancing attractiveness and competitiveness of the nation.

The actual policy principles for FDI promotion are clearly found in the Law of Investment. Its openness and non-discriminatory nature of the legal framework is the evidence of FDI promotion. The authority of FDI management, Council for the Development of Cambodia (CDC), explains the Cambodia's policies to FDI as follows:

"*Laws and regulations governing FDI in Cambodia are basically designed to encourage investments. As the Law on Investment stipulates, FDIs are treated in a non-discriminatory manner except for land-ownership, which is stated in the Constitution, and allowed to invest freely in many areas. Under the current Law on Investment, the investors, who are given Final Registration Certificates, will be entitled to various incentives.*

In addition, the Cambodian government has been improving their investment facilitation services. For example, the Government decided in 2005 to establish the Cambodian Special Economic Zone Board (the CSEZB) under the CDC to promote the special economic zone (SEZ) scheme in Cambodia. Administered by the CSEZB, the Special Economic Zone Administration is to be established in authorized SEZ and expected to *provide one-stop service to zone investors from the registration of investment projects to routine export-import approvals.*”

A.4.2.2 Regime on Investment

(1) Law on Investment

The “Law on Investment of Cambodia 1994”is the base of the Cambodia’s investment law related to FDI. In 2003 (March 24) the “Law on the Amendment to the Law on Investment of the Kingdom of Cambodia" was adopted to form the current investment management regime. The following Sub-Decrees were, then, adopted for the implementation of the Law.

- *Sub-Decree No. 111 ANK/BK on the Implementation of the Law on the Amendment to the Law on Investment of the Kingdom of Cambodia, September 27, 2005*

-*Sub-Decree No.17 ANK/BK on the Establishment of the Sub-Committee on Investment of the Provinces-Municipalities of the Kingdom of Cambodia, February 9, 2005*

- *Sub-Decree No. 149 ANK/BK on the Organization and Functioning of the Council for the Development of Cambodia, October 8, 2008*

The prohibited areas for investment are legislated in Sub-Decree No. 111 (Negative List) and other areas are allowed 100% of foreign investment. The prohibited investment activities are mostly to secure the national security and public welfare objectives rather than requirement for economic reasons.

Investment Activities Prohibited by the Sub-Decrees No.111

1) Production/processing of psychotropic substances and narcotic substances;

2) Production of poisonous chemicals, agriculture pesticide/insecticide and other goods by using chemical substances, prohibited by international regulations or the World Health Organization, that affect the public health and environment;

3) Processing and production of electricity power by using any waste imported from a foreign country;

4) Forestry exploitation business prohibited by Forestry Law;

5) Investment activities prohibited by law. (Cancelled by Sub-Decree # 34 (RGC)of April 23, 2007)

(2) Authority (Investment Promotion Authority and Function)

a) Council for the Development of Cambodia (CDC)

The CDC is the sole and One-Stop Service organization responsible for the rehabilitation, development and oversight of investment activities. The CDC is responsible for the evaluation and the decision-making on all rehabilitation, development and investment project activities (Article 3, “Amended Law on Investment”).

The CDC shall submit for the approval of the Council of Ministers any of the following investment projects which:.

- have investment capital of US$ 50 million and above;
- involve politically sensitive issues;
- involve the exploration and the exploitation of mineral and natural resources;
- may have negative impact on the environment;
- have long-term strategy; or
- involve infrastructure concession.

(Article 11, "Sub-Decree No.149 on the Organization and Functioning of the Council for the Development of Cambodia")

b) Cambodian Investment Board (CIB) under CDC: Council for the Development of Cambodia:

The roles and responsibilities of CIB are stipulated in the Article 17 of the Sub-decree No. 149. They can be summarized as follows:

- Coordination and implementation of the "One-stop Service mechanism" for evaluating and approving application for QIPs;
- Strategic planning and coordination for the promotion of overall private investment;
- Marketing and promotion for potential investors;
- Policy advocacy for the improvement of the legal framework for investment promotion; and
- Coordination and reporting for relevant people both inside and outside the government

c) Cambodia Special Economic Zone Board (CSEZB):

The CSEZB is responsible for the "One-stop Service" of the development, management, and supervision of the operations of special economic zones according to Sub-decree No. 148 on the Establishment and Management of the Special Economic Zone.

d) Japan Desk

The Japan Desk is located within the Council for Development of Cambodia. The Japan Desk, where a Japanese expert from JICA stays, provides a various investment support to Japanese investors[3].

(3) Qualified Investment Project

An investment approval is to be issued to the Project rather than individual investors and/or investing entities such as enterprises. The project which receives the investment approval is called "Qualified Investment Project (QIP)" The incentives are granted to the project as approved as QIP some of which are highlighted as bellow[4]. The QIP may be in the form of a joint

[3] Japan Desk is promotional extension by the assistance of JICA not based on legal provisions.
[4] The incentives highlights, "Investment incentives granted to a QIP", and "Priority Period" are reprinted from the "*Cambodia*

venture regardless of the nationalities of the entities. There is no limitation of proportion of the share-holdings except in the case of ownership of the land. The maximum combined share-holding of all foreign entities may not exceed 49% for its J/V's land ownership.

Investment incentives granted to a QIP

QIPs are entitled to the following investment incentives (Chapter 5,"Amended Law on Investment"):

>QIPs may elect to receive a profit tax exemption or use special depreciation.

> Profit tax exemption (Selective): A tax holiday period is composed of "Trigger period + 3 years + Priority Period" (Maximum total9 years)

- Trigger Period (Maximum 3 years): Commencing on the issuance of the Final Registration Certificate and ending on the last day of the taxation year immediately preceding the earlier of:

(a) if the QIP derives a profit, the taxation year that the profit is first derived; and

(b) if the QIP derives income from the Investment Activity in respect of the sale of goods or services, the third taxation year after the taxation year in which the income is first derived.

- Priority Period (Maximum 3 years): To be determined according to the type of project and investment capital in the Financial Management Law.

Priority Period

A. Investment Project in Light Industry:

- Investment capital amount below US$5million: 0 year

- Investment capital amount between US$5million andUS$20miilion: 1 year

- Investment capital amount more than US$20miilion: 2 years

B. Investment Project in Heavy Industry

- Investment capital amount below US$50million: 2 years

- Investment capital more than US$50million: 3 years

Investment Guidebook, 2013", Council for the Development of Cambodia.

C. Investment Project in Tourism Industry

- Investment capital amount below US$10million: 0 years

- Investment capital more than US$10million: 1 year

D. Investment Project in Agriculture and Agro-industry

- Short cycle agriculture project: 1 year

- Long cycle agriculture project; 2 years

E. Investment Project in Backbone Infrastructure

- Investment capital amount below US$10million: 1 year

- Investment capital amount between US$10million andUS$30miilion: 2 years

- Investment capital amount more than US$30miilion: 3 years

Source: Chapter 2, Royal Kram NS/RKM/1205/140 on the Promulgation of the Law on the Financial Management in the year 2006

Tax redemption policy would be provided for the production of equipment or construction tools as in the categories described as follows[5];

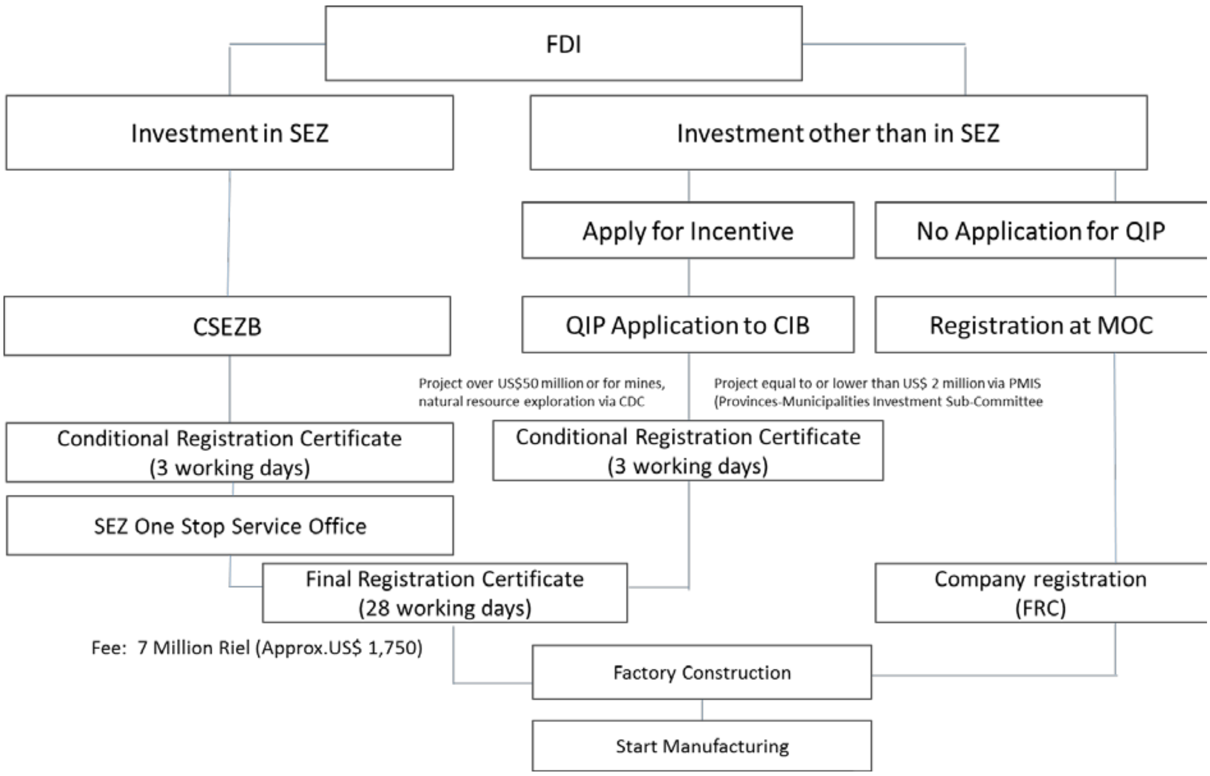
a) Domestically oriented QIPs: Production equipment, construction materials and production input to be used in the production of exports goods

b) Export oriented QIPs[6]: production equipment, construction material, raw material、intermediate goods, by-products

c) Supporting Industry QIPs: Production equipment, construction materials, raw materials, intermediate goods and production input accessories. In the case where the Supporting Industry QIP fails to supply 100% of its manufactured products to the export industry or directly export its products, the QIP shall pay the customs duties and taxes on production inputs for the quantity that has not been supplied to the export industry or directly exported.

[5] reprinted from the "Cambodia Investment Guidebook, 2013", Council for the Development of Cambodia
[6] except those which elect or which have elected to use the Customs Manufacturing Bonded Warehouse mechanism

Figure A.9 Flow of Investment Registration



Source: Presentation material, CIB, CDC

Referential duty rates

a) Corporate taxation

Corporate income Tax：20% (In the Investment Promotional District the taxation is from 0%-9% and it depends from the district condition). 30% (For the natural minerals processing)

With regard to dividend related additional income tax:

20% (0% for QIP)

12.08% (9% for QIP)

0% (20% for legal person)

b) Other taxation

VAT：5%

Patent Tax: aprox.300USD

c) Custom duty

Import Tax：Varies in 4sections (0%, 7%, 15%, 35%）

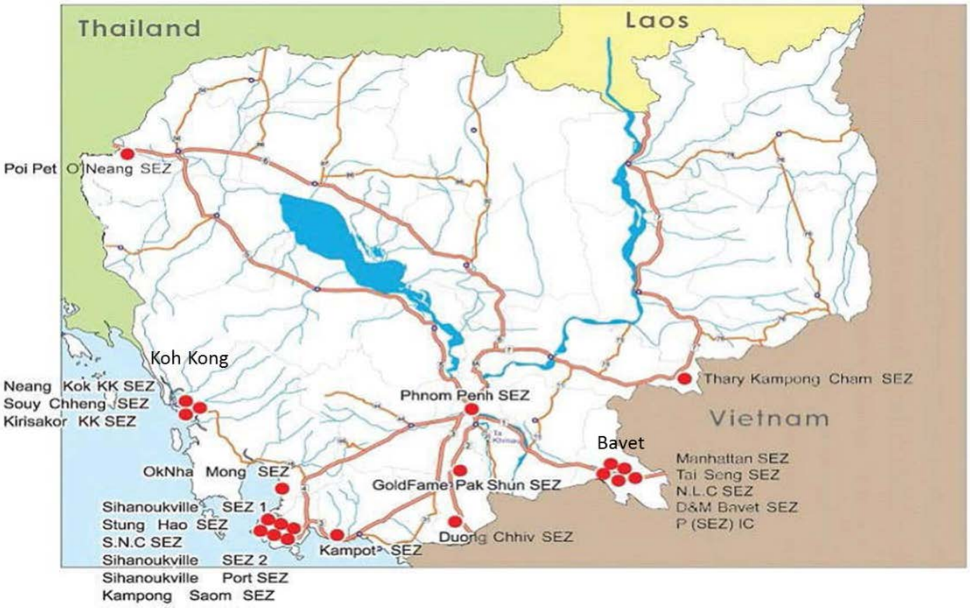
Export Tax：Generally 10%

Source: Investment Handbook 2013, CDC and other sources

A.4.3 Special Economic Zone (SEZ)

The SEZ scheme has been introduced to Cambodia for the first time in December 2005 by “Sub-Decree No.148ANK/BK on the Establishment and Management of the Special Economic Zone issued on 29 December 2005.As of Nov. 2013, there are 23 SEZ (Special economic zone) had received legal permission in Cambodia.

Figure A.10 Location of SEZ in Cambodia



Source: Investment Handbook 2013, CDC

In order to promote SEZ, it has built the Cambodian Special Economic Zone Board (CSEZB) within CDC. CSEZB has duty of managing all the investment issues such as registration of investment project and providing the permission.

The general condition for the SEZ is in the followings (Article 3.1,Chapter 2 of the Sub-Decree). SEZ is defined in the Sub-Decree as “the special area for the development of the economic sectors which brings together all industrial and other related activities and may include General Industrial Zones and/or Export Processing Zones. Each Special Economic Zone shall have a Production Area which may have a Free Trade Area, Service Area, Residential Rea and Tourist Area”.

The establishment of SEZ requires following conditions;

(1) It must have a land of more than 50 hectares with precise location and geographic boundaries.

(2) It must have a surrounding fence (for Export Processing Zone, the Free Trade Area and for the premises of each investor in each zone).

(3) It must have management office buildings, zone administration offices, large road network, clean water, electricity, and telecommunications network, fire protection and security system. Based on each situation, the zone may have land reserved for the Residential Area for workers, employees, and employers, public parks, infirmary, vocational training school, petroleum station, restaurant, car parking, shopping center or market, etc.

(4) It must have water sewage network, waste water treatment network, location for storage and management of solid wastes, environmental protection measures and other related infrastructures as deemed necessary.

(5) It must comply with technical requirements, regulations and basic rules on construction, environment and other obligations in the development of Special

Economic Zone as defined in the instructions issued by relevant ministries or institutions taking into account the geography and specific size of each zone and pursuant to the existing laws, national and international standards.

The condition of incentives is applicable as same as those of other QIPs in terms of custom duty and tax. The Chapter 4 of the Sub-Decree stipulates incentives for zone investors as follows.

"The same incentives on customs duty and tax as other QIP shall be entitled.

The Zone Investor entitled to the incentive1 on Value Added Tax (VAT) at the rate of 0% shall record the amount of tax exemption for its every import. The said record shall be disregarded if the Production Outputs are re-exported. In case the Production Outputs are imported into the domestic market, the Zone Investor shall refund the amount of Value Added Tax as recorded in comparison with the quantity of export."

A.4.4 Challenges of FDI Promotion in Cambodia

After almost 10 years of implementation of amended investment law, the following issues are recognized issues to be addressed for further FDI promotion and/or improvement of Cambodia's investment climate.

A.4.4.1 The significance of alignment with industrial policy:

The Law on Investment is not designed to implement FDI promotion based on and/or linked with concrete industrial policy(ies) which is currently absent and on-going process of formulation. Thus, the condition of QIP is more like for the registration purpose simply to provide incentives to the investors. The FDI development is more on the market mechanism. The market mechanism based scheme is considered very relevant for the private business activities; however, it is, at the same time, questioned if it is effective for the government to conduct FDI management in order to meet the objectives of the future industrial policy especially in its development stage of industry. There are views pointing out the necessity of the concrete industrial policy to provide clear target to the investment promotion and the investment policy to be designed to correspond to the target, such as priority sectors and/or priority locations.

A.4.4.2 Effective/efficient FDI management under WTO regime:

How to tackle the effective/efficient FDI management under the WTO/TRIM is the most essential task. The roll-back to the restrictive regime will not be favorable to investors as well as not legitimate as to the WTO community. Although the further incentives for the certain targeted industrial sector can be one option, it may cause burden to government after having set the already open and favorable conditions for the FDI in general (ex. more tax exemption may reduce the government revenue, etc.). Another option will be considered in the area of improvement of Business (Investment) Enabling Environment. In order to meet this requirement, the authority shall learn from the existing investors' actual voices;

(1) Assurance of full implementation of said provisions of laws:

Some of the investors are found insisting the lack of management in SEZ, especially some of the SEZs in Bavet. Investors are facing difficulties in unstable electricity and other insufficient hard and soft infrastructure due to inadequate management lacking compliance with the provisions of the Law.

With regards to the condition of SEZ, although the Article 3.1.1. and 3.1.3 of Sub-Decree 148 clearly stipulates requirements of OSS (One Stop Services) and infrastructures, such as electricity and water supply, it is reported some of the SEZs are left unmanaged or less-managed by the authorities for not providing required infrastructures and/or absence of services, OSS which are the initial conditions to have permission for the establishment of SEZ. These cases are representing necessity of well-established system of authorities' management function and enforcement power or its surveillance mechanism for better implementation of the law provisions.

Under the QIP scheme, the applicant is to register all the parts and inputs to receive incentives of exemption of import duties for their initial investment, such as parts and materials for the factory construction. According to the provisions of the Law on Investment[7], the 100% exemption of import duties and tax is stipulated for factories and buildings – which should be listed on the initial importing parts list, called "a Master List". There were certain cases reported that import duties were not exempt even after the Master Lists were approved under QIP at its implementation level of imports. (In one case, the building materials for canteen for the factory workers were rejected at border control level.) This type of inconsistency in implementation of the law could be recognized under weak coordination among implementation authorities and/or immature structure of enforcement as well as a lack of transparency in the scheme[8].

The Heritage Foundation's Index of Economic Freedom ranks Cambodia as the 15th in Asia Pacific region, however, the Doing Business ranks Cambodia 138th. As it is seen, direction of Cambodia's improvement of FDI promotion is more for strengthening enforcement/implementation of what have been set for the Business (Investment) Enabling Environment.

(2) Infrastructure improvement aligning with investors' motivations to the initial location:

As for the investors to Bavet, their attraction is to efficient export to Japan using Ho Chi Minh port. As for the investors to Koh Kong, the network with Bangkok is the issue of importance. FDI to Phnom Penh area, the investors expectation is the agglomeration of industry, population, information, economy and even culture/entertainment as well as overall advantage for the

[7] ex. Article 14, 4

[8] Another aspect of the issues is the more on the designing the scheme. It has been pointed out, as the list has to be prepared at the very early stage, it is often found difficult for the investor to complete exhaustive list so that some of the materials are left uncovered by the incentive scheme.

access to their global supply chain. It is essential to support to improve regional soft and hard infrastructures according to the needs of investors, not in the way trying primarily to take advantage of FDI for the sake of regional development.

(3) Realistic linkage promotion with domestic industry:

Many of investors established in Cambodia have intention to procure parts, materials, and maintenance services locally. However, in the case of Cambodia, there are few local industrial sectors to meet with these investors' interests in terms of quality. They need to depend on import most of the cases even for the packaging materials or simple equipment required for maintaining their manufacturing machines. Instead of ambitiously promoting the supporting industries to FDI from the initial stage, the authority may promote and facilitate more investors'-interests-based local sector development, such as packaging, printing, consumable supplies and material for operational machine (parts, lubricants, etc.). The investment policy (FDI promotion policy) should include this type of basic foundation upgrading. The efficient recruitment of workers is important in this respect for the long-term perspective. The workers to FDI factories are the first recipients of the Transfer of Technology. It has to be promoted/facilitated as the favorable spill over for FDI for the future linkage with domestic industries.

Another aspect for this area is to strengthen the foundation of governmental assistances. It has been pointed out from the one FDI enterprise that, due to the weak foundation of testing facilities and authority function, locally procured packaging material could not be tested and certified for the safety standard by the local authority; thus, they needed to send materials to the third country for the certification. This ended up with their decision for change of the procurement location from Cambodia to the said third country. This is just one case but not exceptional. It explains that the linkage promotion with domestic industry is not limited to the policy area of direct FDI promotion but that of indirect domestic industry support mechanism where the government could take initiative.

(4) Further opportunities and coordination of PP dialogues:

It is vital to maintain and strengthen the continuous dialogue system between Public and Private (FDI) and full implementation of improvement on the issues discussed in the dialogue. The problem solving mechanism for investors is essential. In the case of Cambodia, the Cambodia-Japan Public-Private Sector Meeting is functioning and regarded as one of the problem solving vehicles for investors. As of December 2013, the amendment of the Law on Investment of the Kingdom of Cambodia is under on-going process of reviewing based on the dialogues among stakeholders. It is not too much to say that the said Cambodia-Japan meeting played a significant role to contribute this exercise. The next step can be strengthening the dialogue system for the part of policy implementation, the dialogues on check and review, and/or surveillance. More and more transparent and foreseeable procedure could be discussed for the improvement relevant to both parties.

A.4.5 Lessons Learnt

Transparency and Concrete Implementation of Laws and Regulations

Although it is recognized that the Cambodia's FDI related regulatory framework, including those of QIP (Qualified Investment Project[9]) and SEZ (Special Economic Zone[10]), is one of the most open settings for foreign investors, preservation of its transparency and concrete implementation is still a significant issue to be addressed. The good reputation building by the investors already started their operation is vital to attract more FDI as it is one of the most essential criteria to decide investment destination. Even if the gateway of the incoming FDI, such as the investment law, is very much open and incentive schemes are widely available under the provisions, the good reputations are not formulated if there are problems at the implementation stage and if the investment related authorities are not well-coordinated or well-functioning.

(1) Facilitation to the Plus One Strategies and GVC/GSC Requirements

It has been long pointed out that Cambodia has to set forth its industrial policy and make solid alignment with investment promotion policy. However, FDI activities are more severely depending on the private business requirements of investors. Initial motivations of some of the large scaled Japanese FDIs to Cambodia are based on their "Plus-one" strategies (e.g. China-plus-one, Thai-plus-one) rather than incentives provided from the Cambodia side. The incentives are still important elements but requirements and convenience to their business strategies are more direct determinants. The cases of Casio and Sumitomo-Denso in the case of Cambodia are some of the good examples for China-plus-one and Thai-plus-one. The favorable conditions for the efficient linkage to their own GSC/GVC are initial elements of determinants of investment location. It is important to identify the actual needs of the FDI and provide best fitted facilitation rather than general incentives.

(2) Promotion for taking a root of FDI

At the initial stage, crowding out effect was observed for the low labor cost with limited technology transfer& increase of unfavorable working conditions (esp. garment sector for GSP advantage). The production value in garment sector counts over 65% in GDP in 2012. However, most of them are CMP based manufacturing and rather the foot-loose structure. Increase of labor cost and termination of GSP will affect significantly to this sector to relocate their investment. In Cambodia, the amendment of the Law of Investment is undergoing process. Instead of amending it for restrictive, it is said that the amending process is aiming to built-in the quality investment management mechanism encouraging technology transfer (including skill transfer) and suggesting the way for taking root with local industries such as SME through win-win approaches.

[9] The Qualified Investment Project (QIP) scheme is to provide investors including FDI to entitle the investment incentives by registering and obtaining certificate of investment projects.

[10] "SEZ, Special Economic Zone, refers to the special area for the development of the economic sectors which brings together all industrial and other related activities and may include General Industrial Zones and/or Export Processing Zones." *Article 2, Sub-Decree No.147*

B

Needs and Gap Analysis from the Perspective of Japanese Companies

B.1 Review of Past Surveys

B.1.1 Analysis of "Survey Report on Overseas Business Operations by Japanese Manufacturing Companies," Japan Bank for International Cooperation (JBIC)

Japanese companies continue to expand their overseas business. Seeking potential for growth, they are looking toward high-growth emerging markets. Myanmar is regarded as one of the most promising countries.

According to the results of the JBIC FY2013 Survey, "The Survey Report on Overseas Business Operations by Japanese Manufacturing Companies—Outlook for Japanese Foreign Direct Investment (25th Annual Survey), November 2013," Myanmar is ranked as the 8th most promising country. This ranking has consistently improved, from 19th in 2011 and 10th in 2012, demonstrating that Japanese manufacturing companies are increasingly seeking opportunities to invest in Myanmar.

