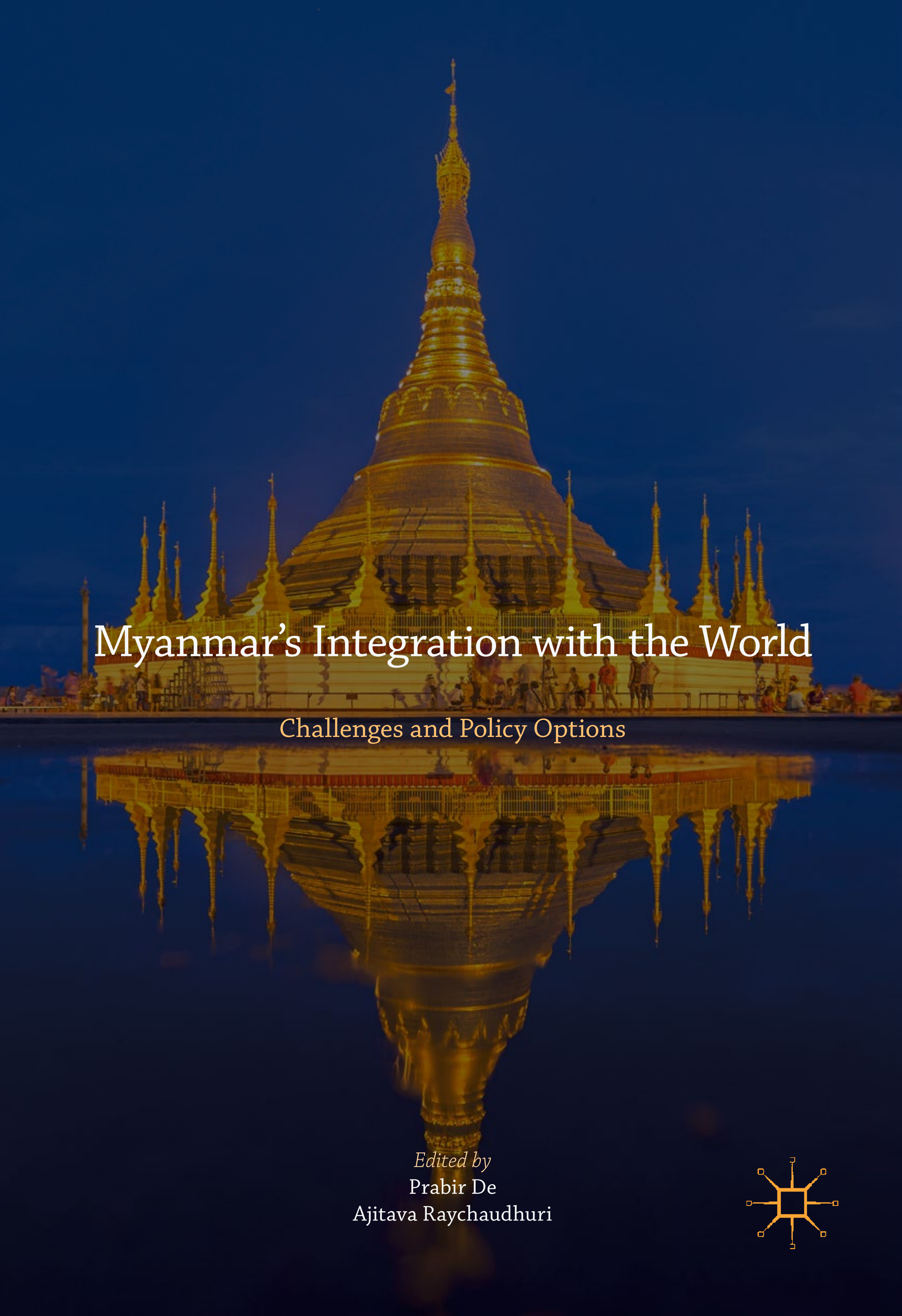


Myanmar's Integration with the World

Challenges and Policy Options

Edited by
Prabir De
Ajitava Raychaudhuri

Myanmar's Integration with the World

Prabir De • Ajitava Raychaudhuri
Editors

Myanmar's Integration with the World

Challenges and Policy Options

palgrave
macmillan

Editors
Prabir De
Research and Information System
for Developing Countries (RIS)
New Delhi, Delhi
India

Ajitava Raychaudhuri
Department of Economics
Jadavpur University
Kolkata, West Bengal
India

ISBN 978-981-10-5133-3 ISBN 978-981-10-5134-0 (eBook)
DOI 10.1007/978-981-10-5134-0

Library of Congress Control Number: 2017945616

Cover illustration: ©MR.ANUJAK JAIMOOK/gettyimages

Printed on acid-free paper

This Palgrave Macmillan imprint is published by Springer Nature
The registered company is Springer Nature Singapore Pte Ltd.
The registered company address is: 152 Beach Road, #21-01/04 Gateway East, Singapore 189721, Singapore

Preface

Emerging from decades of economic and political isolation, Myanmar is striving for rapid growth and integration with the world. Years of isolation, mismanagement and economic sanctions had damaged the economy in the past. Today, Myanmar faces a number of significant challenges, among which revitalising the stunted economy and restoring it to the normal growth path is the most daunting task.

Myanmar has started a journey to integrate with the world economy. But, Myanmar's growth and integration process is held up primarily due to inadequate infrastructure, domestic and international, and lack of managerial experiences in running the economy in an inclusive manner. Myanmar needs rapid growth to feed its development works. On one hand, Myanmar aims to achieve economic progress through macroeconomic stability, regulatory reforms, infrastructure and human resources development and promotion of international trade, while, on the other, the country is making wholehearted efforts to bring political stability through peace and reconciliation. An overarching priority for the new government would, therefore, be to further strengthen the global integration process.

There is a need to review the past and undertake new strategies to help both Myanmar and the global community achieve a new paradigm for Myanmar's global integration. This book, *Myanmar's Integration with the World: Challenges and Policy Options*, captures Myanmar's integration process with the world economy as it embarks upon a new era of reform and journey. In this volume, the ten contributed chapters make an attempt to fulfil this objective through detailed analysis of economic and non-economic factors. Each chapter tries to capture essential features of various overlapping issues and attempts to draw some policy implications.

The motivation for writing a book on Myanmar actually came to us when we met a group of research scholars of Yangon University of Economics (YUE) at Yangon in late 2012 and also at Research and Information System for Development Countries (RIS), New Delhi, in early 2013. We all felt an utmost requirement of a book, which can illustrate the desired pathways for Myanmar's globalisation in contemporary period.

Several people have supported us in bringing this volume. First of all, we are immensely grateful to Lindsey Block for extending a big support. We are thankful to each contributor for their contribution to this volume. Each paper has been written fresh for this volume. We are hugely benefitted from Mia Mikic's support and guidance. In particular, we are thankful to Tin Htoo Naing and Myo Myo Myint for organising series of workshops in Myanmar during the period 2014–2016. We are also grateful to Jim Rollo and Peter Holmes for sharing valuable insights on Myanmar economy. Authors would like to thank Amb. Shyam Saran for his encouragement. This volume has grown out of the training and capacity-building workshops organised by us under the Myanmar Training and Capacity Building project at RIS. The authors wish to thank several organisations that have supported their endeavour over the years—Research and Information System for Developing Countries (RIS), New Delhi; Jadavpur University (JU), Kolkata; The Department for International Development (DFID) offices at London, Delhi and Yangon; United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), Bangkok; Sussex University, Brighton; Yangon University of Economics (YUE), Yangon; Center for Economy, Environment and

Society (CEES)—Myanmar, Yangon; Myanmar Ministry of National Planning and Economic Development, Nay Pyi Taw; Myanmar Ministry of Commerce, Nay Pyi Taw; Asian Development Bank (ADB), Manila; the World Bank, Washington D.C. and the IPE-Global, New Delhi. We have gained valuable insights from the comments of the participants and we express our gratitude to all of them.