B.1.1.1 Ranking of promising countries

It is noteworthy that other ASEAN countries such as Indonesia, Thailand, and Vietnam are ranked above Myanmar, while Philippines, Malaysia, Singapore Cambodia, and Laos are also ranked within the top 20. ASEAN is, as a whole, a focal region for Japanese manufactures looking for an optimal investment strategy in the region. Therefore, it is important to consider that Myanmar's investment promotion should be as attractive as other countries. At the same time, its regulations and various administrative procedures should be as compatible as those of other ASEAN countries are.

Table B.1 Rankings of promising countries/regions

Ranking			Country/ region	Number of respondent companies			Percentage share(%)		
2013	2012	2011		2013	2012	2011	2013	2012	2011
1	3	5	Indonesia	219	215	145	44.9	41.8	28.6
2	2	2	India	213	290	297	43.6	56.4	58.6
3	4	3	Thailand	188	165	165	38.5	32.1	32.5
4	1	1	China	183	319	369	37.5	62.1	72.8
5	5	4	Vietnam	148	163	159	30.3	31.7	31.4
6	6	5	Brazil	114	132	145	23.4	25.7	28.6
7	7	12	Mexico	84	72	29	17.2	14	5.7
8	10	19	Myanmar	64	51	7	13.1	9.9	1.4
9	8	7	Russia	60	64	63	12.3	12.5	12.4
10	9	8	USA	54	53	50	11.1	10.3	9.9
11	15	14	The Philippines	39	21	15	8	4.1	3.0
12	11	9	Malaysia	37	36	39	7.6	7	7.7
13	12	11	Korea	28	23	31	5.7	4.5	6.1
14	14	10	Taiwan	23	22	35	4.7	4.3	6.9
14	12	15	Turkey	23	23	12	4.7	4.5	2.4
16	16	13	Singapore	19	16	25	3.9	3.1	4.9
17	17	16	Cambodia	12	13	8	2.5	2.5	1.6
18	20	21	Germany	10	6	12	2	1.2	1.0
18	23	-	South Africa	10	3	-	2	0.6	-
20	23	-	Laos	9	3	-	1.8	0.6	-

Source: JBIC "Survey Report on Overseas Business Operations by Japanese Manufacturing Companies" – Outlook for Japanese Foreign Direct Investment (24th and 25th Annual Survey in November 2012 and November 2013)

B.1.1.2 Reasons as a promising country

Japanese firms have been attracted to Myanmar because of (1) inexpensive labor and (2) future growth potential of the local market. In 2012 and 2013, more than 70% of survey respondents indicated inexpensive labor as one of the reasons for Myanmar's promise. Furthermore, more than 50% indicated future growth potential of the local market as another reason.

Table B.2 Reasons for Myanmar's promise

	2013 (Total No. of respondent firms: 60)	No. of Respon-dents	Perc-entage
1	Inexpensive source of labor	42	70%
2	Future growth potential of local market	32	53%
3	Good for risk diversification to other countries	12	20%
4	Qualified human resources	6	10%
4	Base of export to Japan	6	10%

	2012 (Total No. of respondent firms: 48)	No. of Respon-dents	Perc-entage
1	Inexpensive source of labor	35	73%
2	Future growth potential of local market	24	50%
3	Qualified human resources	7	15%
3	Good for risk diversification to other countries	7	15%
5	Inexpensive components/raw materials	6	13%
5	Base of export to Japan	6	13%
5	Base of export to third countries	6	13%

Source: Same as previous table

B.1.1.3 Issues as a promising country

As for the issues, "underdeveloped infrastructure" came first, followed by "underdeveloped legal system," "lack of information on the country," "execution of legal system," "difficult to secure management staff," and "security/social instability."

"Underdeveloped infrastructure" was raised as an issue to be addressed, by sixty-four percent of the respondents, which represented a marginal decrease from 72% in 2012. Concern regarding "security/social instability" was subdued, with a decline from 51% in 2012 to 25% in 2013. However, almost half of respondents thought "underdeveloped legal system" was a noteworthy issue, and one-third felt that the execution of the legal system was unclear.

It should be noted that, in 2013, 25% of respondents said that it was difficult to secure management-level staff. This implied that capacity development was a critical issue both in the short and long term in promoting investment in Myanmar.

Table B.3 Issues in doing business in Myanmar

	2013 (Total No. of respondent firms: 60)	No. of Respon-dents	Perc-entage
1	Underdeveloped infrastructure	36	64%
2	Underdeveloped legal system	27	48%
3	Lack of information on the country	18	32%
4	Execution of legal system unclear	15	27%
5	Difficult to secure management-level staff	14	25%
5	Security/social instability	14	25%

	2012 (Total No. of respondent firms: 43)	No. of Respon-dents	Perc-entage
1	Underdeveloped infrastructure	31	72%
2	Security/social instability	22	51%
3	Underdeveloped legal system	21	49%
4	Lack of information on the country	16	37%
5	Execution of legal system unclear (frequent changes)	14	33%

Source: Same as the previous table

B.1.2 Analysis by "Basic research on the potential Japanese investors in Myanmar", Ministry of Economy, Trade and Industry (METI), in February 2013.

In this survey, interviews were conducted among potential investors in Japan as well as Japanese firms doing business with offices in Myanmar to identify issues and obstacles to do business in Myanmar.

Potential investors included the firms from 22 different industries (e.g., machinery, construction, wholesale/retail, services). Japanese firms doing business with office in Myanmar belonged to nine different sectors. Thus, this survey result reflected opinions of various industries compared with the JBIC survey, which targeted only manufacturing firms.

B.1.2.1 Concerns from Japanese FIEs

The following issues were common areas of paramount concern both for potential investors in Japan and firms already investing in Myanmar (highlighted in yellow in the table below)

- Stable power supply
- Free remittance (from Myanmar to the other countries including Japan)
- Transparency of the operation of the laws and regulations
- Quality of communication network
- Quality of infrastructures; roads, railways and ports
- Transparency of the procedure of investment approvals
- Shortage of middle managers
- Simple and clear procedures for customs clearance

Table B.4 Issues addressed by Japanese Investors

Rank	Issues addressed by potential investors in Japan	Points(*)	Rank	Issues addressed by Japanese firms with offices in Myanmar	Points(*)
1	Stable power supply	4.31	1	Rental fee for office	4.24
2	Free remittance (from Myanmar to the other countries including Japan)	4.06	2	Quality of communication network	4.16
2	Transparency of the operation of the laws and regulations	4.06	3	Transparency of the operation of the laws and regulations	3.96
4	Quality of communication network	3.90	4	Free remittance (from Myanmar to the other countries including Japan)	3.84
5	Quality of infrastructures; roads, railways and ports	3.88	5	Stable power supply	3.72
6	Transparency of the procedure of investment approvals	3.84	5	Simple and clear procedures for customs clearance	3.72
7	Foreign investment law and Inter – government investment protection agreement	3.73	7	Quality of infrastructures; roads, railways and ports	3.64
8	Shortage of middle managers	3.71	8	Shortage of middle managers	3.56
9	Currency risks	3.65	9	Transparency of the procedure of investment approvals	3.52
10	Simple and clear procedures for customs clearance	3.61	10	Quality of manpower	3.40

Source: "The basic research on the potential Japanese direct investors to Myanmar" Ministry of Economy, Trade and Industry (METI)

(*)Respondents indicated their degree of concern on a 1–5 scale, where 5 indicated high concern and 1 indicated low concern. Figures in the table indicate the average for all respondents.

B.1.2.2 Specific and detailed concerns

Specific and more detailed concerns and requests expressed by the respondents were as follows:

[Infrastructure; stable supply of power, quality of infrastructures; roads, railways and ports]

<table>
<tr><th>Issue</th><th>Action</th></tr>
<tr><td>A stable power supply is essential and a prerequisite, particularly for heavy industry (e.g., precision industry). Factories in the light industry manage to cope with short blackouts using self-installed generators. However, generator use will increase operating costs.</td><td>Stop hourly power shutdowns and supply stable and adequate power to factories. Guarantee the power supply to the planned SEZs.</td></tr>
<tr><td>The development of an industrial zone is necessary to attract Japanese firms.</td><td>Not only SEZ but also more industrial zones in accordance with international standards should be developed to accommodate Japanese manufacturers.</td></tr>
<tr><td>As Thilawa port does not sufficient capacity for large ships, it is necessary to tranship in Singapore, which results in longer transportation times.</td><td rowspan="2">Develop roads outside Yangon and the road connecting Myanmar and Thailand.</td></tr>
<tr><td>The roads outside Yangon and to Thailand are too poor for transporting parts and products.</td></tr>
</table>

[Transparency of the operation of laws and regulations]

Issue	Action
Regulations are sometimes revised without prior notice.	Regulations are translated in English and are shown on the government website. They should be easily accessed and updated in a timely manner.
While a new FIL was enacted, there still are ambiguous areas for interpretation, such as upper limits of capital for joint venture companies or scope of business approved by MIC.	Clearer definitions should be documented. Otherwise, there will be room for MIC's arbitrary decision, which causes confusion for FIEs.

[Quality of communication network]

Issue	Action
Internet connection is critical for conducting ordinary business. However, the speed remains slow, especially during the day. The internet connection is often unstable and mail is sometimes not delivered. The internet is often not available outside Yangon, which is very inconvenient for doing business outside Yangon.	Access to the Yangon area, especially the factory area, by telephone and internet is difficult during the day. Stable and adequate communication networks must be installed to support the business activities of FIEs.

[Transparency of investment approval procedures]

Issue	Action
Although DICA stipulates that investors should be notified of investment application results within 90 days, the duration often takes longer than 90 days. The 90-day deadline is not properly conveyed to investors.	More accurate expected processing times must be informed by DICA.
Procedures are ambiguous because they seem to be handled on personal principles.	The necessary documents for investment application should be easily assessable. It would be ideal if investors could download the necessary documents from the DICA website.
It is impossible to know the progress of procedures as there is no disclosure from authorities.	The progress of procedures must be disclosed and the system needs to be introduced to provide enquirers with important information in a timely manner.
When a procedure requires more than one competent authority, it requires redundant and duplicate application procedures.	DICA opened the first one-stop service office in Yangon in 2013. However, the entire relevant Ministry did not join the office and the office does not function properly. The office should practically provide one-stop service to investors.
Some documentation is provided only in Burmese. For example, many parts of the Ministry website are not translated to English.	English translation of relevant procedures is necessary.

[Shortage of middle managers]

Issue	Action
It is difficult to hire manager-class employees who possess reasonable command of English, partly due to the exodus of highly skilled workers overseas (e.g., Singapore and Thailand).	Development of human resources, for example, by utilizing the Japan-Myanmar center, is necessary.

[Simple and clear customs clearance procedures]

Issue	Action
Customs clearance procedures are not transparent. Applications of rules and regulations are ambiguous because they seem to be handled on personal principle, not on the basis of written procedures.	Clear documentation of procedures is needed.
Interpretation of custom codes is inconsistent, depending on the regions.	Increase in monitoring of customs across regions is needed.
Introduction of the inadequate "IT-customs" system seems to cause duplicate work both for officers and for computers, causing longer processing times for applications.	IT-customs system must be improved so that all procedures are computerized. The workflow must be reviewed to separate manual work from computerized work so that the workflow is simplified, efficient, and without redundancy.
Approved values of goods not included in the Myanmar customs list are different between the Ministry of Commerce and the customs office.	Consistent rules and procedures for determining the value of goods not listed on the Myanmar customs list should be implemented.

Even when possessing a tax exemption quota, import of raw materials is not permitted unless more than 70% of the amount applied for in advance has actually been imported (in the case of fabric imports).	The import restriction when possessing a tax exemption quota should be relaxed.
Import inspections are cumbersome and costly	The import inspection must be simplified or sample inspections should be permitted.

In addition, following issues on current restrictions for FIEs were reported.
[Obstacles for FIEs]

Issue	Action
When the firm is owned by foreigners, even if the ownership is just 1%, export of agricultural products is banned.	The ban on exports of agricultural products for FIEs must be relaxed, or JV with FIEs should be allowed to export agricultural products.
There are various regulations only on FIEs (e.g., ban or restriction on ownership of property and cars).	Equal treatment between FIEs and local firms must be implemented to facilitate FIE investment.

The difficulty in accessing various information and statistics needed for business operation was also reported.
[Data, information, statistics]

Issue	Action
There is no organization to provide information such as credit records. While it is necessary to conduct credit research before doing business with local partners, it is almost impossible to obtain such information.	The database for credit records must be developed or an organization to provide such information must be established.
The respondents also indicated the lack of trustworthy statistics. More detailed census data, such as age and sex data within regions, is necessary to expand business into rural areas.	More accurate and detailed statistics must be prepared. A periodical nationwide census is necessary. Such data and information must be publicized.

Office rent fees were recognized as the area of chief concern among Japanese firms with offices in Myanmar.
[Property price]

Issue	Action
The availability of so-called “grade-A office is scarce. Therefore, the monthly office rent in the central business district (CBD) area in Yangon doubled in one year and now hovers around USD 72 per square meter, which is around the same as the rate for a so-called “grade A class” office building in the Singapore CBD area (USD 71.5).	More so-called “grade A” office buildings must be developed.
The rental fee in industrial zones more than doubled over the past year, resulting in rates higher than the USD 100 per square meter per year in China.	More SEZs need to be developed. It is believed that the development of some SEZs has been intentionally delayed to wait for the price increase after receiving development admissions. Rules need to be enacted to facilitate timely development.

Land prices are soaring due to speculative transactions among a few politically affiliated business entities.	State-owned properties need to be sold for development at reasonable prices. The rules and regulations relating land property ownership/transaction must be implemented and the transaction must be transparent.

B.1.3 Issues addressed by Japanese firms in this survey

- Trading company

Issue	Action
Demands by the MIC were not included in any regulation. In the investment application, sometimes the MIC requested inclusion of the fund for which the firm was supposed to utilize the loan from its parent company in the capital. This was not stipulated in the rules and regulations.	Common and transparent procedures must be implemented. Timely disclosure to the public is necessary upon any change in rules and regulations.
Restrictions on truck transport on highways. The food-processing sector in Myanmar is considered to have substantial potential. However, poor conditions, such as lack of a cold chain and restrictions on highway truck transport are some of the issues to be addressed for business operation.	Development of basic infrastructure, such as logistics, should be instantiated the government, as a company or industry cannot manage independently. This should be developed as a national strategy.

- Logistics company

Issue	Action
FDI approvals for firms that operate a wide range of businesses. This is the case of the potential investor with business lines that are all new to Myanmar. As the upper limits of FIE's ownership of each business line are not stipulated in the Foreign Investment Law, the judgment by MIC regarding the limit of the businesses new to Myanmar will be unclear and inconsistent. This potential investor is also afraid that the MIC's judgment will be subjective and different across investment applicants from similar businesses.	Coherent interpretation and procedures must be implemented. A responsible authority to make a final decision on investment approval involving more than one ministry must be clearly designated and the decision process must be transparent.

- IT company

Issue	Action
Insufficient graduates of IT universities/colleges. There are over 6,000 graduates of IT universities/colleges per year. However, this is not enough if large IT companies with over 1,000 employees come to Myanmar.	Human resource development should be delivered strategically, as it involves a lengthy process. More IT universities/colleges should be established, the fixed number of students should be increased, and curriculum quality must be improved (more practical training).

- Machinery company

Issue	Action
No deadline stipulated regarding sales approval. Having obtained permission, the company started manufacturing products. However, it appeared that additional procedures with the relevant Ministry were needed for selling products. It took five months for the approval, as the Ministry demanded additional documents. The relevant regulation does not define the timeframe for the approval of this procedure.	The relevant Ministry should stipulate in the relevant regulation the necessary documents for their approval and the approval deadline.

B.2 Interview with Japanese Companies

B.2.1 Myanmar-Japan Joint Initiative

In March 2013, Japan-Myanmar Joint Initiatives, a discussion forum among parties of both public and private sectors, has begun as a framework to check and prioritize specific approaches for the promotion of investment and trade in Myanmar. In the third meeting co-chaired by H.E. Dr. Kan Zaw, Minister for National Planning and the Economic Development and H.E. Mr. Mikio Numata, Ambassador of Japan on 2 October 2013 at Nay Pyi Taw, the Japanese side presented "Action Plan (draft)" incorporating specific measures, goals, and timing.

- Visa and Stay Permit
- Trade policy
- Investor friendly environment
- Taxation
- Infrastructure improvement
- Unfavorable treatment against foreigners and foreign companies
- Appropriate insurance system and open market for foreign companies
- Ensuring resettlement scheme of the labor dispute
- Improvement of other administration procedures

Following up the decisions made by the Myanmar side, both parties will try to work toward resolutions on these issues as soon as possible. In addition, it is agreed to deepen discussion among stakeholders by setting up working groups on certain issues, such as visa procedures, construction, trade policy, and insurance.

The Action Plan (draft) includes nine sectors and 38 issues. Authorities for Myanmar side are the Ministry of Immigration and Population, Ministry of Commerce, Ministry of Finance, Ministry of Industry, and so forth. DICA is assumed to be the responsible authority for the following issues.

(1) INVESTOR FRIENDLY ENVIRONMENT

- Establishment of "One Stop Service"
- Establishment of "Japan Desk"

(2) Speedy communication in English upon investment applications

(3) Advanced information sharing (at least two weeks in advance) on investment-related meetings

(4) Early conclusion of the bilateral investment treaty

(5) Legal measures for investor protection

- Improve flexibility of JV contract contents

(6) Relaxation of foreign currency and finance

- Simplify overseas remittance of profit sharing

(7) Others

- Prolongation of depreciation period
- Simplify procedures of capital reduction

(8) Enlarge sectors of foreigner access

- Allow foreigner access out of the 27 sectors specified in Foreign Investment Law
- Allow foreigner purchase and possession of cars, cell phones, and apartments under the foreigner's name

(9) Rule-making of standard of business permit for foreign companies

- Clarification of criteria for granting business permits to foreign construction companies to lower barriers for market entry

(10) Creation of "Special JV"

- Add a "Special JV" provision in 2012 Foreign Investment Lawthat can be authorized to accept orders, to set up bank account, and to distribute profits.

These issues specified are essential as they are important criterions for investment decisions. In this regard, the DICA has already established "One Stop Service" in Yangon in April 2013, and is preparing the "Japan Desk." On 19 November, KEIDANREN (Japan) and UMFCCI held the first Japan-Myanmar Economic Committee with about 150 government and business leaders in attendance, and the two organizations agreed upon further cooperation. On 15 December, Japan and Myanmar signed a bilateral investment treaty. To promote investments from Japan, an increasingly development investor-friendly environment is necessary.

Table B.5 Myanmar-Japan Joint Initiative: Action Plan (Drafted by Japan)

Category	Item	Sub-item	Authority*
1. VISA AND STAY PERMIT	1) Uniformed criteria & rules for Visa issuance	a) Visa exemption in the future or automatic approval of 3 years Stay Permit b) Uniformed rules for Visa issuance	a),b) MOIP MOFA
	2) Efficient, simplified Visa issuance	a) Efficient, simplified administrative procedures for Visa issuance b) Reduce required documents i.e. recommendation letter by EoJ	a),b) MOIP RT
	3) Improvement of FRC operation	a) Exempt FRC (Foreigners Registration Certificate)	MOIP

		submission, or pursue alternatives	
2. TRADE POLICY	1) Improvement of taxation base on import items	a) Convert to Invoice based taxation	MOF(CD)
	2) Further relaxation of trade regulation	a) Increase non-license items, sooner removal of trade licensing system and simplification b) Permit foreign company to import certain merchandises (including cars) for appropriate purpose c) Issue Import Permit to foreign construction companies [NEW]	a) MOC MOF (CD) b) MORT MOC c) MC MOC MOF
	3) Flexible payment scheme	a) Permit deferred payment to import raw materials b) Permit advanced payment of cargo import [NEW]	a),b) MOC MOF
	4) Reduce import related tax to promote manufacturing industries [NEW]		MOC MORT MOF
	5) Tax exemption and Speedy Import of ODA related materials and equipments [NEW]	a) Ensure tax exemption for import of ODA related materials and equipments, and speedy custom clearance [NEW]	MNPED (FERD) MOF ODA
	6) Early rule making for food hygiene [NEW]		MOC MOAI
3. INVESTOR FRIENDLY ENVIRONMENT	1) Investment Advisory Service	a) Establishment of "One Stop Service" b) Establishment of "Japan Desk"	a),b) MNPED (DICA)
	2) Speedy communication in English upon investment application		MNPED (DICA)
	3) Advanced Information sharing (at least 2 weeks in advance) on investment related meeting		MNPED (DICA)
	4) Early conclusion of Bilateral Investment Treaty		MNPED (DICA)
	5) Legal measures for investor protection	a) Improve legal system to protect intellectual properties [NEW] b) Improve flexibility of contents of JV contract [NEW] c) Domestic legislation to implement New York Convention [NEW]	a) MOST MOC b) MNPED (DICA) c) ---
	6) Relaxation of foreign currency and finance [NEW]	a) Facilitation of foreign remittance procedures b) Relaxation of borrowing in kyat from local bank	a) MOF CBM b) MOF CBM

		c) Simplify overseas remittance of profit sharing	c) MNPED (DICA) MOF
	7) Others	a) Prolongation of depreciation period [NEW] b) Simplify procedures of capital reduction [NEW]	a),b) MNPED (DICA)
4. TAXATION	1) More transparent tax calculation	a) Promulgation of tax system and coherent tax services	MOF (IRD)
	2) Review Corporate Tax System [NEW]	a) Application of tax rate for "Residents" to foreign company branch (Adjustment gaps between locals and foreigners) [NEW] b) Review and clarify details of Corporate Tax [NEW]	a) MOF b) MOF (IRD)
	3) Review Individual Income Tax System [NEW]	a) Specify taxable scope of welfare expenses of individual income tax [NEW]	MOF (IRD)
	4) Review Commercial Tax System [NEW]	a) Shift to Value Added Tax with single tax rate [NEW] b) Clarify rules of "input tax credit"	a),b) MOF
	5) Review Property Tax System [NEW]	a) Clarify taxation base to Property Tax in Yangon city [NEW]	YCDC
5. INFRASTRUCTURE IMPROVEMENT	1) Urban transportation improvement including safety traffic rules	a) Oversight on illegal parking, efficient traffic control at worksites b) Public transport services in Yangon city c) Traffic rules coherent to neighbouring countries d) Physical improvement i.e. traffic light, pedestrian bridge, bus priority lane, upgrading road quality etc.	a),b),c),d) MOT YCDC
	2) Improvement of Electricity and Telecommunication	a) Ensure well-planned power supply b) Develop IT backbone network	a) MOE b) MOCPT
	3) Other infrastructure improvement	a) Effective use of idle land, appropriate control on real-estate price	YCDC
	4) Rule making of design & surveillance for construction work [NEW]	a) Law and rule making on design & surveillance for construction work and its operation	MC YCDC
6. UNFAVORABLE TREATMENT AGAINST FOREIGNERS AND FOREIGN COMPANIES	1) Abolish foreigners' price	a) Abolish foreigners' price in public service (electricity, water, telephone) b) Adjust unreasonable gaps of charges for granting permit on commencement of construction and for fire inspection	a),b) MC YCDC FSD
	2) Enlarge sectors of foreigners' access	a) Allow foreigners' access out of 27 sectors specified in Foreign	a),b) MNPED

		Investment Law b) Allow foreigners' purchase and possession of cars, cell phone and apartments under foreigners' name c) Allow foreign company retail business d) Allow foreign company to own/register building and factory [NEW]	(DICA) MOCPT MORT MC YCDC c) MOC MORT d) -- MOF
	3) Rule making of standard of business permit for foreign company [NEW]	a) Clarification of criterion on granting business permit to foreign construction company for contribution to lower barriers to enter market [NEW]	MC MNPED (DICA)
	4) Creation of "Special JV"	a) Add "Special JV" provision in 2012 Foreign Investment Law [NEW]	MNPED (DICA)
7. APPROPRIATE INSURANCE SYSTEM AND OPEN MARKET TO FOREIGN COMPANIES [NEW]	1) Receive Insurance advisor of Japan [NEW]		MOF MI
	2) Open insurance market and special measures to SEZ [NEW]		MOF MI
	3) Develop appropriate Insurance system and nurture market [NEW]	a) Permit local insurance companies to be reinsured with foreign companies [NEW] b) Separate insurance control from State Insurance Company [NEW] c) Appropriate coverage for mandatory car insurance [NEW] d) Collect data necessary for development of insurance products and its disclosure [NEW] e) Permit foreign company and JV to open bank account with interest [NEW]	a),b),c) MOF MI d) MOIP MOF e) MOF
8. ENSURING RESETTLEMENT SCHEME OF LABOR DISPUTE	1) Compliance and thorough implementation of labor dispute laws and rules		MOLESS
	2) Prohibit attendance of political groups		MOLESS
9. IMPROVEMENT OF OTHER ADMINISTRATION PROCEDURES	1) Prohibit levying unnecessary charges		RM
	2) Further efficient, simplified office procedure	a) Prompt actions at the administrative counter b) Acceleration of ODA related procedures [NEW]	RM
	3) Improve transparency on approval, license and evaluation [NEW]	a) Transparent process of approval and license [NEW] b) Improvement of evaluation process in international tenders	RM

	4) Other (Human resources development) [NEW]		RM

*Abbreviations (authority)

CBM	Central Bank of Myanmar
CD	Custom Department
FERD	Foreign Economic Relations Department
FSD	Fire Services Department
IRD	Internal Revenue Department
MC	Ministry of Construction
MI	Myanmar Insurance Corporation
MOC	Ministry of Commerce
MCIT	Ministry of Communication and Information Technology
MOE	Ministry of Energy
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
MOIP	Ministry of Immigration and Population
MNPED	Ministry of National Planning and Economic Development
MORT	Ministry of Rail Transportation
MOST	Ministry of Science and Technology
MOT	Ministry of Transport
ODA	ODA Implementing Agency
RM	Related Ministries
YCDC	Yangon City Development Committee

Similar approaches have been taken in Vietnam. The “Japan-Vietnam Joint Initiative,” which was initiated in 2003, has been regarded as a successful case. The government of Vietnam proactively collected requests and needs from Japanese companies in Vietnam and dedicated resources toward improving the investment climate. In the Japan-Vietnam Joint Initiative, the implementation of the Action Plan is monitored and evaluated every two years in four phases. The fourth phase was completed, and, currently, the fifth phase is underway.

The first phase consisted of 44 items (of which items 40 and 41 are under continued discussions) aimed for the establishment/enforcement of foreign investment promotion strategies, review of investment-related regulations, improvement of government organizations for investment, improvement of soft infrastructure related to investment, and development of economic infrastructure. Based on this initiative, the Vietnamese government has made several efforts with the support of Japan to review the investment-related regulations, establish soft-infrastructure related to investment, establish economic infrastructure (including logistics), educate people who will support the growth, reform state-owned enterprises, promote the private sector (including small and medium companies), and so forth.

In December 2004, evaluation/confirmation of the progress in implementing the entire 44 items (with 125 sub-items) of the first phase was conducted. About 70% of the items were confirmed completed or else in line with scheduled progress. In July 2006, the joint committee confirmed that 85% of the 125 sub-items were completed.

At the same time, a new action plan comprising 46 items to be completed by the end of 2007 was agreed upon. The final assessment of the second phase in November 2007 confirmed that about 93% of the items were achieved. “Disclosure of items prohibited/restricted from export/import,” and “standard setting for imports of used cars,” and others were left unsolved, and it was decided that these items would be included in the third phase.

In the third phase, another action plan with 37 items (with 62 sub-items) was formulated, including improvement of the residential environment in the industrial parks, food safety, macro-economic issues, taxation, intellectual property issues, local supporting industries, electricity, roads/ports, telecommunication, and transportation. Its implementation began in November 2008. A joint evaluation and promotion committee held in December 2010 found that 81% of the items had been achieved. At the same time, issues relating to human resources training, incubation of local supporting industries, and development of infrastructure including electricity utilities were discussed looking forward to the fourth phase.

In July 2011, the fourth phase began and 28 items (70 sub-items) were formulated, including electricity, human development, supporting industry, intellectual property, logistics and IT promotion, and so forth. In December 2011, at a joint evaluation and promotion committee held in Hanoi, achievements in 87% of the items were confirmed.

On26 July 2013, the first meeting regarding the fifth phase was held, where discussion began on 100 items including unresolved items from former phases such as legal system and operation, tax, transportation and custom clearing, human resources, intellectual property, environment, and challenges of sectors in inviting new investment (retail, nonbank, infrastructure, etc.), and so forth.

These high achievement rates show that the government is working diligently to improve the investment climate, indicating that investment was a good decision for foreign investors.

These efforts in similar steps can be and should be conducted between Myanmar and Japan through constant discussion, not only for mutual benefits but also for other countries.

B.3 DICA Seminar in Japan

Delegates from DICA :

- Mr. Aung Naing Oo (Director General)
- Ms. Tin Aye Han (Director)
- Ms. Aye Aye (Staff Officer)

Itinerary :

Date	Activity
1/19 (Sun)	Travel to Japan
1/20 (Mon)	AM: Arrival in Japan PM: Meeting with JICA Meeting with Daiwa Securities Co.Ltd.
1/21 (Tue)	AM: Meeting with JETRO PM: Seminar with the Japan-Mekong Business Cooperation Committee (Japan Chamber of Commerce and Industry) Meeting with MITSUI & CO., LTD
1/22 (Wed)	AM: Seminar with Keidanren （Japan Business Federation） Visiting Japan Exchange Group Inc. PM: Meeting with the Ministry of Foreign Affairs of Japan Meeting with the Ministry of Economy, Trade and Industry Meeting with JICA (Law and Justice Division) Meeting with Nippon Koei Co., Ltd. Meeting with Prof Matsushima (Advisor), Mr. Kudo(Institute of Developing Economies-IDE) for JICA Economic Reform Advisory Project
1/23 (Thu)	Return to Myanmar

B.3.1 Japan Seminar

B.3.1.1 Seminar with the Japan-Mekong Business Cooperation Committee

(1)Date and Time: 14:00-16:00, January 21th (Tue)

(2)Venue : AB Special Meeting Room, 4th Floor, TCCI Building

(3)List of Japanese Participants for Seminars

Sector	Name of Company
Construction	Kajima Corporation
Material Production	Taiheiyo Cement Corporation
Trade and Commerce	ITOCHU Corporation: Sumitomo Corporation :Mitsubishi Corporation Mitsui &Co.,Ltd.: Kyokuto Boeki Kaisha, Ltd.: 359 International Japan Co., Ltd.:Marubeni Corporation
Manufacturing	IHI Corporation: Toshiba Corporation : Takane Electronics Corporation.: Nippon Steel & Sumikin Metal Products Co., Ltd.: Panasonic Corporation: Hitachi Zosen Corporation : Maezawa Industries, Inc. : YBM Co.,Ltd. : NEC Corporation
Banking	Sumitomo Mitsui Banking Corporation : Japan Bank for International Cooperation
Service	A.I.N Group: Nikkei Research Inc: The Japan Research Institute, Limited :Value Create Partners Corporation: Futami Communications & Engineering Co., Ltd. : The Consultant's for Myanmar, Daiwa Securities Group Inc,
Law Firm	Anderson Mori & Tomotsune: Kojima Law Offices
Power	J-Power
Others	ASEAN-Japan Centre. : Japan External Trade Organization

(4) Q&A session

Q1	**Legislative Reform for Overseas Remittance**
Ans	Financial and legal system are underdeveloped but will be improve little by little as the case of unification of exchange rate in 2012. The government of Myanmar is considering the finance sector reform and new legislative framework is expected to be established by the end of first half of 2014.
Q2	The progress in Yangon SUDP (The Project for the Strategic Urban Development Plan of the Greater Yangon) Project / Expected role of Japanese Companies in Dawei SEZ
Ans	Currently, the master plan for city development has been prepared under the YCDC (Yangon City Development Committee). For the Yangon city development, JBIC will support infrastructure development. Also, private sector is expected to participate through PPP scheme. The Dawei SEZ is one of the biggest projects in Myanmar, and therefore participation of Japanese companies in development is welcome.
Q3	Spatial Database Development /New technology to promote FDI.
Ans	DICA plans to develop spatial database with cooperation of GIZ.
Q4	Deregulation of Foreign Investment Law and Regulations
Ans	Restrictions of current Foreign investment law on investors have to be relaxed in order to develop better investment climate for investors. Such requirement is already acknowledged by the government and will be addressed near future.

Q5	Incentives for foreign investors which pursue environmentally friendly business conduct
Ans	There is no preferential treatmentfor those who focus on environmental conservation. But the government will consider this issue.
Q6	New SEZ Law / Revision of the Myanmar Company Act
Ans	New SEZ law will be released in a few weeks. The company Act is obsolete since it was formulated in 1914. But DICA have already made an agreement with the ADB regarding the amendment of the company Act and revision will be started soon.
Q7	SME investment in manufacturing sector not approved by MIC
Ans	The minimum capital requirement has been removed in the current Foreign investment law. Thus, SMEs can also apply for investment under Foreign investment law.
Q8	Tariff on motorcycle and automobile / intellectual property rights
Ans	Currently, the import tax on the car manufacturing parts are higher than the one of finished car, which discourages the manufactures to launch domestic car production. In this point, reform of tax regulation is necessary and it has been discussed between Ministry of Finance and related ministries. Also, the Ministry of Science and Technology has been trying to update the current intellectual property law, thus the new law is expected to be released near future.
Q9	Overseas Remittance of Dividend and Interest
Ans	It is difficult to make repatriation without MIC's recommendation. Therefore, DICA is working with the central bank of Myanmar to improve this situation.
Q10	Land lease
Ans	Foreign investors can lease the land for 50 years. If the MIC permits, investors can update the lease contract twice with 10 years extension for each time.

(5) Seminar Photos

Seminar Photo 1

Seminar Photo 2

	
Discussion with Participants	Exchange of Name Cards with Participants

B.3.1.2 Seminar with Japan-Myanmar Joint Economic Conference(Keidanren)

(1) Date and Time: 9:00-11:00, January 22nd (Wed)

(2) Venue : Room 401, 4 F, Keidanren

(3) List of Japanese Participants for Seminars

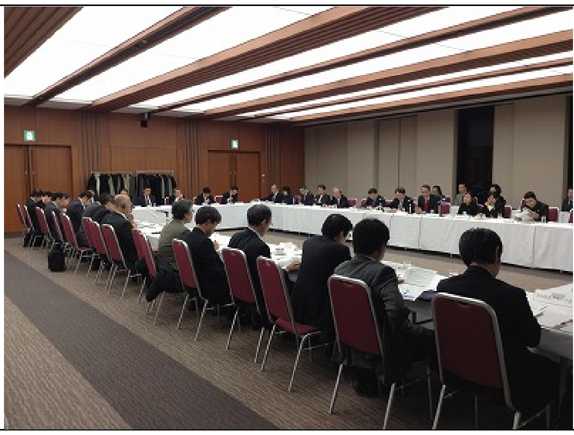
Sector	Name of Company
Retail	Aeon Co., Ltd,
Logistics	Nippon Yusen Kabushiki Kaisha
Construction	Kajima Corporation, Shimizu Corporation: Taisei Corporation, Fujita Corporation.
Plant Construction	Toyo Engineering Corporation, Chiyoda Corporation
Rail Way Service	Keio Corporation
Material Production	Nippon Steel & Sumitomo Metal Corporation, Mitsubishi Materials Corporation
Trade and Commerce	Sumitomo Corporation, Toyota Tsusho Corporation, Mitsubishi Corporation, Sojitz Corporation, Mitsui & Co., Ltd
Manufacturing	Hitachi, Ltd., Mitsubishi Heavy Industries, Teijin Limited, Toray Industries, Inc, Toyota Motor Corporation.
Banking	Sumitomo Mitsui Banking Corporation, Bank of Tokyo-Mitsubishi UFJ, Ltd.
Service	NTT DATA Corporation, Daiwa Securities Group Inc, SUZUTOKU Holdings Co., Ltd., Nippon Koei Co., Ltd.
Power	J-Power

(4) Q&A session

Q1	**Participation of Construction Companies in SEZ development**
Ans	After the change of regulation in December 2013, foreign construction companies have become able to obtain business licence. Now, they can participate in the SEZ development if approved by MIC.
Q2	Availability of Financial Loan from Foreign Bank
Ans	The Ministry of Finance and Bank of Myanmar have been considering financial sector reform and try to come out with new regulation before the establishment of the AEC in 2015.
Q3	Classification of Foreign Investors according to the capital ratio

Ans	In the current Myanmar Company Act, the company which has even 1 % of foreign capital is classified into foreign company. Actually, this law was formulated in 1914. Therefore it is quite obsolete and needs to be updated. In the new Act, three plans have been discussed in order to set up the criteria in order to judge the classification of company. 1) The companies which foreign capital accounts for less than 5% is regarded as domestic company: 2) The companies which foreign investors have the majority of capital share is regarded as domestic companies: 3) At least one of the board members is Myanmar.
Q4	The length of MIC approval
Ans	MIC will try their bests to make the approval process within 90 days as stipulated in the foreign investment law.
Q5	Land Price/ Supply
Ans	The government tries to even the land price by increasing supply through the establishment of new industrial parks and SEZs, particularly in Bago and Mandalay.
Q6	Public Private Partnership
Ans	There is no laws and regulations on PPP in Myanmar and therefore the government is considering to ask international agency to draft. Also, education for government officials is necessary in order to increase their understanding on what PPP is.

Seminar Photos

	
Seminar Photo 1	Seminar Photo 2
	
Discussion with Participants 1	Discussion with Participants 2

C

Survey on Promising Sector

C.1 Agriculture

- Issues and Barriers in Farmland-Based Investment and Suggested Strategies for FDI Promotion in Agriculture Sector in Myanmar -

C.1.1 Introduction

Due to the political change from the military rule to the democratic government system, foreign direct investment (FDI) flows noticeably into Myanmar. Up to 31 January 2014, the accumulated pledged amount of FDI is shown to be US$ 45,327.830 million (DICA, 2014). The value of the permitted investment will not be the same as the actual FDI inflow. In an investment policy review on Myanmar by OECD specialists, the FDI inflow for the permitted enterprises is 42950 USD million while the realized value was only 32887 USD million as of 2013 (Thomsen and Pfister, 2013). In all situations, the FDI flow in agriculture sector is still extraordinarily low down to 203.02 million USD, representing only 0.45 percent of total investment value. It is easily understood that agriculture sector could not be matching with oil and gas and power sectors which generate huge profit within short period for the investors. However, for an agrarian country like Myanmar, responsible FDI could play an important role for national economic development, access to global market, poverty alleviation through inclusive growth and socially and environmentally sustainable conduct of the agribusiness. This summary report is attempted to formulate the FDI Promotion Strategies by identifying the barriers and constraints for large scale investment in agriculture sector and seeking appropriate measures to overcome and finally suggest the feasible areas of investment in agribusiness for FDI.

C.1.2 Why is FDI Low in Agriculture Sector? Factors Accountable for Low FDI

Myanmar has been assessed by “Doing Business Criteria” and are said to be particularly low on starting a business, protecting investors and enforcing contracts and somewhat better for paying taxes and trading across borders (http://www.doingbusiness.org/data/exploreeconomies/myanmar). The often-quoted major constraints among the entrepreneurs are lack of regular and sufficient supply of electricity, high cost of transport, and low access to bank finance. Agriculture sector is no exception in encountering these constraints. But in this report, agriculture sector-specific barriers and constraints will be discussed in order to have a better understanding of the low FDI situation in this sector.

1. Land use policy- Legacy of Myanmar’s land tenure system had discouraged large scale investment in agriculture. The property concept of Land Holders’ Right adopted in the past colonial period had been changed to Land Tillers’ Right or Land Use Rights by the socialist government. Farmers were considered as the State’s tenants and were forced to grow the State’s planned crops instead of farmers’ choice. Moreover, farmers were compelled to sell the allotted quota from their produces to the government at the prescribed price. Failure to comply with any of these requirements, the land use right shall be withdrawn from the farmers. This land use policy was still effective until the time of the previous military government up to 2012 although most native farmer in reality after the weakening period of socialism treated land as a private property in unofficial land transaction. On the side of FDI, the legal frame work does not provide land tenure security.

2. Crop production policy – The previous successive governments persistently adopted the rice bias policy denying alternative crops particularly in irrigated tract. If an irrigation dam is constructed and its cannel is passing through sugar factory hinterland where sugarcane has been customarily grown, farmers are compelled to switch to paddy cultivation. In Oaktwin sugar factory area, for example, the core and central areas surrounding the factory is now occupied with paddy while the periphery area is planted to sugarcane. The area distribution of sugarcane in 2010 could be seen in the following table.

Table C.1 Distribution of sugarcane planting acres in relation to the distance to the sugar factory of Oaktwin factory, 2011

Distance to the factory (miles)	% distribution of sugarcane planted area
< 5 miles	4 %
5 to 10 miles	5 %
10 to 20 miles	47 %
20 to 30 miles	34
>30 miles	10 %

Source: San Thein (2009-2010)

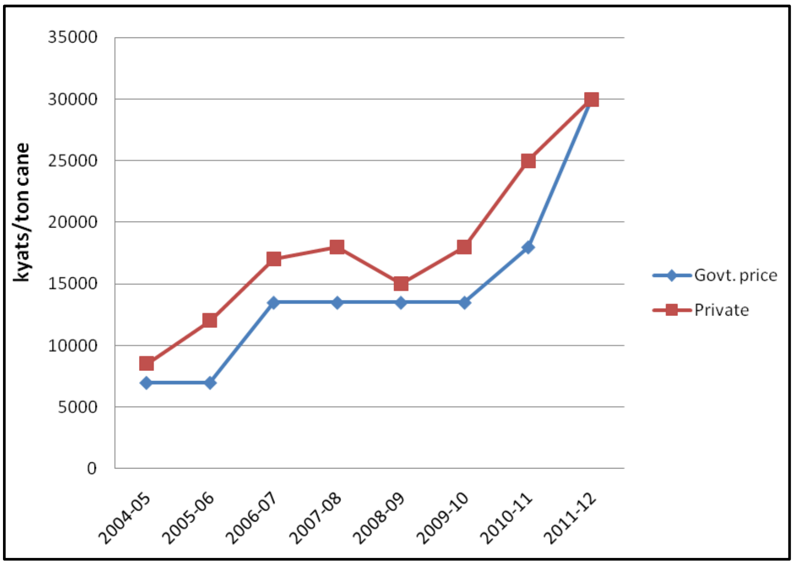
Over 90 percent of sugarcane planting areas lie outside 10 to 30 miles away from the factory while the inner circles are given away to paddy crop. Sugarcane is a bulky crop and tends to be perishable in delayed crushing besides the high transport cost. Thus the cane transport expenditure constitutes over 30 percent of the cane purchasing budget. That factory had been a losing business throughout several cane seasons.

In the Farmland Law Section 30 a and b, it is noted that the government's rice – bias policy has led to the formulation of the land utilization that " growing other crops in paddy lands require the permit of the Central Administrative Body of the Farmland with the recommendation of the Region or State Administrative Body of the farmland". The prolong adoption of such rice-bias policy has severely limited the growth of the agro-based industry in Myanmar. There are no impressive crop zonings in Myanmar except for a limited area of rubber plantation in Mon State. There should be specialized zonings such as sugarcane belt, corn belt, soybean belt, vegetable zones, premium rice variety zone, mixed cropping zones, etc. Under freedom of crop choice in specialized zones, FDI could rapidly transform the rural landscape into large and massive specialized crop zonings.

3. Crop procurement policy – The socialist and military governments forced purchase of crops at low price (see Figure below). Thailand Sutech Engineering formed joint venture business with the government sugar enterprise in 1999 and the JV produced sugar production with loan from EXIM Bank. Although the factory performance was meeting a high standard, it could not procure the sugarcane supply in sufficient amount from farmers due to low cane-purchasing

price. The JV Company's cash flow showed yearly net loss and could not pay back the EXIM loan in predetermined schedule. The factory is still struggling to overcome heavy financial burden nearly 15 years of the business operation.

Figure C.1 Annual Cane Procurement Price (Ks./ton cane) of Government and Private Sugar Factories



Source: San Thein (2013)

4. In agro-chemicals industry, FDI is not allowed to enter the domestic distribution network although recent FDI Law did not specifically mention about this business. The agro-chemical businesses of the domestic companies have been expanding over a large network of distribution of farm inputs such as pesticides, fungicides, fertilizers, etc. The foreign companies sell their agro-chemicals to domestic companies which in turn carry out repacking and sale to farmers. Foreign companies are also reluctant to establish pesticide factories in Myanmar due to the lack of bio-safety measures and weak law enforcement in chemical residues disposals to the environment.

5. Attitude of self- reliance of the military government and its promotion of native business companies in agriculture – Encountering the economic sanctions from the U.S. and the western countries, the military government was quite anxious to build up self –reliance in economy and drew little attention in FDI promotion in agriculture and encourage native investors (particularly its interest groups) in agribusiness by large scale land concession starting from 1991. By March 2013, a total of 377 national companies and 18322 growers had been allocated 3.8 million acres of virgin, fallow and vacant lands (VFVL) and deep water paddy areas and several growers have access to 0.88 million acres of forest lands. (Annex Table 2 a and b). The government provided attractive incentives to the native companies (large sum of loans, tax exemption, permit for timber extraction from the assigned lands, import permits for luxury cars, cell phones, diesel, heavy machineries, etc.) in conducting agribusiness and large scale plantation. During the period from 1991 to 2012, there were few foreign

companies (probably less than three in number) allowed to lease the lands in large scale on a product share bases with agricultural department.

6. Promulgation of new Farmland Law and VFVL Law - The 2008 Constitution became the supreme law of the land. The most important of these are the adoption of a market economy, in which the ownership and protection of private land property rights are clearly recognized (*Articles 35, 37, 356 and 372*).In addition, it can be interpreted that the Constitution guarantees the right of citizens to appeal decisions made regarding land rights to an independent judiciary (*Articles 11 and 19*). It prescribed that the State is the ultimate owner of all lands in the country (*Article 37*). Recently, two laws related to the land, namely Farm Land Law and Vacant Fallow & Waste Land Management Law were enacted on 31 March, 2012.

   As stated in section 3(d), the Farmland Law gives cultivators the rights for farming in association with (a) right for farming and gain benefit of such farm; (ii) right to sell, mortgage, lease, exchange or donate in whole or in part of the right form farming in accordance with the prescribed disciplines (Section 9 a & b). The Township Farmland Management Body shall issue the Land Use Certificate to a person who receives the right for farming by buying (or) exchanging (or) giving (or) inheritance in according with the provision of this law (Section 8). In Section 28 (a), in respect of application for permission to grow other crops from regular crop, the Central Farmland Management Body shall give permission to grow other crops on paddy land after it scrutinizes the prescribed condition that it does not diminish the sufficiency of rice which is the main staple crop of the State. The hierarchical order of the Central Farmland Management Body runs from the Village tract farmland management body through township and district levels to the State body headed by the Minister of the Ministry of Agriculture and Irrigation at the highest level (Section 16). The Farmland Law granted the land use property rights and disposal rights but in the exercise of control rights (choice of crops, particularly in the case of paddy), the government reserves the power to rescind these rights. The Farm Land Law revoked the long lasting laws including the 1963 Farmer's Rights Protection Law. This law should be taken into account for the socially responsible agriculture –related investment.

   As regards the virgin and fallow lands in various Regions and States, the government- land concession has been observed over a large tract of land particularly in the VFVL and forest lands. In looking at the government monitoring report about the actual implementation on the assigned lands by the agri-business companies, it was surprising to find that the extent of the land development and plantation are not exceeding 20 to 25 percent of the total land even for more than ten years after land concession. It reflects the real nature of the rent seeking and speculative behaviour of the land holders apparently for future land market. After change of democratic government, several farmers' protests broke out widely for the cases of land confiscation, land grubbing and displaced settlement from the sites of massive land concession. These situations had led potential FDI to "wait and see" moment before being able to enter full scale into the agriculture sector.

7. State dominance in agro-processing – The period of the military rule up to 2011 could be characterized as "State-Led production in agro-based industries and agro-processing. Moreover, the military-based commercial activities (e.g. those of Myanmar Economic Enterprise and Myanmar Economic Holdings Limited) had been expanding across the country. There was no level playing ground in economy of those days making FDI entry difficult in agriculture sector.

8. Infrastructural constraints- It has been and is still a major constraint, as being commonly said by everyone. This report will point out the specific infrastructural case applicable to agriculture sector. In the table below, potential sugar factory locations such as Thabeik Kyin, Singu, Madaya are compared against one urban center, Pathein Gyi township.

Table C.2 Comparison of Level of Infrastructure

Infrastructural criteria	Thabeik kyin	Singu	Madaya	Patheingyi (urban standard)
% of villages access to electricity through				
i) National grid	7.1	7.4	6.1	35.7
ii) Hydropower	5.7	0.9	10.1	-
iii) Diesel generator	41.4	7.4	2.0	71.4
Permanent road density, Km/ 1000 sq. miles of township	108	31	136	143

Source: San Thein (2013)

It is clearly seen that percent number of villages in Thabeikkyin, Singu, and Madaya townships accessible to the national grid, decentralized hydropower unit or diesel-operated generators are extremely low as compared to Patheingyi township, close to Mandalay city. Although there may not have much problem of electricity for sugar industry which could generate electricity by its own structure, the road infrastructure is extremely important for logistic needs and sugarcane transport. It requires the public investment in the interconnecting road net work of town to town or town to sugar factory while the responsibility of construction access road from sugarcane fields to the feeder roads could be held by the private sector investment of the sugar industry. Likewise, growth of palm oil industry is severely retarding due to total lack of road infrastructure. The government assigned the private companies to construct roads near their palm oil estate. The government has to trade –off with the companies for timber extraction in their respective palm oil estate before land clearing. Some irresponsible companies left the area after timber extraction without taking responsibility of continued plantation. The responsible FDI will not engage in such "give and take" business in an ill-defined terms of business.