We also thank an anonymous referee whose comments helped to reorient the focus of some chapters. We gratefully acknowledge the research assistance extended by Opinder Kaur, and Ruchi Verma for copy editing of the manuscript and collating the Index entries.

The subject of this book will be of special interest to policy planners in Myanmar, development organisations, regional cooperation and integration specialists, officials, researchers and the students. The volume would certainly help them in formulating strategies and advancing knowledge in this field.

Views expressed in this publication are those of the authors and not the views of the RIS, JU and the organisations to which the contributors belong. Usual disclaimers apply.

New Delhi, India — Prabir De
Kolkata, India — Ajitava Raychaudhuri

Contents

About the Authors

Contributors

Partha S. Banerjee Deft Advisory and Research, New Delhi, India

Thomas Bernhardt Myanmar Centre for Economic and Social Development (CESD), Yangon, Myanmar

Prabir De Research and Information System for Developing Countries (RIS), New Delhi, India

ASEAN-India Centre (AIC), New Delhi, India

Cho Tin Tun Kirkpatrick Nova Southeastern University, Fort Lauderdale, FL, USA

Biswajit Nag Indian Institute of Foreign Trade (IIFT), New Delhi, India

Zin Zin Naing Department of Applied Economics, Yangon University of Economics (YUE), Yangon, Myanmar

Khin Thida Nyein Department of Economics, Monywa University of Economics, Monywa, Myanmar

Tha Pye Nyo Department of Economics, Meiktila University of Economics (MUE), Yangon, Myanmar

Sanjay Pulipaka Indian Council for Research on International Economic Relations (ICRIER), New Delhi, India

Ajitava Raychaudhuri Jadavpur University, Kolkata, India

Pierre Sauvé External Programs and Academic Partnerships, World Trade Institute (WTI), University of Berne, Berne, Switzerland

Cho Cho Thein Department of Applied Economics, Yangon University of Economics (YUE), Yangon, Myanmar

List of Abbreviations

ACIA	ASEAN Comprehensive Investment Agreement
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AEM	ASEAN Economic Minister
AEP	Act East Policy
AFAFIST	ASEAN Framework Agreements on the Facilitation of Inter-State Transport
AFAGIT	ASEAN Framework Agreements on the Facilitation of Goods in Transit
AFAS	ASEAN Framework Agreement on Services
AHN	ASEAN Highway Network
AMS	ASEAN Member State
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ASTD	American Society for Training and Development
ATD	American Talent Development
ATIGA	ASEAN Trade in Goods Agreement
AUSAID	Australian Aid Agency
BBIN	Bangladesh Bhutan India Nepal
BCIM	Bangladesh-China-India-Myanmar
BCIM-EC	Bangladesh-China-India-Myanmar Economic Corridor

BIA	Bilateral Investment Agreements
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BOO	Build-Operate-Own
BoP	Balance of Payment
BOT	Build Operate-Transfer
BRICS	Brazil, Russia, India, China and South Africa
BSMI	Bureau of Standards, Metrology and Inspection
CAGR	Compound Annual Growth Rate
CESD	Centre for Economic and Social Development
CESR	Comprehensive Education Sector Review
CLMV	Cambodia, Lao PDR, Myanmar and Vietnam
CMP	Cut-Make-Pack
CPSC	Consumer Product Safety Commission
CTE	Career Technical Education
DFID	Department for International Development
DICA	Directorate of Investment and Company Administration
DICA	Directorate of Investment and Company Administration
DTAAs	Double Taxation Avoidance Agreements
EAS	East Asia Summit
EBA	Everything But Arms
EFA	Education for All
EPIC	Education Promotion Implementation Committee
ERIA	Economic Research Institute for ASEAN and Southeast Asia
ESD	Employment and Skills Development
EU	European Union
FDI	Foreign Direct Investment
FIL	Foreign Investment Law
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GCC	General Conformity Assessment Certificate
GDP	Gross Domestic Product
GDVT	General Directorate of Vocational Training
GMS	Greater Mekong Sub-region
GSP	Generalized System of Preferences
GSTP	Global System of Trade Preferences Among Developing Countries
GTC	Government Technical College