9. No legal frame work in bio-fuel and bio-safety- The government officials encourage the bio-fuel (bio-energy) production and utilization but there is not still well-defined national policy on this aspect. A failing business case of one big sugar factory in upper Myanmar indicates the effect of the lack of national policy on bio-fuel. The sugar factory owner made investment in built- up of the bio-ethanol production plant supplemented to the sugar factory because of the encouragement from the Prime Minister to whom the investor has preferential access. By the time the bio-ethanol production was on the right tract and marketing and distribution of the product was ready, the Prime Minister died. Under the next authority successors, the entrepreneur found no support for bio-ethanol production and marketing and his bio-ethanol business came to an abrupt end. Without well-defined legal frame work, FDI could encounter the risk factor in following the whims and whips cal of the power elites.

10. Lack of transparency - Agriculture sector investment is mostly relied on the land resources. But if the land stock is in the hands of the speculative business men or rent seeking of authorities, there will be not much land-based FDI flow in agriculture sector regardless of the liberalization of FDI rules and promotion effort of DICA. There is lack of clear and transparency in availability, application and concession of VFVL by the concerned authorities. One regional level director in the industrial crops- related department has complained that he even has no access to the information of the land stock as to the land availability or assignment. It appeared that land survey officer and the regional authority have no tendency to disclose the information to the public or even other government staffs.

C.1.3 Impacts of FDI on Myanmar Agriculture Sector and National Economy

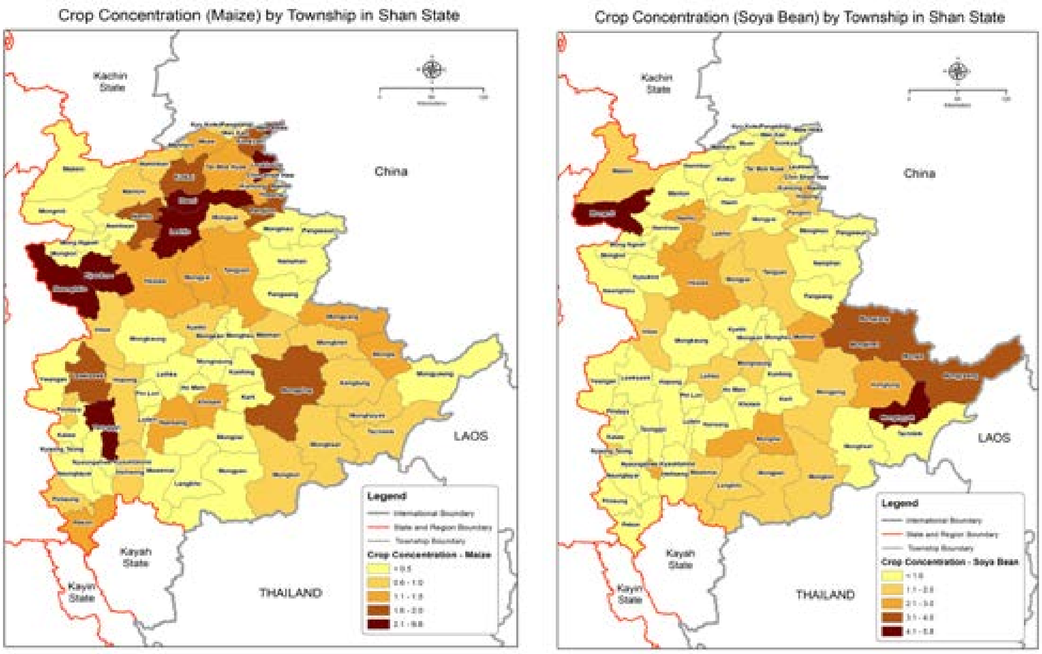
Myanmar farming sector is undergoing slow changes from subsistence economy through semi-commercial farming to investment-driven full scale commercial farming in limited areas. Due to inadequate domestic investment and limited mobility of financial resources, the agricultural sector is growing slowly. Extremely low FDI in agriculture sector is also a great concern for Myanmar. Since FDI flow inward is low, there is not much value- added component in agriculture. Myanmar export commodities are largely confined to agricultural raw materials due to low value adding. Myanmar could not have access to high value market share resulting in low income from farm produce sale. Due to lack of FDI, the current technology is still low resulting in low crop productivity. Farming sector is no more a profitable occupation and millions of farm households could not step out of the vicious poverty cycles. Non-farming rural households could no more rely on the farming sector due to low farm wages. Several rural households migrate out and it is still on-going process. Farmers purchase imported farm inputs at globally-set price but they sell their inferior produces to global market at low price. Finally the farmers become in debt and are selling their lands for outmigration again. The whole picture clearly points out that low FDI is not the issue of foreign investors but in fact the national issue that should be seriously tackled by the government, particularly the Directorate of Investment and Companies administration (DICA) and the Ministry of Agriculture and Irrigation (MOAI). This report carefully examines the following possible impacts of FDI specifically on agriculture sector and generally on the national economy.

1. Preferential EU market access - The European Union (EU) offers "Everything but Arms" (EBA) preferential trade scheme for least developed countries like Myanmar, Cambodia, etc. The EBA Initiative provides full duty-free and quota free access to the European market and a guaranteed minimum price for sugar that has been on average three times the world price. During the regime of the previous government, one EU trade agent approached the concerned party for sugar purchase from Myanmar –Thai JV sugar factory which was in deep financial trouble at that time. The JV sugar factory wished to take opportunity of selling its sugar at high price to EU market. But the requirement is the endorsement from Myanmar Ministry of Foreign Affairs to pledge that Myanmar is still in LDC status. Understandably, the Minister refused to do so. Now the sanctions are nearly over and such embarrassing endorsement will not be necessary now. Thailand has been considered to step out of the LDC status and could not enjoy EU market access or could not seek Generalized System of Preferences (GSP) regulation and in that respect, Myanmar could compete Thailand's sugar industry.

2. Effect of CP- driven Contract Farming (CF) on maize export growth, farmers and consumers welfare- Thailand- based Charoen Pokphand Group (CP) have been investing in maize seed production, animal feed industry, CP livestock business clusters in Myanmar for nearly a decade. The positive effects are seen as income growth of contract farmers, emergence of animal feed industry, dramatic increase in maize export, fair consumer prices of poultry products in Myanmar. The CP Company is also one of top ten tax payers. The contractual farming with maize seed -growers improved farmers productivity and income growth. Moreover the community –based saving money accumulated from the contract farming also contribute to the physical and social development of the village involved. In various maize –growing areas, subsistence economy has changed to maize –based commercial farming (own field survey). Thus shifting cultivation in some parts of Southern Shan State was transformed into permanent farming due to the commercial introduction of maize through CF, and high productivity of the crop improve the livelihood of the ethnic farmers.

   In Shan State, intensive maize growing area could be seen in deep colour of the expanding townships while soybean crop is seen as a thin cover of crop density all over Shan State. After CF, maize occupies in Shan State as a corn belt of Myanmar.

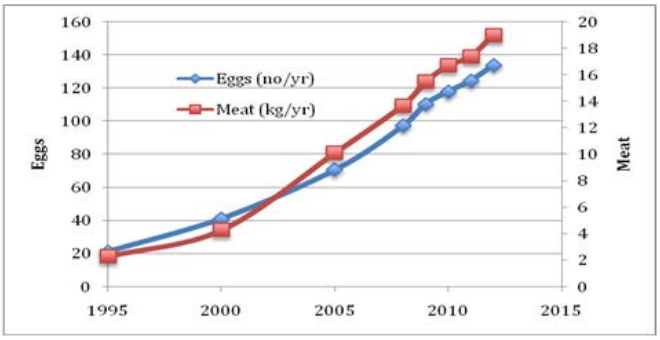
Figure C.2 Crop Concentration by Township in Shan State



Source: Calculated based on township wise sown acreage of all crops,

Comparative crop- concentrations for maize and soybean cultivation in Shan State. Maize is largely grown with CP- based contract farming. Soybean is grown by traditional subsistence scale. Moreover, per capita production of eggs and poultry meat increased rapidly during the period from 1995 to 2014.

Figure C.3 Per capita Chicken Meat and Egg Production, Myanmar, 1995-2013



Source: CSO 2010 and MOAI 2013. Adapted after Berek et al, 2014.

Table C.3 Annual Increase in Maize Export (across border) as Compared to Rice and Green Gam Export, million US$

commodities	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
milled rice		0.557	10.119	20.128	-	33.948
maize seed	13.24	27.251	63.709	66.186	100.32	149.867
green gram	51.605	78.053	26.029	22.218	109.858	118.777

Source: Ministry of Commerce, 2012

3. Value adding - There are still low value-adding in the current domestic industries in palm oil, sugar, natural rubber, etc. Sugar factory could produce

only white sugar and molasses but not diversified products such as bio-ethanol, bagasse –based fibre board and co-generation, bio-fertilizers, raw sugar, refined sugar, donut sugar, ice sugar, brown sugar, organic sugar, etc. meeting the demands of global consumer market. In natural rubber industry, only low grade products such as Ribbed Smoke Sheet (RSS No. 3 and 40) comprise 90 percent of all produces. Small quantity of Technically Specified Rubber contributes to only 5 percent of total processed rubber production. In addition to crude palm oil (CPO) in palm oil industry, several by-products such as kernel palm oil, shell extraction, left over fibre utilization and biogas production from waste disposal, etc. have been processed in foreign companies while the domestic companies could not have diversified products due to lack of investment and technology. The promotion of FDI should be pursued to increase such sale revenue from the diversified products of value adding.

The foreign products of condensed milk-cans have been processed from partially natural milk but mostly from the protein derivatives of palm oil which was cheaply produced from palm oil industry. This imported dairy milk products are quite competitive and native industry lacking the advanced high technology could hardly produce cheap dairy products. Myanmar is now in a position to make choice for imported dairy goods or FDI working within the country.

4. Enforce standards and quality control- Yearly increase in fishery products have been accompanied with enforcement of standards and laboratories upgrading and bio-safety measures. There is lack of (or) insufficient measures and quality testing laboratories in the agriculture sector due to low level of investment in both public and private sectors. Capital flow through FDI will be backed up by the enforcement of laws, standards and mechanisms so that it will have spill-over effect on the domestic industries.

5. Overcoming the problems of weak financing capacity of the domestic industries - In our attempts to conduct the project appraisal for natural rubber and palm oil production, the results have clearly indicated the weakness of the financing capacity among the domestic investors. In running 30 to 35 years of plantation, the expected outcomes at a full capacity of the management are summarized in the following table.

Table C.4 Project appraisal for rubber and palm oil production

Investment & outcomes	Rubber	Palm oil
Project period	35 years	30 years
Planting acres	3,000	50,000
Investment amount	Ks. 570 million	USD 40 million
Payback period	12.2 years	13.7 years
Internal rate of return (IRR)	10.81 %	12.56 %
Bank loan from MEB (70 % of initial investment with interest rate 13% per annum), Assumed value	Ks. 399 Million	USD 30.89 Million
Net present Value (NPV) with 13% after 35 years	Minus Ks. 1041 Million	Minus US$ 7.06 Million
NPV with 12 % ----	Minus Ks. 667 million	+ US$ 2.495 Million
NPV with 11 % ---	Minus ks. 210 Million	+ US$ 13.9 Million
NPV with 6 % ----	+ ks. 4180 Million	+ US$ 115.8 Million
NPV with 5% ----	+ Ks. 5766 Million	+ US$ 150.5 Million
NPV with 4 % ----	+ Ks. 7745 Million	+ US$ 192.7 Million
Average net profit (already deducted income tax 25%)	24%	15 %
Loan capital – 70 % & own capital – 30 % (Assumed)	No value added, Fair quality product	All value added produces

Note: Detail financial analysis is shown in sector over review in rubber and palm oil.

Based on the assumed figure, Myanmar entrepreneurs could not earn positive net present Value (NPV) if the bank loan interest rate is at 11 % and above. The current interest rate of Myanmar banking sector is 13 %. In Doing Business in Myanmar, the financial cost is quite high and Myanmar entrepreneurs could not easily cope with this big challenge, particularly in low generation of profit in the agriculture sector. According to the results of NPV after 30 to 35 years of project, the future value of the investing money will become largely negative. The evidence is clearly seen in natural rubber production. In palm oil sector, taken into account the improved technological adoption for value adding of all possible by- products, the critical threshold interest rate is shown to be not more than 12% at which the investor could survive.

For FDI having access to its native country's bank loan with interest rate lower than 5 % per annum, the financial analysis will turn out to be definitely positive NPV at the end of the project year. Thus limiting the scope of FDI in agriculture sector does not have impact on the domestic industry since its growth has been restricted by its own banking sector constraints. The net gain for restricting FDI will be the outcome of the slow growth in the agriculture sector. If the domestic business is to be protected and nurtured, it is not FDI to restrict but to improve the present banking sector and to overcome other investment constraints as soon as possible.

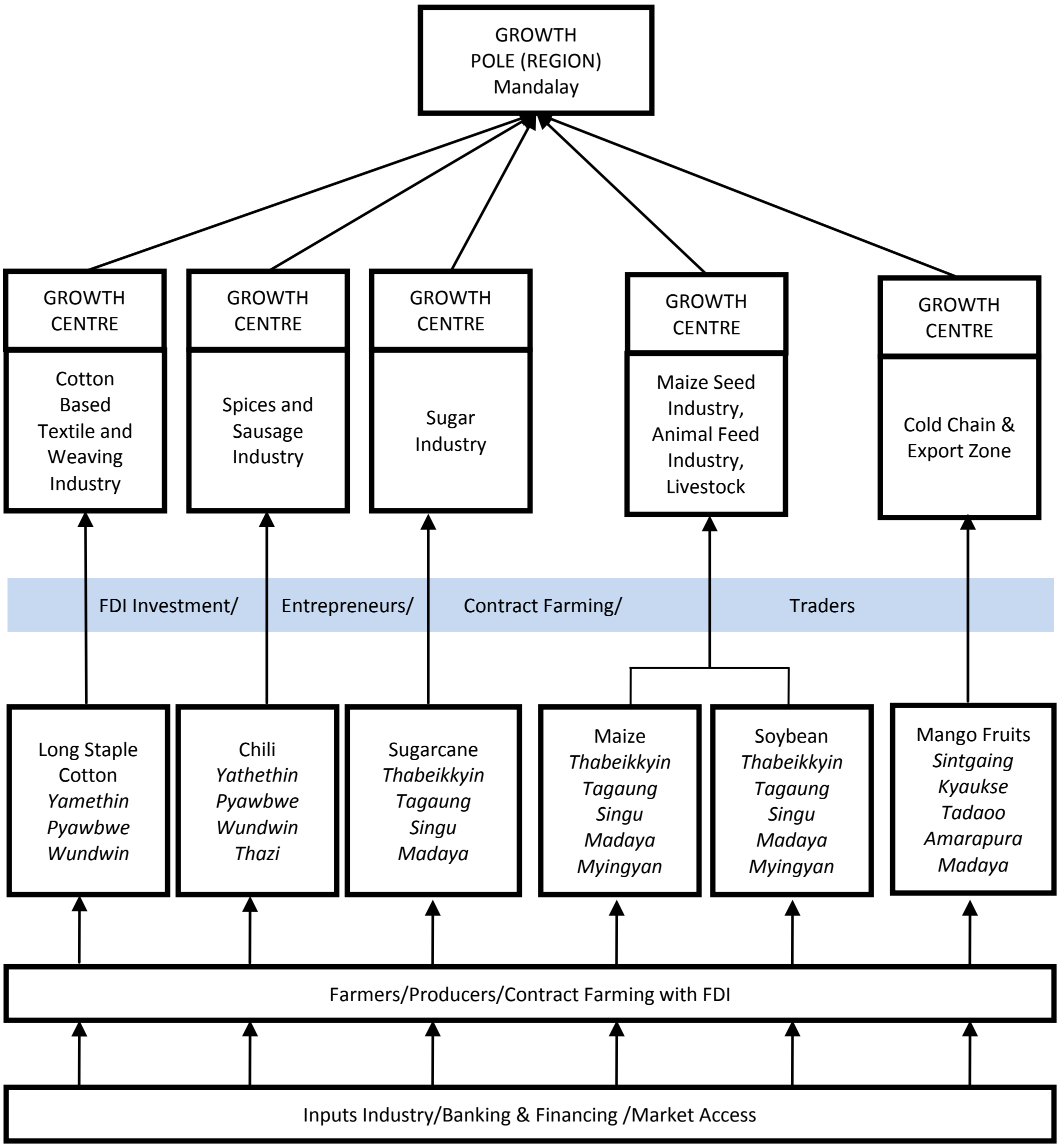
C.1.4 Gaps between the Needs of the Government and Expectation of FDI

The government of Myanmar wants clean and responsible FDI while the foreign investors require the suitable investment climate. To meet both ends' needs, the government should spell out what specific conditions are to be fulfilled to achieve the "win –win" outcome. And at the same time, it should offer the favourable investment climate to foster FDI. This section attempts to address these issues particularly related to the agriculture sector.

1. Focus and prioritize the development for the physical and social infrastructure in the potential investment areas - This development target could be overlap with the poverty alleviation or rural development area targets. It is illustrated in the following flow diagram.

In Mandalay Region, Mandalay city is considered Growth Pole and its surrounding agro-industrial potential areas are considered as "Growth Centers". The agri-business such as cotton-based textile and weaving industry, sugar industry, species and sausage industry, maize seeds and feeds and poultry industry, cold chains and fruit export zone, etc. could be well identified by specialized crops zoning and favourable investment climate could be improved by building physical and social infrastructure for the possible investment areas by either domestic or foreign companies. One sugar potential area has been mentioned above where infrastructural development is definitely needed. There should be closely coordinated for planning and implementation among all stakeholders including the Union government and the Regional government, business circles, civil societies and multi-national donors assisting the development with soft loans. The investment-driven agribusiness and agro-industries could generate the revenue shortly and the collected taxes could facilitate the payback of the donor's loans. Thus targeted infrastructure development could facilitate the investment.

Figure C.4 Potential Agro-industry and Commodity-based Township Cluster to be linked with FDI (Mandalay Region)



2. Improvement of the agricultural –related policies, laws and ensure law enforcement - The new farmland Law and VFVL law now ensure a good degree of tenure security and land use rights but it needs to ensure the disposal rights (freedom of crop choice, for example) in specialized crops zones. Sufficient space should be left to allow the exercise of the authorities by the responsible government officials in their functions to adjust the policy situation and improve the better investment climate. Several key regulatory areas are pointed out as follows;

    i. The period of the land use right by the FDI law is said to be initial 50 years. It may be meant for hotels and real estates. In VFVL law, it is initial 30 years period of land use. In setting up the agro-based industry, raw material processing plants and field crops production should go hand in hand. If the agro-processed plants establishment is allowed for 50 years under the prescription of FDI Law, agricultural land lease should be also sequentially up to initial 50 years.

ii. In section 108 of FDI rule, it is stated that the investor is allowed in contracting farming on the farm land by forming the joint venture with citizen investor. It is in fact a case specific issue. In sugar industrial investment, there requires, besides farmers' fields, nucleus farming (factory's own land) upon which JV business with local investor will be needed. But in the case of natural rubber processing, the role of foreign investor could not only pursue rubber processing business but also procure the natural rubber raw products from growers on contractual basis without any necessity for JV with any third party. Since natural rubber industry consists of 90 % of small holders (less than 50 acres), rubber plantation could be encouraged and promoted for the small holders while native or foreign investors should be encouraged in playing the role of upstream and downstream commercial activities. In such case there should be no concern for JV. Responsible foreign investors from the highly developed auto industry like Japanese one should be encouraged to play freely in the upstream and downstream commercial activities in attempt to its upgrading the quality products and processing.

iii. In palm oil industry, the native investors are encouraged by land concession in palm oil potential area. The native investors are reluctant to form JV with foreign investors in palm oil plantation business but they prefer FDI for working in palm oil processing industry, instead of involving in plantation. If there are several small growers in palm oil industry like Indonesia , Malaysia or Thailand, the set up of the crude palm oil mill or oil refinery mill could be carried out by the foreign investors with contractual arrangement with small growers. But in Myanmar palm oil industry, there is totally no small growers but only large companies who possess processing facilities regardless of full of competitiveness or not. Under this Myanmar situation, the role of FDI in palm oil processing sub-sector is largely limited. There are some occupied VFVL by the native companies without any sign of planting to palm oil. Protection of native entrepreneurs with limiting the role of FDI tends to encourage some native investors for rent seeking and speculative land rental business. Holding the assigned lands without any measureable agribusiness activities in the hands of the speculative person has led to disincentive in agriculture sector or loss of competitiveness in commodity production. Land concession to the irresponsible native entrepreneurs should be withdrawn and reserve the land for the potentially responsible investors, native or foreign for later re-assignment.

iv. Under the limited capacity and performance of the public sector in seeds production, it is surprising to note in the section 35 of FDI Law which restricts the 100 percent FDI in agricultural breeding business. If there is proper seeds law, plant varietal protection law and IPR legal frame work and consistent law enforcement mechanism, there should be 100 % FDI in seeds production. The success of maize varietal improvement by Thailand CP group, strong varietal development in sugarcane by Mitr Phol Company, and several private Indian seeds companies indicated the strong capacities of potential FDI in seed industries. There should be mutual link between the public sector development of broad based germ-plasms and the varietal development or seeds production by the private sector regardless of native or foreign business. Under such condition, there should be 100 % FDI in seeds production.

v. Again, FDI is restricted in agro-chemicals industry. Native industries are now being expanding, with supplies from the foreign large suppliers. Some irresponsible companies are demonstrating the farers the beneficial effects of the branded pesticides in the show-piece farms and once the farmers are convinced, the native companies procure informally or formally the cheap inferior chemicals mostly, Chinese products and repack these and sell to farmers. Several other corrupted process in products registrations and marketing could be also observed in actual business transaction. The overall picture of the native agro-chemicals is not pleasing to observe. Farmers are sold out at high costs of the products. The public sector extension education is also quite weak. Perception level of farmers is generally low and this weakness has been taken advantage of by the native companies. Precise assessment of this agribusiness is necessary. There should be for both native and foreign companies fair competition in this market with a view to achieving positive effects on the farmers' welfare, environmentally responsible conducts and development of the agriculture sector.

vi. The general process of decision making process for FDI approval, although not stated in the FDI rules, prescribes that 100 % FDI could be allowed for export-oriented FDI and JV is permitted for domestic market –oriented. In the case of palm oil, the previous government initiated land concession to the native companies encouraging palm oil production in Taninthary for meeting domestic need of the edible oil. If FDI is going to enter palm oil plantation business now, how will be such criteria be considered for allowing 100 percent FDI. Myanmar suffered and still is suffering edible oil deficit over five decades and if FDI could fulfil the domestic needs of the edible oil to a set standard, why it should not be allowed 100 percent investment. Other cases could be considered in similar way.

vii. Enforceability of foreign arbitral awards will depend on the application of earlier conventions required to be implemented by the Myanmar Arbitration Implementation Act of 1937 (i.e. the Geneva Protocol and the Geneva Convention). Promotion of FDI for JV or contract farming should be backed up by the good practices of arbitration. Some industrial raw material crops such as sugarcane, cassava, rubber, maize, etc. are appropriate for CF with farmers and there should be a good mechanism and legal framework within which both parties could work properly and safely.

viii. While European Union's "Everything but Arms" (EBA) preferential trade scheme is intended to benefit the poor through job creation from export-led growth in least developed countries like Myanmar, Cambodia, etc. it is important to understand that the large scale agribusiness companies should adhere to all the standards of human rights and environmental conservation aspects. Land grubbing and land confiscation without fair, prior informed consents (FPIC) will lead to the public protests against the violating companies as in the case of Cambodia while nearly one million farmers protest the FDI for confiscating the lands and community tenure rights in irresponsible ways. Such situation betrays the original intent of the EBA initiative. The cases have been submitted to the EU courts and parliament. There is Generalized System of Preferences (GSP) regulation to institute a system of human rights due diligence for all products imported to the EU under the EBA arrangement. Trade preference should only be granted to beneficiaries that respect human rights. There is now demanding from the civil societies groups that

European Commission should verify, on a regular basis, that producers/exporters are not responsible for or complicit in human rights violation prior to granting preferential treatment, just as it currently ensures compliance with the rules concerning the origin of products.

ix. Set up and enforcement for CSR, RSPO, BSI standards- There should be coordination among DICA and relevant government agencies and national trade and business associations to regularize the business standards and ethic in conformity with the global standards such as corporate social responsibility (CSR), roundtable for sustainable palm oil (RSPO), better sugarcane initiative (BSI), FAO's Volunteer Guidelines for Land –based Investment. In the screening and approval process for FDI application, these standards should be used as selection criteria. . Poor assessment capacity in the public sector may lead to selection of improper FDI. The assessment team should consist of not only public agencies but also competent and experienced resources persons or advisors in the respective fields of business lines. With such safe-guard mechanism, there will be no worry for 100 % FDI. The relevant workshops and policy dialogues should be held by the government agencies, civil societies and business organizations to increase the awareness level and to strengthen capacity building of the government staffs. The levels of farmers awareness and business ethic should be promoted also by strengthening the farmers' organization oriented to the agribusiness transactions.

C.1.5 Feasible Agribusiness and Agro-industries for FDI

1. Natural rubber plantation and processing – Most traditional rubber planting areas are said to be nearly saturated in area expansion. However, there are native companies and growers who could lease the lands. The FDI should have own nucleus estate for own pocket area products outputs while varietal improvement and clonal seeds distribution, demonstration of improved technologies and standards should be carried out by the FDI. In procurement of rubber products from small holders, there should be well-organized contract farming. The proposed agribusiness model as proposed by Derek et al. (2014) is noteworthy. Contract farming of rubber based on a nucleus estate and outgrower model could be tried. Rubber companies in both Cambodia and Laos have set up so-called 2+3 contracts in which smallholders provide land and labor (the "2") and the companies provide the technology, capital and access to markets (the "3"). Four factors in Gahanna contribute to this success: (i) farmers are already rubber growers so that the technical assistance and financing is for upgrading existing plantations, (ii) farmers are organized into a strong Rubber Outgrowers and Agents Association that negotiates with the company, (iii) farmers have secure title to their land to underwrite long-term financing and (iv) loan repayment is based on a price formula fixed against the Singapore Exchange average price that is calculated to reduce risks in times of low prices. A modification of this option, as suggested by one private investor in Myanmar, would be to contract for management and quality upgrading with existing growers <u>and their existing trees</u>. This would reduce risks since financing would be short term. Once strong farmer organizations and mutual trust needs to be established between a company and while the farmer organization, support to outgrowers could move to long-terms financing to upgrade to high yielding rubber clones. There should be natural rubber policy and regulation to promote the small holders and to upgrade the products quality.

2. Farm mechanization - An initial attempt of Kubota Corporation appears to be appropriate under Myanmar condition. Their approaches are (i) to assemble the machineries, (ii) to train farmers and communities repair service providers for knowhow, (iii) to keep maintenance service through trained local service providers. It is likely that the investor build the machinery assembly plants and open service centers in Mandalay and other big cities. It is learnt that there is a problem in setting up the maintenance function. There are thousands spare parts needed to procure from Japan to keep running the maintenance function in host country service centers. The issue is the import and sale of the spare parts are considered by the custom department and offices as trading. Under the label of trading, there will be repeated taxation on the imported spare parts which are not essentially brought inside for trading but store to fulfill the needs of the maintenance services through the service centers to the rural areas. Kubota business does not readily end up with selling tractors, power tillers, combine harvesters and machines but to keep maintenance service to the end users through its trained service providers who are local people living together with the farmers communities. Kubota's main policy is to maintain its quality and reliability standards through human resources development. Better understanding of each company's policy will be facilitating the FDI in a mutually beneficially way.

3. Palm oil plantation and processing oriented to both foreign and domestic markets are required for FDI. Detail accounts are mentioned in the sector review on palm oil.

4. There are few areas in Shan State, Sagaing, Mandalay and Bago Regions where sugar industry could be established by FDI. It badly needs for liberalization of crop choice in sugar factory hinterlands. Without freedom of crop choice, large scale sugarcane plantation, whether CF or own acres, is not possible. It requires for policy support for bio-fuel production and trade and electricity sale to the national grid from the sugar factories. These are specific policy requirement for sugar industry development. Organization and strengthening sugarcane growers associations are mandatory in the contractual farming with FDI. Without such organizations and good agricultural practices, long term relationship could not be fostered and a lot of problems and disputes will occur between the two parties. Or farmers will be exploited by large companies. Large scale sugarcane growing is also a "MUST" in order to achieve the scale economies in sugar processing. Without large processing in large factory, sugar business will not be competitive. It should be well aware that the Giant sugar industry is existing in our neighborhood, Thailand. In order to avoid conflicts among the factories, there should be some regulation to be set up by the government with the cooperation of the national level sugarcane and sugar association.

5. Foreign investments should be in package or in cluster industries in the case of feed industry. Maize based feeds industry requires seeds production, varietal improvement and development, seeds drying process and bio-energy generation, poultry industries, and downstream processing plants and retail outlets. There should be policy leverage for striking the balance between maize export as grain and maize utilization as raw materials for domestic industries (either foreign or native investment). Present Myanmar animal feeds industry badly needs the raw materials, particularly soybean cakes for aqua feeds. Opportunities for FDI should be sought for expanding soybean production in Shan State and processing aquafeed.

6. Coffee production and trading is feasible for FDI, particularly for organic coffee in southern Shan State particularly Ywga Ngan township.

7. In the upstream channels of agriculture sector, urea fertilizer is a major need and recent news media (ElEVEN Media, 14 January, 2014 indicated the interest of Marubeni Corporation in construction of urea fertilizer plants in Myanmar. Such FDI could well be supporting to agriculture sector. Use of the farm by-products such as rice husk is also feasible for urea fertilizer processing besides its need for coal and natural gas. It should be encouraged in potential FDI area for harnessing large scale power plant. The assembly of the rice husks from the integrated rice mills should be encouraged. It will become an inclusive business model with farmers, local millers, FDI and transporters of rice.

8. Premium rice production and processing requires FDI. According to the media sources, Myanmar Agribusiness Public Corporation (MAPC) is going to cooperate with Japanese Mitsui Co.,Ltd under the name of Myanmar Japan Rice Industry Co.,Ltd (MJRI). It is learnt that Mitsui Co.Ltd. will make 100 million U.S. dollars' investment for producing quality rice in the country.

9. Elephant foot yam processing is appropriate for Japanese FDI. The high quality product could be procured from the southern Chin hills.

10. Pine resin processing business could supplement the agri-processing in the south eastern Shan State. There are some native entrepreneurs who are developing the forest lands for such venture. There is possible for joint venture with FDI.

11. Bamboo-based processing- Although Myanmar has the third-largest bamboo reserves globally, after China and India, its income from bamboo was minimal. Myanmar has 17,385 hectares of commercial-grade bamboo forest, according to the Ministry of Environmental Conservation and Forestry. Total income from forestry products in Myanmar is about US$500 to $600 million, including teak sales of $300 million. But according to 2011 data from the China Bamboo Research Centre, China receives $1.748 billion, Indonesia more than $400 million, and Vietnam more than $200 million. Myanmar received less than $2 million from bamboo products in 2010. According to the report of the Pro –Rector of the Yezin Forest University. There are unexploited bamboo resources in most hilly areas. There is an opportunity of contract farming with local farmers for setting up bamboo- based industry.

12. Cassava based starch industry- There is huge potential in Kachin State, delta and Bago regions. Instead of large scale company-based plantation. There should be CF with local farmers because of the labour intensive nature of the harvesting of the cassava.

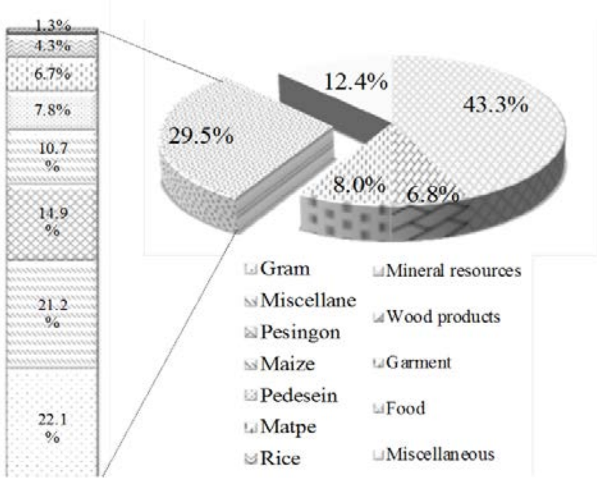
C.2 Food Processing

C.2.1 Overview

C.2.1.1 Exported Market

As Myanmar is an agricultural country, the food sector is one of the main industries. Food is the second largest export next to mineral resources. Food products accounted for 30% of total exports in 2012, as shown below. However, most of those exports consisted of raw materials and raw food-related products. Value-added processed foods occupied a limited percentage. Therefore, the food-processing industry in Myanmar currently focuses only on the domestic market.

Figure C.5 Myanmar's food exports in 2012



Source: CEIC Data Company

With regard to rice, Myanmar exported 690,000 tons mainly to the Middle East and African countries. It ranked as the ninth largest rice-exporting country in 2012, although its unit price was relatively low due to poor quality. It is necessary to develop more value-added processed foods as export products.

Table C.5 Top rice exporting countries in 2011

	Country	Export (1,000 ton)	Share
1	India	10,250	26.2%
2	Vietnam	7,717	19.8%
3	Thailand	6,945	17.8%
4	Pakistan	3,500	9.0%
5	United States	3,326	8.5%
6	Brazil	1,105	2.8%
7	Uruguay	1,056	2.7%
8	Combodia	800	2.0%
9	Myanmar	690	1.8%
10	Argentina	608	1.6%
Total		39,060	100.0%

Source: U.S. Department of Agriculture "Rice Yearbook 2013"

C.2.1.2 Domestic market

As mentioned above, food-processing products mainly target the domestic market; however, the demand of these processing products is rapidly increasing with the economic growth. As GDP per capita in Myanmar is forecasted to increase from USD 868 in 2012* (about one-quarter of that of Thailand and almost half of that of Vietnam) to USD 1,058 in 2015*, the processing foods market can soon grow according to income increases and lifestyle changes, particularly in urban areas. Processed food expenditures per capita, currently only USD 31.7 (less than one-quarter of Thailand and less than half of Vietnam), is expected to grow to USD 38.6 by 2015 if it grows at same rate as GDP per capita.

Table C.6 IMF 2013 per capita GDP and per capita processed food expenditure

	Myanmar	Vietnam	Thailand	Indonesia	The Philippines	Malaysia
Per capita GDP (USD)	868	1,753	5,390	3,594	2,612	10,345
The market scale of Processed food (Mil.USD)	1,547	6,669	9,957	24,355	10,034	6,309
Per capita processed food expenditure (USD)	31.7	75.4	142.5	102.6	102.9	218.3
Per capita processed food expenditure /Per capita GDP	3.7%	4.3%	2.6%	2.9%	3.9%	2.1%

Source: Euro monitor, IMF

C.2.1.3 FDI trends

The amount of investment approved by the MIC in the food-processing sector in FY2012-13 was USD 145.77 million and USD 87.40 million in FY2013-14 (6 months from April to September). In FY2013-14, the investment amount for 6 months is already 60% of that in FY2012-13. If this trend continues, the investment amount in all of FY2013-14 will exceed that of FY2012-13. The number of approvals in FY2013-14 (6 months) is three, which is the same as FY2012-13 (12 months).

Table C.7 Number of cases and investment amount for food processing sector

	FY 2011-12	FY2012-13	FY2013-14
The number of cases	0	3	3
Amount (USD million)		145.77	87.4

Source: DICA

C.2.1.4 Encouraging products

In terms of sales value, the main food-processing products are dairy products, edible fat and oil, and bakery products, as shown below. Dairy and bakery products were unfamiliar to Myanmar people in the past; however, the sales volume of these products is increasing rapidly with growing westernization of lifestyle, particularly in urban areas. In 2012, dairy and bakery products accounted for 34.4% and 14.4%, respectively, of processed food sales. Dairy products in particular constitute an encouraging subsector. While condensed milk is supposed to occupy a considerable portion of dairy product sales, other dairy products, such as raw milk, cheese, and yogurt, are promising subsectors with growing westernization.

In contrast, in terms of edible fat and oil, which constitute the second largest sales share (16.8%), a major portion of the increase was not Myanmar traditional corn, sesame, or peanut oil, but relatively cheap palm oil imported from neighbouring countries such as Malaysia. As consumers in Myanmar begin to recognize the health issues associated with palm oil, traditional oil subsectors might develop, particularly if competition among these products shifts from cost to quality.

Regarding traditional noodle cuisines and the currently growing industry for instant noodles, packaged instant noodles—including ramen noodles—are among the most promising food products in Myanmar.

Regarding exports, processed foods made of shrimp or other marine products, fruits, and vegetables are also promising. The introduction of low-cost product lines will increase commercial promise of the production and export of instant and other types of noodles.

Moreover, today's rising consciousness about food safety, triggered by Chinese food scandals (e.g., melamine milk powder), offers an ideal opportunity for Myanmar to enter the "additive-free" or "organic and low-priced" food market in foreign countries, including Japan, and to attract direct foreign investments in this sector.

Table C.8 Sales and share of processed food by categories in Myanmar (sales in USD millions)

	2002		2012		Share	Growth
	Sales	Share	Sales	Share	Change(pts)	Annual rate
Dairy products	234	31.7%	532	34.4%	2.7	8.6%
Edible fat and oil	106	14.4%	260	16.8%	2.4	9.4%
Bakery products	106	14.4%	223	14.4%	0.1	7.7%
Dry food	67	9.1%	148	9.6%	0.5	8.2%
Confectionery (Candy, Chocolate,Gum)	92	12.5%	137	8.9%	-3.6	4.1%
Sauce and Dressing	75	10.2%	135	8.7%	-1.4	6.1%
Noodles	37	5.0%	68	4.4%	-0.6	6.2%
Snacks	21	2.8%	41	2.7%	-0.2	6.9%
Ice cream	17	2.3%	32	2.1%	-0.2	6.8%
Canned food and preserved food	13	1.8%	24	1.6%	-0.2	6.7%
Refrigerated food	5	0.7%	10	0.6%	0	7.5%
Paste food	2	0.3%	3	0.2%	-0.1	3.6%
Baby food	1	0.1%	1	0.1%	-0.1	1.2%
Pasta	0	0.0%	1	0.1%	0.1	4.1%
Soup	0	0.0%	0	0.0%	0	4.1%
Processed food total	738	100.0%	1,547	100.0%	0	7.7%

Source: Euro monitor

C.2.2 Related laws and administrative organizations

Related laws for food regulations are as follows:

- The food and drug act (1928)
- The public health law (1972)
- The national drug law (1992)
- The national food law (1997)

Regulatory authorities

✓ Myanmar Food and Drug Board of Authority (MFDBA)

The MFDBA was established under the national food law. The MFDBA has authority to enact regulations on production, distribution, quality check, labelling, advertisement, and food sales.

✓ The Food and Drug Administration (FDA)

The FDA was established under the ministry of health. Based on the national food law, national drug law, and public health law, the FDA issues and registers permissions and controls quality of processed foods, imported foods, and foods for export in accordance with the guideline by the ministry of health and the FDA.

C.2.3 Issues to be addressed

C.2.3.1 Procurement of stable raw materials

In food processing sector, the quality of raw materials is of paramount importance. However, it is currently difficult to procure stable raw materials in Myanmar due to damage caused by the poor condition of logistics (roads and cold chain). In addition, a considerable amount of raw materials is damaged through the lack of a cold chain.

C.2.3.2 Low wheat production

Packaged instant noodles are mainly made of flour, but in Myanmar, wheat production is low (about 0.2 million tons per year). To enhance instant noodle production, instant noodle companies have to procure imported flour or flour made from imported wheat. This problem can be mitigated by adding rice noodles to their product lines.

C.2.3.3 Lack of packaging materials (can, retort, etc.)

In production of processed vegetables and fruits, packaging materials have to be imported.

C.2.3.4 Consumer Protection Law

There are no laws or regulations to prevent selling foods at low prices and low quality that have been illegally imported from China or other countries. To maintain a certain quality of food in Myanmar, a consumer protection law must be enacted at the earliest possible date.

C.2.3.5 Unstable electricity power supply

If a multi-hour electric outage occurs during processing foods for many hours, companies have to discard materials in process. To avoid this, companies must prepare generators, transformers, and rectifiers by themselves. This adds costs for procurement and the operation of this equipment.

C.2.4 Recommended strategy

Vitalizing and reinforcing the processed food sector by introducing more FDI is essential. To promote FDI, the following measures shall be implemented.

- Reinforce the standards of quality management to obtain credit from the export destination. MAFPEA—the industry association—has independently promulgated a standard for food manufacturing called the Food Voluntary Standard. This is a good initial foundation.

- Streamlining the cold chain. This will prevent the loss and damage of raw materials and products due to transportation.

C.2.4.1 Outcome of interviews with local firms

In our interviews with local firms, the issues outlined below were commonly reported as main obstacles to conducting businesses. In particular, most interviewees mentioned issues.

(1) Power shortage (and power price hike)

(2) Shortage of skilled workers

(3) High interest rates of bank loans

(4) Sharp rise in real estate price

(5) Water shortage

(6) Shortage of communication infrastructure

In food processing sector, it is noteworthy that several interviewees requested the government's swift implementation of a consumer protection law, in addition to improvements in the above listed issues. At present, the Hluttaw (the house of representatives in the Myanmar government) is still in deliberation regarding the bill, and cheap foodstuffs smuggled from China or Thailand are commonly seen in local markets due to the lack of appropriate regulations. The main concerns among the interviewees are that consumers might be more attracted to cheap import foods than to locally produced food items of satisfactory quality. This is important to foreign companies, as well, if they target local markets.

Regarding foreign firms' entry into the market, a majority of the interviewees were affirmative, though some expressed concerns that they might be expelled from the market.

With respect to AEC, two companies in Yangon (mid-sized number of employees) powdered juice manufacturer, and mid-sized edible oil manufacturer), and two companies in Mandalay (large-sized biscuit manufacturer and small-sized edible oil manufacturer) were concerned about the influx of low-priced, high-quality foreign products that could dominate the market, while many expressed little concern based on the uniqueness of their products.

C.2.4.2 Outcome of interviews with Japanese firms

In interviews with Japanese firms, power shortages and the sharp increase in real estate prices were listed as major issues in Myanmar.

Another issue indicated by Japanese firms is that joint ventures with foreign firms cannot register as trade companies (e.g., export of agricultural and seafood products), since they are categorized as foreign firms under the Company Act.

With regard to real estate prices, more offices and plant space must be provided. Speculation on land in industrial zones should be restricted, for example, through condemnation of land by the government if the industrial land purchaser does not begin business within a certain time period. Furthermore, the government must relax their ban on registration of trade business.

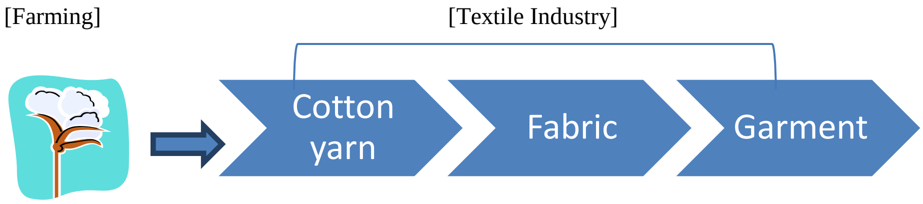
C.3 Garments and Textiles

C.3.1 Textile sector at glance

C.3.1.1 Industry structure

The firms in the Myanmar textile sector concentrate on the garment industry. According to an interview with an executive member of the Myanmar Garment Association, conducted by the Japan Textile Import Union in March 2013, 85 garment firms engage in trading business with foreign firms. Almost all of these firms are estimated to be CMP (cutting, making, and packaging) firms to export garments with the advantage of the cheapest labor costs in Asia.

Figure C.6 Structure of textile industry



Source: Daiwa Institute of Research Ltd.

The weaving (fabric) sector is dominated by small and family-owned factories, which primarily produce “longyis” and shirts for the domestic markets. There are some private spinning firms in Mandalay. They produce cotton yarn made from local cotton that is farmed nearby and sell their products to small weaving factories. This implies the future potential to establish the integrated process from upstream to downstream toward manufacturing knit products for export markets if the quality of local cotton is improved and old Chinese spinning machines are replaced with updated Japanese or Korean/Taiwanese machines. This possibility will be further elaborated later in this report.

The state textile enterprise of the Ministry of Industry has 11 factories with integrated processes, namely, spinning, weaving and knitting, as well as finishing and garmenting. However, product quality does not meet international standards, machines are outdated, and some of the production lines have not been in service for several years.

Table C.9 Estimated number of textile firms in Myanmar by subsector

Garment & textile factories		
Subsector	(State owned)*	Total
Spinning	5	9
Spinning & weaving	5	8
Weaving & finishing	0	12
Spinning, weaving & finishing	3	3
Knitting	0	2
Garment	2	>200

Source: 'Can Manufacturing Succeed In Myanmar?'
Austin Kent, Forbes, on October 18, 2012
http://www.forbes.com/sites/connorconnect/2012/10/18/
can-manufacturing-succeed-in-Myanmar/
and hearing with Textile Enterprises, Ministry of Industry
The 11 factories of state-owned Textile Enterprises are double counted according to the subsector

The number of garment firms declined from 217 in FY2002-03 to 142 in FY2004-05 due to the economic sanctions imposed by the US and EU in 2003. It gradually recovered to 180 in FY2011-12 due to the increase in local private firms. It reached 230 in FY2012-13 as the number of firms wholly owned by foreign firms increased drastically from 21 to 60 in the previous fiscal year.

Table C.10 Number of garment firms in Myanmar

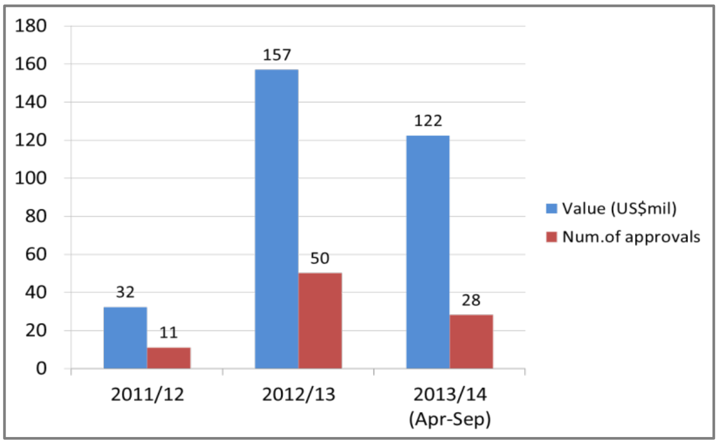
FY	Foreign Jv		100% foreign firms	Local private firms	Total
	with MTI/UMEH	with private			
2002-2003	6	4	27	180	217
2003-2004	6	4	27	165	202
2004-2005	4	4	22	112	142
2005-2006	2	4	21	115	142
2006-2007	2	4	21	126	153
2007-2008	2	4	21	139	166
2008-2009	2	2	21	145	170
2009-2010	2	2	21	140	165
2010-2011	2	2	21	145	170
2011-2012	2	2	21	155	180
2012-2013	1	4	60	165	230

Source: Myanmar Garment Association

C.3.1.2 FDI trends

The number of investment approvals by the MIC (Myanmar Investment Committee) in the textile and garment sector increased five times from USD 32 million in FY2011-12 to USD 157 million in FY2012-13. Investment from April to September in FY2013-14 was USD 122 million, which indicates a projection to exceed the amount in FY2012-13. The number of approvals increased from 11 in FY2011-12 to 50 in FY2012-13.

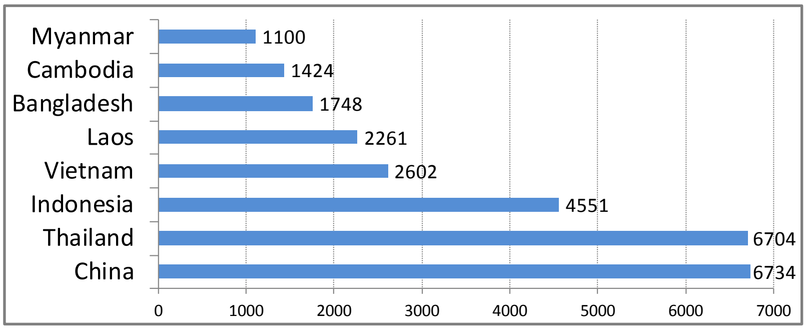
Figure C.7 Investment approvals by MIC in the textile and garment sector



Source: DICA

The trend of the "China plus One" strategy is the trigger for the increase in garment investment. Foreign garment firms that operate in China seek another production base with cheaper labor costs, as the shortage in qualified workers in the manufacturing sector in China has led to approximately 10% wage increase. Furthermore, small lot orders are not accepted by large-scale Chinese factories. Many small-scale local garment firms in China that used to accept such orders went bankrupt or merged with larger firms. Small local firms in China are also losing competitiveness due to the high labor costs and the labor shortage. Investors have chosen Myanmar above other Asian countries (e.g., Vietnam, Cambodia, and Bangladesh) chiefly due to cheap and abundant labor.