GTHS	Government Technical High Schools
GTI	Government Technical Institute
GVC	Global Value Chain
HDI	Human Development Index
HRD	Human Resource Development
IAI	Initiative for ASEAN Integration
ICTs	Information and Communication Technologies
IGT	Irrawwady Green Towers
ILO	International Labour Organization
IMF	International Monetary Fund
IORA	Indian Ocean Rim Association
ISP	Internet Service Provider
IT	Information Technology
ITC	International Trade Centre
ITI	Industrial Training Institute
I-TIP	Integrated Trade Intelligence Portal
ITU	International Telecommunication Union
JICA	Japan International Corporation Agency
LCS	Land Customs Station
LDCs	Least Developed Countries
LPI	Logistics Performance Index
MACCS	Myanmar Automatic Cargo Clearance System
MCIT	Ministry of Communications and Information Technology
MCPT	Ministry of Communications, Posts and Telegraph
MDEF	Multi-Donor Education Fund
MDG	Millennium Development Goal
MFN	Most-Favoured-Nation
MGC	Mekong-Ganga Cooperation
MGMA	Myanmar Garment Manufacturers Association
MIC	Myanmar Investment Commission
MNC	Multinational Corporations
MOCT	Ministry of Transport and Communications
MoD	Ministry of Defence
MOET	Ministry of Education and Training
MoLESS	Ministry of Labor, Employment, Social Security
MOLISA	Ministry of Labor-Invalids and Social Affairs
MoST	Ministry of Science and Technology
MPT	Myanmar Post and Telecommunication

MTC	Myanmar Tower Company
MTNs	Multilateral Trade Negotiations
NCA	National Ceasefire Agreement
NGO	Non-Governmental Organization
NLD	National League for Democracy
NQF	National Qualifications Framework
NSDA	National Skill Development Authority
NSSA	National Skills Standard Authority
NTM	Non-Tariff Measure
OECD	Organisation for Economic Co-operation and Development
OVAE	Office of Vocational and Adult Education
PHC	Primary Health Center
PPP	Public-Private-Partnership
PTD	Posts and Telecommunications Department
QA	Quality Assurance
R&D	Research & Development
RATSI	Regulatory Assessment Toolkit of Services Trade and Investment
RCA	Revealed Comparative Advantage
RCEP	Regional Comprehensive Economic Partnership
SAARC	South Asian Association for Regional Cooperation
SASEC	South Asia Subregional Economic Cooperation
SDG	Sustainable Development Goal
SEZ	Special Economic Zone
SKRL	Singapore-Kunming Rail Link
SME	Small and Medium Enterprise
SPR	Service Policy Review
SPS	Sanitary and Phytosanitary
STRI	Services Trade Restrictiveness Index
TBTs	Technical Barriers to Trade
TELMIN	Telecommunications and IT Ministers
TELSOM	Telecommunications Senior Officials Meeting
TFA	Trade Facilitation Agreement
TVET	Technical and Vocational Education Training
UK	United Kingdom
UMFCCI	Union of Myanmar Federation of Chambers of Commerce and Industry
UN	United Nations

UN COMTRADE	United Nations Commodity Trade Statistics Database
UNCTAD	United Nations Conference on Trade and Development
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
US	United States
USA	United States of America
USAID	United States Agency for International Development
USDP	Union Solidarity and Development Party
VET	Vocational Education Training
WDI	World Development Indicators
WTO	World Trade Organisation
YSE	Yangon Stock Exchange

List of Figures

List of Tables

1

Introduction

Prabir De and Ajitava Raychaudhuri

Myanmar is perhaps Asia's last country to embrace globalisation. Myanmar had a memorable past. Emerging from decades of economic and political isolation, Myanmar is striving for rapid growth and integration with the world. Located at the crossroads of Asia, Myanmar possesses rich culture and tradition, vast natural resources, access to ocean, a relatively young population and a market with wide-ranging investment opportunities.