Figure C.8 Comparison of the average annual wages of workers (USD)



Source: JETRO

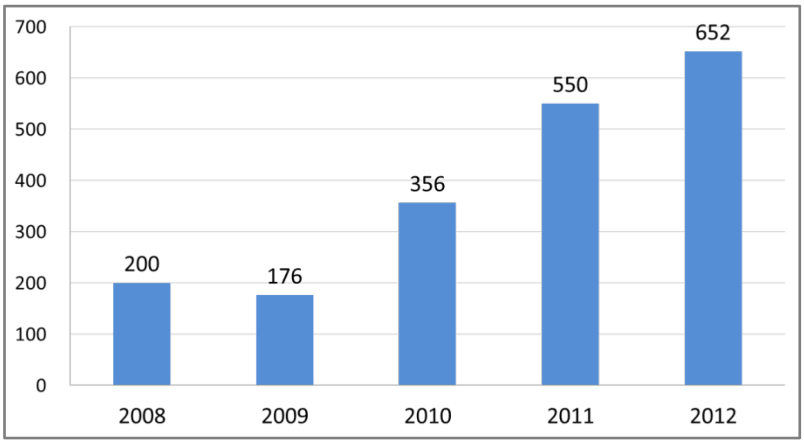
C.3.1.3 Export market

Garment exports increased from USD 176 million in 2009 to USD 652 million in 2012. However, this value is quite small compared with other Asian countries (e.g., Bangladesh and Vietnam).

Recently, Korean and Taiwanese garment firms began "FOB" exports, according to our interviews with local and Japanese industry experts. The garment firms must source and prepare fabrics and accessories independently in the case of FOB, whereas they receive these materials from their customers in the case of CMP.

However, accepting FOB orders results in greater profitability. As the economic sanction by the EU was removed in 2012, European firms began placing orders with Myanmar garment firms and demanded that Myanmar firms accept the FOB orders. With FOB exports, local firms can be as competitive as can garment firms in neighbouring countries.

Figure C.9 Garment exports (USD millions)



Source: Ministry of Commerce

C.3.2 Feedback from other garment firms and industry experts

C.3.2.1 Obstacles raised by local firms

There are impediments and obstacles to industry development, including an unstable power supply, low productivity, workforce shortage, sharply increasing land prices, and high transportation costs.

According to the interview with one of the foreign garment firms that obtained investment approval in FY2011-12, abundant labor was the primary reason for investment in Myanmar as opposed to Cambodia. However, the firm had difficulties finding workers in the Yangon area and had to offer free commuter busses to collect workers from nearby townships. High logistics costs represent an additional obstacle to the relocation of factories to the northern or western areas of Yangon, where there remains abundant labor.

A lack of financial resources also hinders development of the industry. Local FOB garment firms experience difficulty accepting large-scale orders from European companies, as they cannot finance the funds to buy fabrics and are not sufficiently experienced to source the fabric themselves. The Myanmar Garment Association reports that easier access to financial schemes is essential for local garment firms to accept FOB orders.

C.3.2.2 Need to revitalize state-owned factories

Many Japanese industry experts indicate that a set of government policies, including tax incentives and firm government commitment, are essential if the government and local firms are determined to actualize an integrated production system upstream through downstream. One of the measures is to revitalize the factories of the state textile enterprise.

However, as mentioned in C.3.1.1, product quality does not meet international standards, machines are outdated, and some of the production lines have not been in service for several years. In order to revitalize the state factories, old machines should be replaced, staff should be reallocated, and the organization should be restructured.

Table C.11 List of factories under the State Textile Enterprise

No	Name	Organization						
		Officers	Staffs	Total	Yarn	Fabric	Dye	Garment
1	Enterprise Office	135	163	298	✓	✓		
2	No(1) Factory (Shwe Taung, Pyi)	75	1,986	2,060	✓	✓	✓	
3	No(2) Factory (Palate Mandalay)	74	1,968	2,042	✓	✓		
4	No(3) Factory (Sagaing,Sagaing Division)	44	1,957	2,101	✓	✓		
5	No(4) Factory (Pwint Phyu,Magway)	70	1,437	1,507	✓	✓		
6	No(5) Factory (Pakoku, Magway)	61	1,574	1,635	✓			
7	No(6) Factory (Sarlinn Gyi)	62	2,025	2,087	✓			
8	No(7) Factory (Myitthar, Mandalay)	27	1,028	1,055	✓			
9	No(8) Factory (Pyaw Bwe, Mandalay)	27	989	1,016				✓
10	No(9) Factory (Kyaukse, Mandalay)	28	627	655				✓
11	No(10) Factory (Taung Thar, Mandalay)	18	488	506	✓			
12	No(11) Factory (Pakkoku, Magway)	17	425	442	✓			

Source: Ministry of Industry

The Ministry of Industry is seeking to lease out the majority of the factories. However, leasing conditions include employment and salary guarantees. A private firm, which already agreed upon a long-term leasing contract for Factory 2, is now locked into this condition and is unable to begin production under a new contract. Other private firms have been unwilling to accept these leasing conditions.

C.3.3 Policy implication and recommended strategy

In many countries, the weaving sector develops after garment and spinning sectors, as it requires high volume and strong designing ability to keep up with international fashion trends. The expansion of the production volume is of paramount importance to foster the development of the fabric sector. Increasing garment exports and improving the cotton yarn sector are crucial for the development of the fabric industry. This represents the “sandwich strategy”, that is, to increase production volume from both the upstream and the downstream at the same time to develop an integrated domestic textile sector.

In the upstream, the following measures are recommended.

✓ Reinforce the cotton yarning sector by sourcing cotton grown nearby and upgrade the cotton farming sector to a competitive international level in the Mandalay area.

✓ Take policy measures to facilitate the export of cotton and cotton yarns to Bangladesh, which faces a cotton shortage, and to China, another neighbouring country in need of cotton fiber.

✓ Waive import duties and related taxes on spindles machines to facilitate capacity expansion of the yarning industry.

- ✓ Revitalize the state-owned factories. It is recommended to offer more favorable leasing contracts to private firms, shortening the employment and salary guarantee periods. It is also recommended to transform the state enterprise into a stock firm. This restructuring should lead to the establishment of new personnel management schemes, in which incentives and responsibilities are given to staff, facilitating improved productivity. Distributing shares of newly formed stock firms might constitute one form of incentive.

In the downstream, the following measures are recommended, particularly for sourcing the labor force.

- ✓ Set up industrial zones in the north and west of Yangon, including Patain, so that firms can utilize adequate labor force, which is becoming sparse in Yangon and Bago, in order to maintain the cost competitiveness of the garment sector.

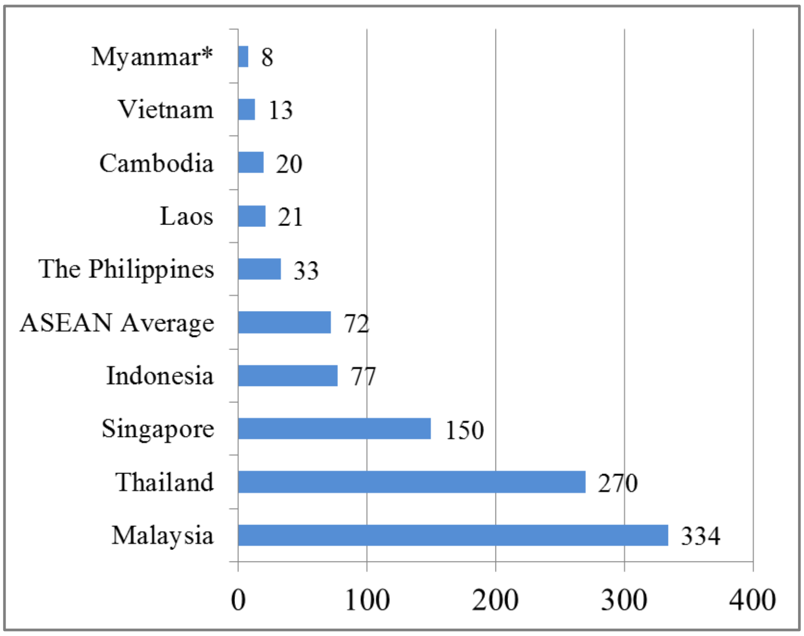
C.4 Automobiles

C.4.1 Automobile sector at a glance

C.4.1.1 Number of automobiles owned

As of August 2013, the number of registered automobiles in Myanmar was 466,173 and the population was approximately 60 million. Therefore, car ownership was about 7.7 units per 1,000 persons, the lowest rate among ASEAN countries. The low level of car ownership can be attributed in part to the strict restriction on car imports until 2011. In comparison, Cambodia's ownership rate was approximately 20 units per 1,000 persons as of the end of 2011. The Cambodian per capita income was slightly less than USD 1,000 in 2011, the same as Myanmar. This implies the upside potential of car ownership in Myanmar, which will only increase as the income level of Myanmar increases.

Figure C.10 Number of automobiles owned per 1, 000 persons in ASEAN countries in 2011



Source: Ministry of Commerce
Note: Myanmar *as of August 2013

C.4.1.2 Domestic automobile production

The automobile sector is a green field in terms of domestic production. However, in 2013, Suzuki motor produced 3,000 trucks per annum. Nissan announced that they will lease land from the Bago region government and that Malaysian partner Tanchon will begin producing compact cars.

Tariffs on imported cars were lowered in mid-2012, resulting in a sharp increase in the number of imported cars to about 120,000 units in 2012. Japanese cars accounted for over 90% of total imports. One Japanese car importer estimated the potential of new car sales to be around 60,000 units, based on the number of imports.

C.4.1.3 Branch factories by "Thai plus One"

A "Thai plus One" strategy has been observed in Cambodia and Laos over the past few years as a movement to establish a branch or satellite factory investors in Thailand. Similar to the situation in China, this is attributable to the labor shortage and rising labor costs in Thailand. Additionally, manufacturers in various industries began to avoid the risk of excessive concentration of production in Thailand as they experienced a halt in production when the large-scale flood occurred in 2011.

Table C.12 Examples of branch factories of the Japanese automobile components makers

Name of firm	Products	Country	Reason for investment	Products supplied to
Asahi Tec	Aluminum components	Laos	Cheap power cost Risk hedge of the Thai factory	Thai factory
Toyota Boshoku	Seat fabrics	Laos	Cheap labor cost Similarity to Thai language	Thai factory
Denso	Various products	Cambodia	Cheap labor cost Risk hedge of the Thai factory	ASEAN markets
Yazaki	Wire harness	Cambodia	Cheap labor cost	Global markets
Sumitomo Denko	Wire harness	Cambodia	Cheap labor cost	Global markets

Source: Interviews by Daiwa Institute of Research Ltd. and Nikkei newspaper

There are two types of branch factories. The first is *branch type*, which are responsible solely for production as a part of the main production process of their Thai mother factories and return their products to the mother factories. The second is *export type*, which either relocate the existing export functions of Thai mother factories or add them to the branch countries.

Export-type branch factories include wire harness makers. They are the most labor-intensive subsector in the automobile industry and usually the first subsector to move to the cheapest possible labor market. Generally, the first priority of car component makers is to set up the factories near the assemblers to cut transportation and inventory costs. However, it is a priority to ensure cheapest production costs for wire harness makers, which are then sold globally.

Thus far, several branch factories have been set up near the Thailand border. For example, Asahi Tec and Toyota Boshoku have set up in Savannakhet and Yazaki has set up in Koh Kong, Cambodia. According to our interviews with Japanese automobile components makers and an industry source in Bangkok, the Japanese automobile component makers have considerable interest in setting up branch factories in Myanmar once infrastructure (e.g., electricity supply and well-paved roads) is set and a labor force is available. Thus, there is considerable opportunity to attract their investment in Myanmar.

C.4.2 Feedback from the Japanese car industry

Some feedback has been provided by the Japanese car industry regarding the automobile-related policy of the Myanmar government as follows:

- The tariff rate of 10.25% on CKD truck components is higher than that of 8.15% on imported trucks.

- A consistent industrial policy, especially on tax rates, is necessary to make investment decisions in Myanmar.

- Initial vehicle registration at the Ministry of Railway takes too much time and there is no timetable for the process.

- Dawei will be one of the best locations for the "Thailand plus One" strategy for car and component makers due to its proximity to Bangkok. Dawei is only 160 km away from Bangkok, whereas some factories of the same auto industry firms within Thailand are more than 160 km apart. Additionally, the potential deep seaport and the road to Bangkok will cut lead times by two weeks for exports from Bangkok to the west and north, namely to India, the Middle East, Africa, and Europe.

C.4.3 Lessons from other Asian countries

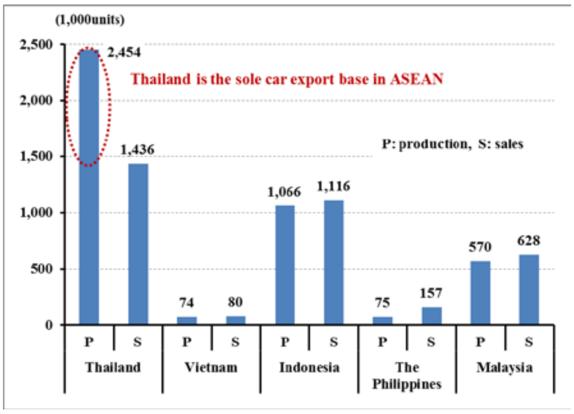
It is of paramount importance to lower the unit production cost to establish a cost-competitive production base. In order to lower production costs, a feasible production size should be implemented by encouraging the export of cars and components by taking advantage of the "Thailand plus One" strategy. This is the lesson from the success of "Thailand plus One" toward becoming regional exporters. To follow this experience and promote exports, it is recommended to remove import tariffs on automobile components and abolishing the requirement for local contents.

Table C.13 Tariffs and local contents

Import tariffs on components	Local contents of components
Up to 1997 Minimum requirements; 20% for all the components	Up to 1998 Minimum requirements; 54% for passenger cars 65% (maximum) of commercial cars
After 1997 The import tariffs were abolished	After 1998 The above requirements were abolished

Source: "Development of automobile industries in Asia, Daiwa Institute of Research Ltd., 1997

Figure C.11 Production and sales of cars in ASEAN (2012)



Source: ASEAN Automobile Association and others

On the other hand, it is essential to coordinate and harmonize the policies among government agencies. Vietnam's experience demonstrates that stagnant automobile sales were caused by various sales taxes levied by different Vietnamese government agencies. Until 2003, development of the automobile industry was promoted by Ministry of Industry and Commerce. As a result, 11 automobile firms began operation by 1998.

From 2004 to 2009, the sales tax on automobiles was increased by Ministry of Finance. The high tax rates are one of the reasons for stagnant automotive sales. Furthermore, from 2009 to 2011, registration fees were raised by Ministry of Transportation due to increasing traffic congestion. As a result, automobile sales slowed.

Table C.14 Special sales tax on automobiles (%)

No.of passengers	2003	2004	2005	2006-08	2009 Displacement (cc)		
					≤2,000	2,000 -3,000	3,000≤
1-5	5	24	40	50	45	50	60
6-15	3	15	20	30	30	30	30
16-23	1.5	7.5	12.5	15	15	15	15

Source: University of Tokyo and various sources

Table C.15 Car registration fee (%)

No. of passengers	-Oct 2010	Oct 2010 23 Oct 2012	24-Oct-12
≤7	2	15-May	10-20
10-Aug	5	15-May	10-20
11≤	2	2	2

Source: University of Tokyo and various sources

C.4.4 Policy implication

It is essential to attract investments from car assemblers at the first stage, which will be a precursor to investments from major component makers. At the same time, some component makers, including labor-intensive wire harness firms, can be also attracted, taking advantage of Myanmar's competitive labor cost.

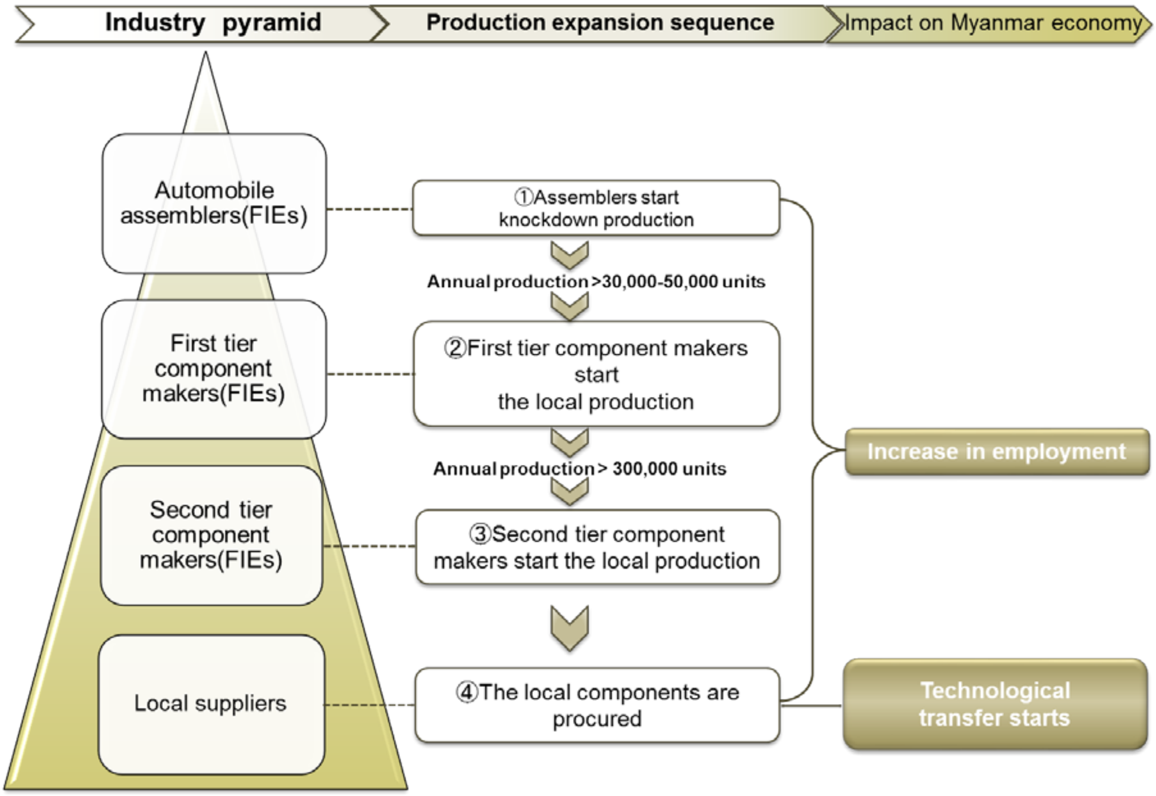
It is recommended to encourage car and component exports with the following incentives and policies:

- Exempt taxes on <u>the cars for the domestic sales produced in SEZs</u>, which encourages an increase in production capacity and efficiency.

- <u>Waive the import tariffs on the components for exporting cars</u>, which will help the local assemblers improve cost competitiveness.

- Construct roads connecting the Thai border, Dawei, and Yangon. By facilitating efficient transportation of assembled cars and components among these areas, Dawei can become another production base for the export as well as domestic sales for car assemblers and components makers.

Figure C.12 Column: Investment order of the automobile industry in the green field



Source: Daiwa Institute of Research Ltd.

There is an "investment order" of the automobile industry in the green field of emerging markets. First, assemblers set up either CKD (complete knockdown) or SKD (semi-knockdown) factories. As the 'Kanban' or Just-In-Time method of timely production is indispensable for assemblers, they ask the first-tier component manufacturers to set up their factories nearby once the national car production volume reaches 30,000~50,000 units. When the national car production volume reaches around 300,000 units, the-second tier component manufacturers invest to initiate production. They will also start to seek to source their components and raw materials produced by the local manufacturers. In this way, the substantial increase in employment and technological transfer will ultimately be actualized.

There might be exception to the investment order as follows:

- Wire harness producers do not follow assemblers. They seek the cheapest place they can produce their products and sell them to assemblers globally

- AEC will force member countries to remove import taxes. Therefore, some of the component firms will not come to produce in Myanmar as they can export their products with cheaper costs with substantial production volume as in Thailand.

C.5 Tourism

C.5.1 Background

C.5.1.1 Tourism as a Strategic Sector

Myanmar has identified tourism as one of the strategic sectors that significantly contribute to national employment and income generation. As a result of the remarkable reforms of the government, the country has become an emerging tourist destination for international travellers.

C.5.1.2 Tourism Master Plan (2013-2020)

The Ministry of Hotel and Tourism (MOHT) has developed and published 'the Myanmar Tourism Master Plan' in close collaboration and cooperation with the Government of Norway and ADB. The Master Plan is to be 'used as a roadmap to shape the future of tourism in Myanmar' and 'to maximize tourism's contribution to national employment and income generation, and ensure that the social and economic benefits of tourism are distributed equitably.'

There are following 6 strategic programs included in the Master Plan:

(1) Strengthen the Institutional Environment

(2) Build Human Resource Capacity and Promote Service Quality

(3) Strengthen Safeguards and Procedures for Destination Planning and Management

(4) Develop Quality Products and Services

(5) Improve Connectivity and Tourism-related Infrastructure

(6) Build the Image, Position, and Brand of Tourism Myanmar

All the tourism-related policies and efforts shall be designed to contribute to the full implementation of the Master Plan. FDI in tourism sector should also be discussed and assessed in this context.

C.5.2 Tourism Industry and Market at a Glance

International tourist arrival to Myanmar in 2010 was about 786,000 including 480,000 who crossed the Thai and Laos land borders. International arrival grew to 1,059,000 in 2012, and in 2013 the figure has almost doubled from the previous year to reach 2,044,307.

Full implementation of the ASEAN Framework Agreement on Visa Exemption will exempt citizens of ASEAN member countries from tourist visa requirement and the tourist traffic amongst the ASEAN member countries including Myanmar is expected to significantly increase. The growth of international tourist arrival to Myanmar is forecast to continue at least for another decade.

C.5.3 Bottlenecks for the future growth of tourism

(1) Limited hotel rooms(Currently about 800 hotels with 29,000 guest rooms), high demand for 5-star and 4-star hotels during the peak season.

(2) Quality of service, value for money

(3) Overconcentration of tourists to existing flagship destinations; namely, Yangon, Mandalay, Bagan, Inle Lake.

(4) Limited capacity of Yangon International Airport

(5) Overcrowded domestic flights

(6) Under-developed ground transportation limits the access to destinations; unpaved roads, unreliable and uncomfortable train service

(7) Human resources and capacity building: shortage of skilled personnel for accommodations, travel services, tour guides, restaurants

(8) Tourism-related infrastructure needs to be upgraded: regional airports, electricity power supply, waste treatment in major destinations

(9) Lack of international standard health-care service facilities for tourists

C.5.4 Regulatory Environment

Following laws need to be observed and respected during the FDI procedures on hotel & tourism.

C.5.4.1 Laws

- 1993 Myanmar Hotel and Tourism Law
- This law was reviewed in 2011 and is now under process of a major amendment.
- 2011 Microfinance Law
- 2012 Foreign Investment Law and its associated Notifications
- 2012 General Procedures and Salient Points for the FDI Hotels and Related Businesses

C.5.4.2 Policies

- 2012 Myanmar Responsible Tourism Policy
- It presents the national vision for tourism, including nine aims and 58 action points.
- 2013 Tourism Master Plan

C.5.5 FDI on Hotels

Hotel is the top priority area for FDI in tourism sector in Myanmar.

C.5.5.1 Hotel Market Trends and Outlook

(1) Growing Demands

As the incoming tourists to Myanmar increase, the demands for hotel rooms will also grow. Provided that the tourist arrival targets of the Master Plan are hit in 2014 and 2020, average 2,700 more rooms per day are necessary in 2014 and 14,500 rooms need to be added to meet the expected demand from international visitors in 2020.

(2) Supply of Guest Rooms

Myanmar currently has 923 hotels, motels and guesthouses with 34,834 rooms at 52 locations. Among 923 facilities, 6 of them are five-star rated and 17 are four-star rated, most of which are located in Yangon, Mandalay and Nay Pyi Taw.

In 2013, 10,175 rooms or 30% of the total hotel rooms are supplied in Yangon and 4,439 rooms in Mandalay and 4,030 rooms in Nay Pyi Taw.

C.5.5.2 Existing and On-going FDI Hotels & Commercial Complexes

There are 39 foreign investments on hotels and commercial complexes approved among which 31have been completed and operated while5are under development. Completed projects include: Sedona, Traders, Parkroyal, Chatrium and Summit Parkview. Projects under development include: Hilton, Novotel, Best Western and Rose Garden. Total value of above projects amounts to $1.41 billion. A new $300 million B.O.T. (build-operate-transfer) project in Yangon was approved in 2012 which is expected to add 1,599 rooms after completion. Regional distribution of the foreign investors on hotels and commercial complex is topped by Singapore with 14 projects with the investment amount of nearly $880 million, followed by Thailand (10 projects with $235 million), Japan (6 projects, $183 million), Hong Kong (4 projects, $150 million) and Malaysia (2 projects, $20 million). FDI hotel sites are concentrated in major destinations: 22 sitesin Yangon, 2 in Mandalay and 3 in Bagan.

C.5.5.3 Focus Destinations of Hotel Construction

Focus destinations of further hotel developments include the following:

(1) Yangon

Being the major gateway city to Myanmar and the center of the business activities, hotel demand in Yangon will further grow following the economic growth of the country and increase in business and tourist traffic. Despite the congested city environment, there are a number of considerably large pieces of land for hotel development.

(2) Mandalay

The Government is currently encouraging international and domestic airlines to increase the number of operation to and from Mandalay. Increased international direct flights to Mandalay will increase the hotel demands in the city, both for business and leisure travellers.

(3) Bagan

MOHT identifies Bagan as one of the most potential destinations for future tourism development.While there is also a growing demand for the accommodation, most of the lodging facilities are medium to small size with limited capacity to accommodate guests. There is only one FDI hotel in Bagan invested by Japanese company. Hotel development in Bagan requires careful archeological research for unidentified underground heritages.

(4) Ngapali and surrounding beach resorts

MOHT emphasizes the importance and necessity to spread the tourist visitation from four major destinations. Developing a world class beach resort is one of the solutions to redirect the visitors to other destinations in Myanmar. Ngapali is a good candidate for the new beach destination to be developed and marketed internationally.

*Above list of the focus destinations does not include Nay Pyi Taw, as there will be 5,000 rooms in the city at the end of 2013 to meet the demand for ASEAN Games. Despite the growing demands by visitors to ministries and government agencies, it will take some time to fill all the rooms after the major sport event. In this regard, Nay Pyi Taw is not an immediate focus destination for further hotel development.

C.5.5.4 Benefits of FDI in Hotel Business

(1) For foreign investors

A good opportunity to make a presence in Myanmar, where there is fast growing market demand for hotels. Multiple incentives prepared by the Government for FDI hotels including:

- Tax holidays
- Lower uniform net profit tax rate
- Waiver of reduction of import duty tax
- Accelerated depreciation allowances
- Provision of carried forward of losses

(2) For Myanmar Tourism

Hotel development generates new employment opportunities and consequently economic impact to the entire community where the hotel is located. Having multiple hotels with international premium brands would contribute to the upgrading the destination brand of Myanmar. The quality of the services provided by the FDI hotels will stimulate other locally operated hotels in the region to improve their service quality.

C.5.5.5 Prospective Investors to be Invited

(1) Hotel management companies

(2) International hotel operators

- Sterwood, Hilton, Marriot (including Ritz Carlton), Renaissance, Intercontinental (IHG), Holiday Inn, Accor, Melia, Mercure

(3) Asian hotel operators

- Shangri-la, Lotte, Hyundai, Taj, Oberoi, Dusit, Raffles, Mandarin Oriental, Park Hotel Group, Peninsula, New Ohtani

(4) Budget hotel operators

- Tune Hotel, Toyoko-Inn, Super Hotel, Kyoritsu Maintenance

(5) Banks, insurance companies

C.5.5.6 Procedures of FDI on Hotels

There are basically following steps for FDI on hotels in Myanmar. (Details to be found in the 'General Procedures and Salient Points for the FDI Hotels and Related Businesses' approved by Myanmar Investment Commission)

- Feasibility study for leasing the land
- Visiting MOHT for a discussion with a senior officials on doing hotel business
- Submission of the project proposal
- Implementation of the project

(Following are optional for cases that 1) the hotel complex has service apartment, office building, shopping mall, restaurant, day & night bazaar, dancing club and 2)Phase 2 of old (existing project) which has already been agreed but not implemented)

- Preparing draft B.O.T. contract and lease agreement
- Receiving legal advice
- Submission of documents to MIC
- Implementation of the project

Land ownership is not permitted to foreign individuals or companies. And 50 year B.O.T. (build-operate-transfer) contract is mandatory for foreign investment on hotels with 10 year extension of the term

C.5.5.7 Issues for FDI on Hotels

(1) High land price and land lease fee

Some investors are reluctant to invest on hotels in Myanmar when they learn about the high land prices and land lease fee. A decision on investment is largely influenced by the balance between expected revenues and risks. High land fees would raise the break-even point, thus raising the risk level.

(2) Concerns for political uncertainty (high country risk)

Despite the on-going reformation of the government, some investors have concerns for uncertainty of the government and its politics. Current constitution of Myanmar allocates a quarter of the seats of the National Parliament to be military members by appointment by the General. Those who remember the military government era are deeply concerned that there may be another unexpected change in policies. In order to relieve such concern of investors, the Foreign Investment Law (FIL) provides an irrevocable state guarantee that an enterprise permitted by MIC under the FIL shall not be nationalized during the permitted period or the extended period (if any).

(3) Shortage of skilled labour

Most of the tourism related organizations and hotels interviewed pointed out the difficulty in hiring and retaining skilled workers in service industry. Some of the foreign investors on hotels also install an institution to train the employees to meet the international standard of hotel service.

C.5.5.8 One-stop-service for Hotel Investors

One-stop-service for hotel investment procedure is not a strong incentive for the investors. Unlike other industry sectors, regulations and guidelines for hotel development is different from destination to destination. Even in the same destination, different guidelines for environmental sustainability or preserving the heritage may be applied depending on the actual location. Therefore, it is not easy for a DICA officer who has limited experiences and knowledge in tourism to make an effective advice to the hotel investors.

However, DICA OSS still can contribute to the easing the hotel investment procedure by offering the investors who apply for the hotel investment a consultation on necessary documentation and procedures.

C.5.5.9 Recommended Strategy to Promote FDI on Hotels

(1) Hotel & tourism investment seminars in overseas locations

Although the international hotel investors show interest investing in Myanmar, one of the most potential countries for future growth in tourism may not fully understand the investment opportunities, benefits and actual procedures.

In order to motivate investors, hotel investment seminars joined by tourism promotion event in major investment markets should be held. Such an event would provide a good opportunity for investors to learn about the investment climate in Myanmar as well as the potential of tourism in Myanmar.

(2) Joint venture with a Myanmar local company

International hotel operators may want to reduce the risks associated with the local practices and culture by formulating a joint venture with a local company that has long established a business in Myanmar and fully aware of the locality.

For local companies, joint venture with an internationally renowned hotel operator would bring numerous benefits including access to global marketing network, use of the brand and opportunity to upgrade the employees’ skills to meet the global standard.

(3) Operation by international hotel operators

A local hotel management company can also have an option to make a contract with an international hotel operator. An international hotel brand attracts guests both individual and corporate more easily than local hotel brand.

(4) Upgrading 1, 2-star hotels to 3-star by transferring service & operation skills

Growing demand from international visitors is not limited to 4, 5-star rated hotels. Asian middle class travellers who have recently begun travelling abroad thanks to low fares of Low Cost Carriers (LCC) would rather stay in 3-star or lower rated hotels for more reasonable room rates.

There are a number of 3-star or lower rated hotels that have spacious guest rooms and sophisticated interior in Yangon, Nay Pyi Taw and other major destinations. With a support from international hotel operators, they can be upgraded to well cater to international business travellers and holiday tourists.

In order to offer a competitive room rate and still maintain an international service standard of the equally rated hotels, education and training of the employees for more efficient and speedy service coupled with redesigning of the operational work flow is indispensable. Such operation models are practiced in 'business hotels' in Japan and some other Asian countries. Inviting their investment or operational support will drastically improve the productivity of moderately rated hotels and add extra value for money for the guests.

C.5.6 Other Possible Areas for FDI in Tourism Sector

C.5.6.1 Tour Operators

Foreign tour operator can invest maximum 60 % share of joint venture companies. While the FIL permits 100% foreign ownership of service business including tour operators, MOHT strongly encourages joint venture.

Currently there are already 17 joint ventures (JTB, HIS, and major international tour operators) in tour operator business. They are mostly based in Yangon and the MOHT is eager to invite more foreign investment on travel service business that would attract more visitors from source markets around the world.

C.5.6.2 Food and Beverages

There will be growing demand for Myanmar restaurants that cater to domestic market and international visitors and for sophisticated restaurants that serve international food and beverages. However, FDI guideline for restaurants is still not clear.

There are some fantastic locally owned restaurants in Myanmar that are frequently visited and enjoyed by international visitors. The owners of such restaurants may not have experience and know-how of expanding their business by franchise operation. Foreign F&D operator can introduce franchise operation system to popular domestic restaurants so that a good restaurant in Mandalay can have their outlets in multiple destinations in the country and thus entertain international visitors with quality local cuisine.

C.5.6.3 HRD in Tourism

Multi-tier human resource development in tourism is critical in upgrading service quality to meet with the global standard. Most of the interviewes in tourism industry said in common that HRD is the first priority now and for the future of Myanmar tourism.

In addition to the MOHT's tremendous effort to train and educate hoteliers at their training schools and through various seminars, foreign companies have beginning to launch institutes and systems to train the tourism-related human resources.

Foreign investment in HRD sector is quite welcome in tourism sector, however, the challenge is who will pay the tuitions that may be considerably expensive when compared with the average salary of workers in service industry.

C.5.6.4 Car Rental and Ground Transportation Service

The more international visitors come to Myanmar, larger the demands for ground transportation for FITs (free independent travel) to go around within the country.

Joint venture of international car rental companies such as Hertz, Avis, National and Budget are highly welcome. Considering the traffic condition in Myanmar, chauffeured car service should be provided alongside the self-driven rent-a-cars.

C.5.6.5 Hotel Amenities and Linen Service

Many of the hotels in Myanmar import their room amenities such as soap, shampoo, conditioner and shower gel from Thailand and China because there are hardly any companies in Myanmar that offer such amenities of high quality. Inviting investment in the toiletry and amenity supply business may improve the manufacturing toiletry products and increase the market share of domestic products among hotels in Myanmar. Introducing foreign investment in service outsources, such as linen supply to hotels, is also likely to upgrade the service quality level.

C.5.6.6 Airport Operation

A public-private partnership agreement is sought for the operation of Mandalay International Airport. Privatization of and inviting FDI to airport operation will upgrade airport service quality, reduce the cost of operation and attract new airline/routes.

C.5.6.7 Destination management and marketing

Master Plan needs to be locally customized to each destination. However, local destinations often lack experts of destination management. Invite foreign consulting firms to form a J/V to serve these needs. It will serve the destinations not only by offering immediate consultation for destination management and marketing but also by transferring technology and skills to their local partners.

C.6 IT

C.6.1 Background

According to Gartner's estimates (2012), the size of world ITO-BPO (IT Outsourcing, Business Process Outsourcing) market in 2013 was USD 288 billion, expected to rise to USD 354 billion by 2015. The world top ten outsourcing destinations (country) in 2012 are shown in the following table. Three countries from Southeast Asia were ranked. As for the destination city ranking, only Manila and Cebu City of Philippines were ranked.

Table C.16 Top 10 outsourcing destination countries

1. India	**6. Costa Rica**
2. The Philippines	7. Vietnam
3. Ireland	8. Czech Republic
4. Poland	9. Brazil
5. China	10. Malaysia

Source: Tholons

Table C.17 Outsourcing destination city rankings

	Country	City		Country	City
1	India	Bangalore	6	India	Hyderabad
2	India	Mumbai	7	India	Pune
3	The Philippines	Manila	8	The Philippines	Cebu City
4	India	Delhi	9	Ireland	Dublin
5	India	Chennai	10	Poland	Krakow

Source: Tholons

In the Philippines, the ITO-BPO sector expanded significantly. The market size grew from about USD 100 million in 2001 to USD 1.32 billion in 2012. Sales from the call center sector accounted for USD 0.87 billion (66%), followed by corporate service (non-vocal), including KPO (Knowledge Process Outsourcing), at USD 0.25 billion (19%) and software development (USD 0.12 billion, 9%). Large global companies such as Dell, IBM, and Citibank have established call centers in the Philippines. In the ITO-BPO sector, the Philippines fully utilizes its citizens' service-oriented minds and English fluency.

Table C.18 Market size of ITO-BPO in the Philippines (USD billions)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Sales Volume	0.13	0.22	0.32	0.48	0.61	0.71	0.89	1.1	1.32

Source: Business Process Association Philippines

Vietnam takes global ITO-BPO orders, especially from Japan, as Japan intends to avoid overconcentration in China. Vietnam also takes orders from the US and EU, who take full advantage of relatively low labour costs.

Table C.19 Market Size of IT Sector in Vietnam (USD millions)

	2008	2009	2010	2011
Hardware	4,100	4,627	5,631	11,326
Software	680	850	1,064	1,172
Digital Contents	440	690	934	1,165
Total	5,220	6,167	7,629	13,664

Source: Viet Nam Information and Communication Technology 2012

C.6.2 Myanmar's strength: English proficiency and relatively cheap labor cost

The programmers or IT engineers working in IT companies are highly educated and generally proficient in English. Japanese IT companies operating in Myanmar have indicated as such. Therefore, it is possible to increase global market penetration in the software development industry, taking advantage of lower labour costs and English or Japanese language skills.

However, English proficiency cannot be expected among general workers. Hiring high-cost university graduates as operators in call centers is unfeasible. Therefore, it might be difficult for Myanmar to follow the Philippines' success model in the call center business.

C.6.2.1 Suggestions for improving the IT investment climate

While the Myanmar IT industry has significant potential for further development, impediments, and obstacles remain. Suggestions to improve the investment climate are as follows:

(1) To enact IT-related laws and regulations. These should be consistent by coordinating and harmonizing related policies of different government bodies. This is necessary for companies to develop their long-term business strategy.

(2) To standardize Myanmar language fonts. By standardizing the fonts, development of software becomes efficient and cost effective. Simpler programing also facilitates human capacity development in the IT industry.

(3) To speed up administration procedures and reduce/abolish unnecessary and redundant procedures for business applications. The IT industry develops rapidly. In order to catch up with the ever-changing global IT industry, "red tape" should be minimized wherever possible.

(4) To refine the education system in universities/colleges. It is necessary to supply enough PCs in schools so that students can learn programing and other related skills by actually using the hardware. Needless to say, communications infrastructures should be developed to secure adequate and stable network communications.

(5) Contain the cost. Cheap labour cost is one of the largest advantages of the Myanmar IT industry. To gain the greatest benefit of this, other costs,

namely, high electricity costs derived from using in-house generators, escalating office rental fees, and land price should be controlled.

(6) Encourage overseas Myanmar citizens to return home. It is said that there are a substantial number of skilled workers, including IT engineers, working overseas. Their skill level is similar to those in other IT developed countries. Therefore, they should be capable of becoming the core members of local IT firms. The government should consider offering incentives (e.g., income tax reduction) to entice their return.

C.6.2.2 Facilitating technology transfer

For the development of a local IT industry, the role of FIEs) is crucial. While some local firms are concerned that those FIEs might entice their talented staff, it is important to look for a mutually beneficial opportunity for both FIEs and local firms. FIEs not only possess adequate capital, but also states-of-the-art technology. It is necessary to encourage FIEs to share their knowledge with local firms and create learning opportunities for them. Local IT firms are usually small- and medium-sized enterprises (SMEs). To foster their development will help to vitalize the SME sectors.

C.6.2.3 Promote large scale IT projects

It is often the case that strong demand facilitates the creation of jobs, increase in market size, and industry development. Therefore, it is recommended that the government introduce large-scale projects. As the Myanmar IT industry is still in its infant stage, there are several opportunities for sensible IT projects. Some examples are as follows:

- Reform the banking system, including the financial system in the Central Bank of Myanmar and Ministry of Finance.
- Establish an e-government system. This will also help eradicate corruption.
- Facilitate other IT development (e.g., e-commerce, e-newspaper, various online services).

D

Rationale for Investment Promotion Strategy

D. Rationale for Investment Promotion Strategy

In the Myanmar National Transport Development Plan (MYT-Plan) study, the Socio-Economic Framework that will be utilized throughout to prepare inputs for the transport demand forecast and other elements was developed. Firstly, based on the current trends, future population for both nationally and at the State/Region level is estimated by applying the Cohort Change methodology. Then Gross Domestic Product (GDP) trends at the national and State/Region levels, including forecasts through 2040 are discussed.

Future GDP and GRDP forecasts consider a number of influential factors, including future population growth, necessary levels of investment (fixed capital formation) to achieve certain levels of GDP growth, and the experiences of Myanmar's peer developing countries in the ASEAN region (including Japan). Regional population and GDP forecasts are based on an assumed regional economic development scenario that will be elaborated on later in this section.

Given the situation and prospect of Myanmar Economic development through FDI discussed in the main report, this chapter elaborates the growth scenario in terms of finance, SWOT analysis and Sector- and Region-wise perspectives with the aim to grasp the direction of Investment Promotion.

D.1 Population Projections

D.1.1 Analysis of Population Growth between 1990 and 2010

Table D.1 describes Myanmar's population by gender and age groups at five-year intervals between 1990 and 2010, while Table D.2 illustrates the survival rates by gender and age group, which is calculated using the data in Table D.1. For example, the survival rate of males between the ages of 5 and 9 in 1990-95 (98.8%) is calculated by taking the 5-9 year old male population in 1995 (2,501,000 persons) divided by that of the 0-4 year old male population in 1990 (2,652,000 persons).There are several key highlights illustrated in Table D.1:

- The population of the 0 to 4 age bracket gradually increased for both of males and females between 1990 and 2005, however since then, the figure has been declining,

- All age brackets of the population except the 0 to 4 bracket grew continuously throughout the entire period, suggests that survival rates have exceeded 100% in some age groups at different points in time. Normally, such a situation cannot occur without in-migration from foreign countries. Thus the erroneous figures are likely attribute to inaccurate population estimates calculated by the Myanmar government. It is necessary to adjust these erroneous survival rates to estimate future population forecasts

Myanmar's elderly population, those over the age of 65, has been steadily increasing over time, however the population growth rate has been declining amongst both genders, as is described in Table D.2.

Table D.1 Population by Gender and Age Bracket (Thousand Persons)

Age group	1990	1995	2000	2005	2010
Male					
0-4	2,652	2,769	3,050	3,278	2,933
5-9	2,398	2,501	2,759	3,020	3,044
10-14	2,317	2,428	2,531	2,768	3,001
15-19	2,233	2,296	2,456	2,538	2,881
20-24	2,017	2,102	2,312	2,449	2,749
25-29	1,737	1,894	2,110	2,299	2,557
30-34	1,464	1,667	1,900	2,097	2,331
35-39	1,188	1,411	1,669	1,886	2,091
40-44	932	1,192	1,408	1,652	1,832
45-49	759	965	1,181	1,384	1,573
50-54	671	801	945	1,149	1,299
55-59	593	664	772	905	1,060
60-64	478	538	623	721	822
65&+	776	999	1,191	1,394	1,550
Total of male	20,215	22,227	24,907	27,540	29,400
Female					
0-4	2,586	2,736	3,016	3,235	2,851
5-9	2,401	2,304	2,735	2,993	2,922
10-14	2,347	2,287	2,336	2,747	2,847
15-19	2,272	2,224	2,319	2,346	2,742
20-24	2,060	2,089	2,249	2,324	2,644
25-29	1,776	1,942	2,108	2,248	2,497
30-34	1,496	1,733	1,957	2,105	2,340
35-39	1,213	1,477	1,743	1,951	2,145
40-44	955	1,257	1,479	1,731	1,924
45-49	784	1,023	1,254	1,464	1,684
50-54	698	865	1,012	1,230	1,415
55-59	624	741	845	981	1,176
60-64	509	615	709	803	934
65-	850	1,224	1,456	1,698	1,936
Total of female	20,571	22,517	25,218	27,856	29,730
Total population	40,786	44,744	50,125	55,396	59,130

Source: Myanmar Statistical Yearbook 2011, Central Statistical Organization

Table D.2 Population Growth Rates for the Over-65 Age Bracket (Unit: %)

Gender	1990-95	1995-00	2000-05	2005-10
Male	5.2	3.6	3.2	2.1
Female	7.6	3.5	3.1	2.7

Source: JICA Study Team

Notably, the growth rates amongst Myanmar's elderly population have fallen by has much as two to three times over the last 20 years or so.

Table D.3 describes changes in the Child to Women Ratio (CWR) and in the Total Fertility Ratio (TFR). The CWR is the ratio of the number of children under 5 years old to the number of women between the ages of 15 and 44 years of age. The CWR in 1990 (0.536) is calculated by taking the number of males and females under the age of five (5,238,000 persons) and dividing it by the number of females between the ages of 15 to 44 years of age (9,772,000 persons) during the same year. The TFR is the total average number of children a woman will bear during her lifetime. For the purposes of this Study, the TFR is calculated by multiplying the CWR by a factor of six, which represents the number of five-year age brackets between the ages of 15 and 44.

Table D.3 Changes of Child Woman Ratio and Total Fertility Ratio

	1990	1995	2000	2005	2010
CWR	0.536	0.513	0.512	0.513	0.405
TFR	3.22	3.08	3.07	3.08	2.43

Source: JICA Study Team

Since 1990 both the CWR and TFR have been continuously declining. In 1990 the CWR was 0.536, yet by 2010, the rate had dropped to 0.405, a drop of more than 32%. Since the CWR serves as the basis for the TFR, the TFR has declined at the same pace.

D.1.2 Population Projections through 2040

Before carrying out the population projection, the following considerations must be made:

(1) For people between the ages of 5 and 64, the survival rate in 2010 is used to forecast each five-year age bracket.

(2) For people 65 years of age and above, the forecast assumes that the population growth rates in this age bracket will continue to decline, as described in Table D.4.

Table D.4 Forecast Population Growth Rates for the Over-65 Age Bracket, 2010-2040

(Unit: %)

Gender	2010-15	2015-20	2020-25	2025-30	2030-35	2035-40
Male	1.9	1.7	1.5	1.3	1.1	0.9
Female	2.5	2.3	2.1	1.9	1.7	1.5

Source: JICA Study Team

The most important factor in forecasting the future population is the changes of the number of births, which is expressed as a change in the CWR for purpose of this Study. The following three scenarios have been analyzed with respect to possible future changes in the CWR and are described in.

High Growth Scenario: The CWR will maintain the 2010 level (0.405) through 2040 with an equivalent TFR of 2.43 for the duration of the forecast period,

Middle Growth Scenario: The CWR will decrease by 0.02 every five years, declining from 0.385 in 2015 to 0.285 in 2040. Under this scenario, the TFR will decrease from 2.31 in 2015 to 1.71 in 2040, and

Low Growth Scenario: The CWR will decrease by 0.03 every five years, declining from 0.375 in 2015 to 0.225 in 2040. Under this scenario, the TFR will decrease from 2.25 in 2015 to 1.35 in 2040.

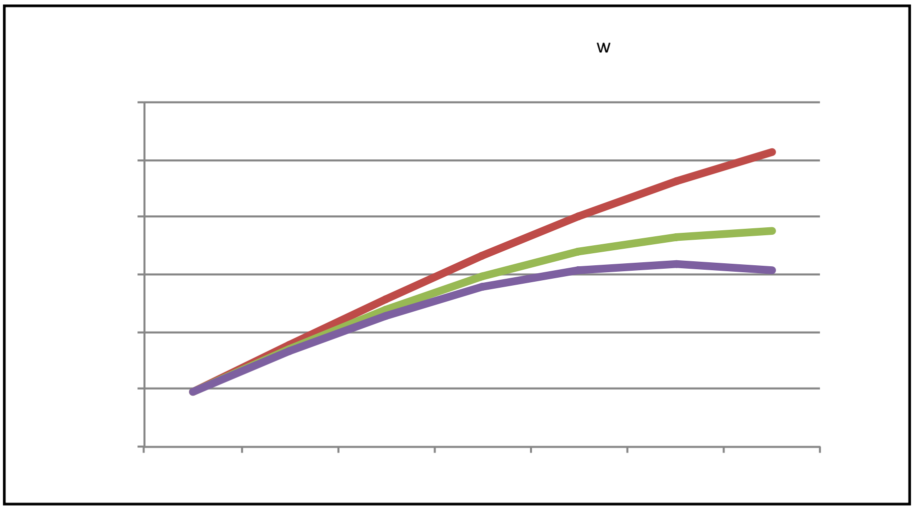
Table D.5 Changes of Child Woman Ratio and Total Fertility Ratio

Scenarios		Projection					
		2015	2020	2025	2030	2035	2040
High Growth	CWR	0.405	0.405	0.405	0.405	0.405	0.405
	TFR	2.43	2.43	2.43	2.43	2.43	2.43
Middle Growth	CWR	0.385	0.365	0.345	0.325	0.305	0.285
	TFR	2.31	2.19	2.07	1.95	1.83	1.71
Low Growth	CWR	0.375	0.345	0.315	0.285	0.255	0.225
	TFR	2.25	2.07	1.89	1.71	1.53	1.35

Source: JICA Study Team

Figure D.1 illustrates the three alternative population growth scenarios calculated using the above parameters. In the High Growth scenario, Myanmar's population will grow at an average annual rate of 1.0% and amount to about 81 million people by 2040. In the Low Growth scenario, the population is expected to be around 70 million, growing by about 0.5% annually. Notably, in the scenario it is estimated that the population will peak at 71 million people in 2035 before declining to 70 million in 2040.

Figure D.1 Alternative Population Growth Scenarios



Source: JICA Study Team

The High Growth scenario assumes a constant CWR (and thus TFR) for a 30-year period, which will be very difficult to maintain owing to changing socio-economic conditions experienced in the face of the expected rapid economic growth. At the same time, the Low Growth scenario assumes that the TFR will drop to extremely low levels more commonly found in advanced nations like Japan. Thus despite rapid economic development, it is unlikely that Myanmar will achieve a similar socio-economic profile to Japan at present. Given the weaknesses of these to scenarios, the Study Team has selected to the Middle Growth scenario as the most reasonable alternative to serve as the baseline for the remainder of the Study. Table D.6 indicates the population projections by gender and age group for the Middle Growth scenario from 2015 to 2040.

Table D.6 Population Projection by Gender and Age Group (Middle Scenario)

	2015	2020	2025	2030	2035	2040
Male						
0-4	2,788	2,809	2,782	2,685	2,535	2,365
5-9	2,879	2,737	2,758	2,731	2,635	2,488
10-14	3,039	2,875	2,733	2,753	2,726	2,631
15-19	2,995	3,033	2,869	2,727	2,748	2,721
20-24	2,879	2,993	3,031	2,867	2,725	2,746
25-29	2,746	2,875	2,989	3,027	2,863	2,722
30-34	2,556	2,744	2,874	2,988	3,026	2,862
35-39	2,329	2,554	2,742	2,872	2,985	3,023
40-44	2,076	2,312	2,535	2,723	2,851	2,964
45-49	1,810	2,051	2,284	2,504	2,689	2,816
50-54	1,548	1,781	2,018	2,248	2,465	2,647
55-59	1,273	1,517	1,746	1,978	2,204	2,416
60-64	1,035	1,243	1,481	1,704	1,931	2,151
65 -	1,703	1,853	1,996	2,129	2,249	2,363
Total Male Population	31,656	33,378	34,838	35,936	36,633	36,916
Female						
0-4	2,710	2,731	2,704	2,610	2,464	2,299
5-9	2,779	2,642	2,662	2,636	2,544	2,402
10-14	2,886	2,745	2,609	2,629	2,603	2,512
15-19	2,840	2,879	2,738	2,603	2,623	2,597
20-24	2,740	2,838	2,877	2,736	2,601	2,621
25-29	2,642	2,738	2,836	2,874	2,734	2,599
30-34	2,495	2,639	2,735	2,833	2,872	2,731
35-39	2,337	2,491	2,636	2,732	2,829	2,868
40-44	2,138	2,329	2,483	2,627	2,722	2,820
45-49	1,911	2,123	2,313	2,466	2,609	2,704
50-54	1,670	1,895	2,105	2,293	2,445	2,587
55-59	1,399	1,651	1,873	2,081	2,268	2,418
60-64	1,162	1,382	1,631	1,851	2,056	2,240
65 -	2,190	2,454	2,723	2,992	3,255	3,506
Total Female Population	31,898	33,537	34,925	35,962	36,624	36,902
Total Population	63,554	66,914	69,763	71,898	73,257	73,818
Annual population growth rate	1.5%	1.0%	0.8%	0.6%	0.4%	0.2%

Source: JICA Study Team

D.1.3 Population Forecast by Regions and States

In order to forecast future population distributions in line with the Middle Growth scenario outlined above, the Study Team made a series of key assumptions, largely pertaining to regional economic development prospects, that consider when and why people will migrate between Regions and States. In the short term, between 2015 and 2025, major investments in infrastructure and industry in Yangon and southern Bago and the corresponding rapid economic growth will serve as a magnet that will attract large numbers of migrants from surrounding areas. In the medium term, after 2025, it is expected that new investments will shift the most rapid economic growth away from Yangon and accelerate migration to the Mandalay metropolitan area (including Sagaing City), as well as to designated Special Economic Zones (SEZ) such as Kyaukphyu (Rakhine State) and Dawei (Tanintharyi Region) where the bulk of these investments are currently expected. Table D.7 shows changes of region/state-wise population from 2012 to 2030.

Table D.7 Population Forecast by Regions and States from 2012 to 2040

Regions/States	2012	2015	2020	2030	2040
KachinState	1,616	1,721	1,820	1,935	1,973
KayahState	365	391	424	450	460
KayinState	1,855	1,986	2,151	2,401	2,496
ChinState	571	597	630	656	666
Sagaing Region	6,654	6,864	7,029	7,179	7,236
Tanintharyi Region	1,755	1,886	2,051	2,301	2,396
Bago Region	6,125	6,361	6,691	7,261	7,507
Magway Region	5,730	5,914	6,013	6,113	6,151
Mandalay Region	7,423	7,685	7,949	8,370	8,617
MonState	3,193	3,324	3,489	3,846	3,998
RakhineState	3,370	3,501	3,666	4,016	4,130
Yangon Region	7,170	7,617	8,739	10,445	11,015
ShanState	5,779	5,963	6,128	6,378	6,473
Ayeyarwaddy Region	8,205	8,520	8,685	8,864	8,902
NaypyitawCouncilTerritory	1,164	1,269	1,434	1,684	1,779
Total	60,976	63,600	66,900	71,900	73,800

Source: Population Department, Ministry of Immigration and Population (2012) and JICA Study Team

D.2 Scenario of Socio-Economic Development Framework

As observed in the section of FDI inflow in Myanmar, Myanmar's FDI is still below the level that of Cambodia and Vietnam in terms of inflow and stock. Apart from that, economic boom has arrived following the country's economic and social reform, and the high economic growth target set by the government.

In this section, investment framework, which means the volume of investment necessary to achieve GDP growth target as stated in National Plan, is analysed at the first step. In the second step, the necessary investment amount is divided into domestic investment, government capital investment and FDI. In the third step, the FDI growth scenario, which is calculated from the previous step, is analysed through calculation of FDI stock per capita and by comparing the experiences of its neighbouring countries.

D.2.1 GDP Growth Scenario

JICA Study Team on MYT-PLAN prepared the population framework and GDP growth framework until 2035. These frameworks are employed in this analysis. In 2011, Myanmar's government began instituting wide ranging political and economic reforms. It is expected that as more reforms are undertaken, Myanmar will become an even more attractive investment destination leading rapid economic development. Supporting this notion is a recent ADB report entitled "Myanmar in Transition," which suggests that, "Myanmar could grow at 7%–8% per year for a decade or more and raise its per capita income to $2,000–$3,000 by 2030." In addition to the ADB report, Myanmar President U Thein Sein has set the target for annual GDP growth rate at 7.7% for the current five-year development plan[11].

With the purpose of determining whether such rapid, long-term growth is feasible, the Study Team carried out an analysis of economic growth in Asian peer countries including the Republic of Korea, Thailand, Malaysia and Indonesia and Vietnam. In observing 25-year long periods that represented the beginning of each country's rapid economic growth, the analysis suggests that all selected peer countries experienced GDP growth of between five and seven times (relative to the base year). Based on this analysis, it is highly probable that Myanmar has the potential to achieve such rapid economic development over the next three decades.

- In order to estimate Myanmar's future Gross Domestic Product, the JICA Study Team considered following three alternative economic growth scenarios, which are also described in Table D.8.

- Scenario 1 – High Growth: This scenario is based on the growth target identified by President U Thein Sein, which seeks to achieve long-term annual GDP growth rates of at least 7.7%. The scenario assumes that annual growth will reach 7.7% by 2015 and continue growing at the same pace through 2035. It is expected that new and on-going FDI, public and private investment in infrastructure and additional future private investment will help sustain this growth. In this scenario, Myanmar's GDP will increase by about six times by 2035.

- Scenario 2 – Medium Growth: The GDP growth rate will increase to 7.2% by 2015, 0.5% lower than the High Growth scenario, and is sustained at this level from 2014 to 2035. At this rate of growth, GDP will double every ten years, but will fall slightly short of the six-fold growth experienced in some peer countries.

- Scenario 3 – Low Growth: This scenario follows the IMF's debt sustainability analysis of Myanmar in 2011. In the IMF analysis, annual GDP growth rates from 2014 to 2031 are set at 6.0%. The Study Team assumes this level of growth will be maintained through 2035. As 6.0% future annual growth is roughly similar to economic growth since 2010, the scenario can also be considered the "trend line" scenario.

Table D.8 Annual GDP Growth Scenarios

Unit: %

Scenarios	2010	2011	2012	2013	2014	2015-35	Annual average growth rate 2011-35
S1 High	5.3	5.3	6.3	5.9	6.5	7.7	7.5
S2 Medium	5.3	5.3	6.3	5.9	6.5	7.2	7.0
S3 Low	5.3	5.3	6.3	5.9	6.0	6.0	6.0

Source: figures from 2010 to 2013 come from the IMF 2011 Article IV Consultation Report (IMF Country Report No.12/104), and figures from 2014 and 2015-35 are calculated by JICA Study Team on "The National Transport Master Plan Project."

[11] The figure of 7.7% growth was presented in June 2010. According to latest information, the GDP growth target is raised to 7.9%.

D.2.2 Investment to Achieve GDP Growth Target

The Study Team calculates the necessary amount of investment[12] to achieve the GDP growth targeted in each scenario. In order to calculate the necessary level of Gross Fixed Capital Formation (GFCF), an Incremental Capital-Output Ratio (ICOR) analysis is employed. The ICOR is calculated using the following formula:

$$ICOR = \frac{increase\ in\ capital}{increase\ in\ GDP} = \frac{investment/GDP}{increase\ in\ GDP/GDP}$$

$$= \frac{percentage\ of\ investment\ \ to\ GDP}{GDP\ growth\ rate}$$

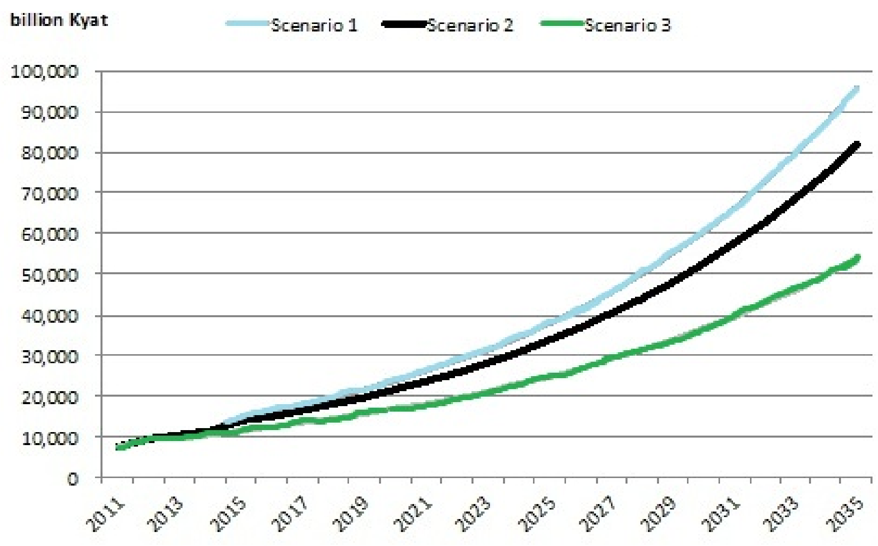
The Study Team's calculations suggest that Myanmar's ICOR is 3.1 from recent statistics between 2008 and 2010. The ICOR levels tend to gradually increase over time. The increase is inversely related to slowing GDP growth rates. For example, Thailand's ICOR increased from 2.4 during1961-65 to 7.2 during2006-10 while Malaysia's ICOR increased from 2.4 during1961-65 to 4.9 during2006-10. Both countries experienced rapid economic growth in the early and intermediate years during the period 1961-2010, but as time has passed, GDP growth has started to slow down (in real terms) and has led to increasing ICOR levels.

Based on international experience, it is expected that Myanmar's ICOR will gradually increase over time. For analytical purpose, the Study Team assumes that Myanmar's ICOR will increase from 3.1 in 2010 to 5.0 in 2035.

Figure D.2 illustrates the necessary amount of investment for the three alternative scenarios from 2011 to 2035, and Table D.9 tabulates GDP, share of investment to GDP and investment amount in 2015, 2020, 2025 and 2030. Percentages of investment to GDP which are estimated as 23.3% in 2013 will increase to 29% in scenario 1 and 27% in scenario 2 in 2020.

[12]Investment mentioned here includes both private sector and public sectors. It includes public investment, investment in plant and equipment, housing investment, etc.

Figure D.2 Necessary Investment Amount to Achieve GDP Growth Targets



Source: JICA Study Team on "The National Transport Master Plan Project"

Table D.9 GDP and Investment Amount in 2015, 2020, 2025 and 2030

Unit: Billion Kyat in 2010

Year	Scenario 1			Scenario 2			Scenario 3			ICOR
	GDP	Share of investment	Investment	GDP	Share of investment	Investment	GDP	Share of investment	Investment	
2010	42,229	-	-	42,229	-	-	42,229	-	-	3.1
2015	56,565	26.3	14,857	56,565	24.6	13,891.9	55,982	20.5	11,457	3.4
2020	81,964	28.9	23,688	80,079	27.0	21,640.0	74,916	22.5	16,871	3.8
2025	118,769	31.8	37,768	113,369	29.7	33,709.5	100,255	24.8	24,842	4.1
2030	172,100	35.0	60,217	160,497	32.7	52,510.7	134,164	27.3	36,579	4.5

Source: JICA Study team

D.2.3 Estimation of Annual FDI Inflow

The JICA study team on MYT-PLAN selected the Scenario 2 as the most appropriate GDP growth scenario from assessment of investment amount up to 2035 and future population growth which will arrive at peak around 2040. As described in Section FDI in Myanmar, investment is classified into domestic investment, government capital investment, FDI and other foreign investment (foreign portfolio investment). Since financial markets are not yet established in Myanmar, distribution to the other categories is analysed.

The JICA Study Team set the following conditions to calculate government capital investment and FDI.

- Government capital investment: Percentage of government capital investment to GDP which is 9.7% in 2012 increases gradually to 10.3% in 2017, and remains at this the level. This assumption is employed in IMF's "Myanmar Staff-Monitored Program (IMF Country Report No. 13/13)."

- FDI: Referring to the figure on percentage of FDI inflow to GDP, Myanmar will experience big waves of FDI inflow twice. During these massive inflows, Myanmar's proportion of FDI to GDP accounts for 10%. Table D.10 indicates each item's proportion to GDP year by year.

Table D.10 Changes of Proportion of Investment, Capital Expenditure, FDI against GDP

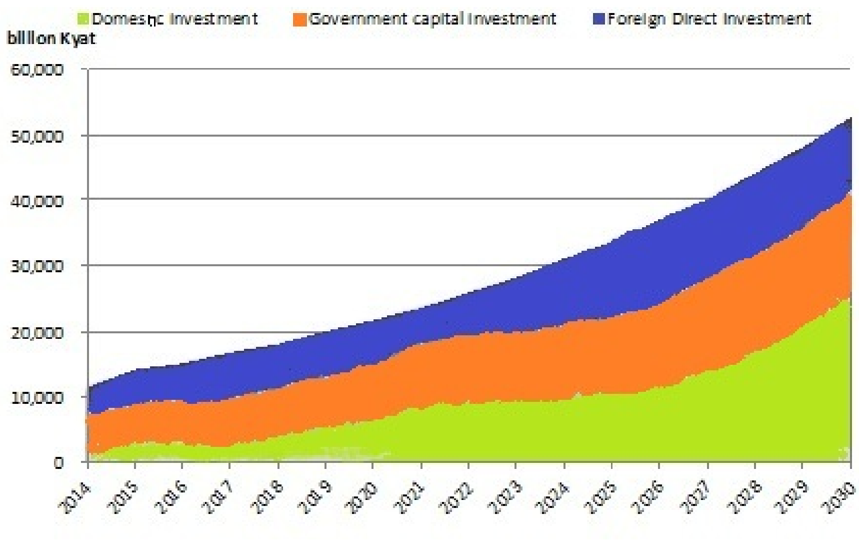
Unit: %

Year	Domestic investment	Government capital expenditure	FDI
2014	5.8	10.0	6.0
2015	6.5	10.1	8.0
2016	5.8	10.2	9.0
2017	5.2	10.3	10.0
2018	6.7	10.3	9.0
2019	8.2	10.3	8.0
2020	8.7	10.3	8.0
2021	11.2	10.3	6.0
2022	11.8	10.3	6.0
2023	10.3	10.3	8.0
2024	9.9	10.3	9.0
2025	9.4	10.3	10.0
2026	10.0	10.3	10.0
2027	11.6	10.3	9.0
2028	13.2	10.3	8.0
2029	13.8	10.3	8.0
2030	16.4	10.3	6.0

Source: JICA Study Team

Figure D.3indicates annual changes of investment amount by each item (domestic investment, government capital investment and FDI) from 2014 to 2030. The accumulated amount of all investment will amount to 480,684 billion Kyat (US$ 608 billion), and the accumulated amount of FDI will be 134,401 billion Kyat (approximately US$ 140 billion, 28% of the total investment) during 2014 and 2030, which is total amount of the FDI indicated in the dark section of Figure D.3.

Figure D.3 Evolution of Investment: Domestic Investment, Government Capital Investment and FDI (Scenario2)

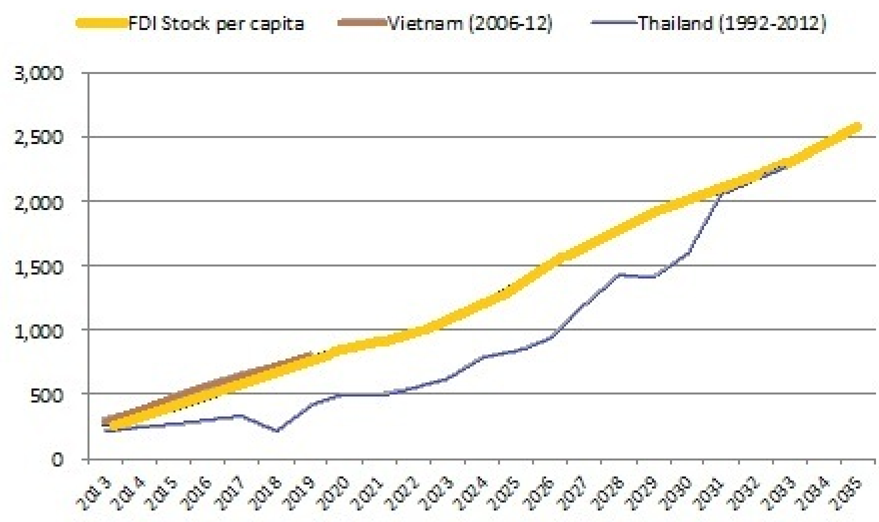


Source: JICA Study Team

The JICA Study Team estimates FDI stock per capita until 2030 by employing FDI stock in 2012 and annual FDI inflow from 2014 to 2030, and set the following conditions.

- FDI stock consumes itself at 4% per year[13].
- Population growth rate scenario prepared by the JICA Study Team on “National Transport Master Plan Project” is employed[14].

Figure D.4 Estimation of FDI Stock per Capita from 2013 to 2035



Source: JICA Study Team

Figure D.4shows FDI stock per capita growth scenario until 2035. Overlaying FDI stock per capita in Vietnam (2006-12) and Thailand (1992-2012), the scenario just follows Vietnam’s growth path in 2006 to 2012, and exceeds Thai’s growth path (1992-2012) until 2031.

After starting economic and social reform, foreign investors intently look at Myanmar owing to its territorial and population size, geographical location, and future economic integration with the neighbouring countries. The new trend of FDI, ie. a shift from investments in natural and energy resources sector to manufacturing sector, has already been acknowledged; however, Myanmar’s economic growth has not yet accelerated satisfactorily.

Moreover, Myanmar’s investment and savings to GDP are 10% lower than neighbouring countries such as Thailand, Cambodia and Vietnam. In order to accelerate economic growth and catch up with these countries, it is necessary to raise saving and investment ratio by 10%. As discussed in 3.1 “the scenario of Socio-Economic Development Framework”, FDI promotion activity plays a

[13] 4% capital consumption is often used in the economic analysis which employs production function.

[14] Since United Nation estimate that current population of Myanmar amounts to 48.7 million (Myanmar Government’s estimation is 60 million). FDI inflow per capita and FDI stock per capita are also calculated from this population data. Therefore, future population of Myanmar is estimated by using UN’s current population data and JICA Study Team’s population growth data in this analysis.

significant role for accelerating economic growth by way of bridging the gap between investment needs and national savings, and to bring management know-how, advanced technologies and techniques, and market opportunity.

Myanmar is gaining momentum to invite more FDI in the manufacturing sector and therefore, it is necessary to create a favorable environment for international investors by the use of this opportunity. One of the important actions is improvement of infrastructure, in particular electric power and transportation. Even under limited infrastructure, Myanmar could invite current scale of FDI. A favorable environment for international investors also attract domestic investors, and an increase in FDI would be a trigger for domestic investment.

Based on the vision above, the government of Myanmar needs to achieve tabulated investment figures in Table D.11. In the event the investment amount given in the table is achieved, Myanmar economy will experience 7.2% growth annually. Economic scale measured by real GDP will amount to 3.8 times of the GDP in 2010. The FDI amount is positioned as the visionof the FDIPP i.e. 135,212 billion Kyat (US$ approximately 140 billion, 28% of the total investment) during 2014 and 2030.

According to DICA's FDI statistics, permitted investment recorded 1,378 billion Kyat (94 projects) in 2012/13 and 2,968 billion Kyat (101 projects) in 2013/14[15]. Under this vision and numerical target, the government of Myanmar has to invite and accommodate 2.4 times of FDI amount and more than 300 investors annually during 2016-2020, and the figures will increase to 3.7 times and around 400 respectively.

Table D.11 Necessary Annual Investment Amount to Achieve GDP Growth Target

Unit: US$ Million

Year and Period	Total of Investment	FDI	Domestic investment	Government Capital Investment
2014	11,899	**3,282**	3,146	5,470
2015	14,308	**4,661**	3,763	5,884
2016-20 Average	20,558	**6,306**	5,093	7,416
2021-25 Average	32,025	**8,120**	10,672	10,516
2026-30 Average	49,886	**11,405**	19,095	14,888
Total	495,091	**138,429**	181,206	175,455

Source: JICA Study Team

In this circumstance, the JICA Team and DICA set the vision for Long Term FDI Promotion Plan(FDIPP) as "A dynamic economic growth led by FDI worth USD140 billion during the period 2014 to 2030".

D.2.4 Goals of FDIPP

FDIPP's goals are basically aligned with the four successive 5-year Development Plan, the "National Comprehensive Development Plan" (NCDP), currently being finalized. The first 5-year was set from 2011 to 2016, the second from 2017 to 2021, the third

[15] Investment amount and number of projects in 2013/14 are estimated from the achievement until October 2013.

2021 to 2025, and the fifth from 2026 to 2030. The short-term, mid-term and long-term goals were established as follows. Target amount of FDI will increase in line with improved investment climate. In short term, increase by quantity was focused. This sudden increase will be realized by active investment of the various types of multinational companies. These investments will eventually expand domestic markets as well as push for export–quality products. If the investment will increase by US$6 billion annually, Myanmar would be able to succeed in diversifying its industries. In the long term, agglomeration of infrastructure and industry will further improve investment climate in Myanmar and lead to solid growth.

Table D.12 Goals of FDIPP

Time Frame	Goals	Target Amount of FDI
Short-Term (2016):	Increase of FDI materialises access to global supply chain for Myanmar's economy and contributes to development of domestic market as well as export.	US$ 4 billion / year
Mid-Term (2017-2021):	On the foundation of industrial diversification, Myanmar enjoys the comparative advantages in AEC, establishing solid reputation in the area of FDI	US$ 6 billion / year
Long-Term (2021-2025):	Continuous FDI-led industrial development forms agglomeration with infrastructural sophistication and multi-layered supporting industries contributing as the core driver of Myanmar's sustainable economic growth	US$ 8 billion / year

Putting the goals as idealistic aspirations is often better at articulating their aspirations than at operationalizing the goals, such as target amount of FDI. These goals still needs to be elaborated further by stakeholders of FDI policies.

End of Appendix