Transition to a democratically elected regime is the greatest achievement that Myanmar has witnessed in the contemporary period.[1] In 2015,

P. De (✉)
Research and Information System for Developing Countries (RIS),
New Delhi, India

ASEAN-India Centre (AIC), New Delhi, India

A. Raychaudhuri
Jadavpur University, Kolkata, India

P. De, A. Raychaudhuri (eds.), *Myanmar's Integration with the World*,
DOI 10.1007/978-981-10-5134-0_1

the National League for Democracy (NLD) has formed the democratic government in Myanmar. Although the economic liberalisation process had started in 2011, the current government has launched new economic policies and major reforms towards market-based economy and accelerated efforts for the peace process. But years of isolation, mismanagement and economic sanctions had damaged the economy in the past. Today, Myanmar faces a number of significant challenges, among which revitalising the stunted economy and restoring it to the normal growth path are the most daunting task.

With 54 million population and GDP of US$ 63 billion (US$ 283 billion in PPP terms), Myanmar is still not well connected with neighbours as well as globally. Table 1.1 illustrates the basic economic profile of Myanmar. Myanmar witnessed over 7 per cent annual growth in 2015 over 2014, but grew at a CAGR of about 5 per cent for the period 2010–2015, and achieved per capita income of US$ 1161.49 (US$ 5249.74 in PPP terms) in 2015. Such rapid growth at a low base has generated high inflation in the country (10.80 per cent). Thus,

Table 1.1 Basic economic profile of Myanmar: 2015

Sl. no.	Indicators	2015
1	Population, total (million)	53.90
2	Rural population (% of total population)	65.90
3	Urban population (% of total)	34.10
4	Surface area (sq. km) (million)	0.65
5	GDP, PPP (current international billion $)	282.95
6	GDP (current US$ billion)	62.60
7	GDP per capita (current US$)	1161.49
8	GDP per capita, PPP (current international $)	5249.74
9	GDP Current US$ Growth (CAGR from 2010 to 2015) (%)	4.79
10	GDP annual growth, (%)	7.29
11	Trade (% of GDP)	47.32
12	Exports of goods and services (current US billion $)	13.01
13	Imports of goods and services (current US billion $)	16.61
14	Tariff rate, applied, simple mean, all products (%)	4.21
15	Inflation, consumer prices (annual %)	10.80
16	Ease of doing business rank[a]	171
17	Logistics performance index rank[a]	113

Source: World Development Indicators (WDI), the World Bank
[a]Global rank

controlling inflation is a big challenge to the Myanmar government. A vast population of Myanmar live in rural areas (66 per cent in 2015) and is yet to have access to basic socio-economic facilities such as health, education and electricity. Trade openness is relatively low (47.32 per cent) having only US$ 13 billion export and US$ 17 billion import. Globally, Myanmar is among the bottom league of countries in both *Ease of Doing Business* and *Logistics Performance Index* indicators.

Myanmar's growth and integration process is held up primarily due to inadequate infrastructure, domestic and international, and lack of managerial experiences in running the economy in an inclusive manner.[2] Myanmar needs rapid growth to feed its development works. On the one hand, Myanmar aims to achieve economic progress through macroeconomic stability, regulatory reforms, infrastructure and human resources development and promotion of international trade, while, on the other, the country is making wholehearted efforts to bring political stability through peace and reconciliation.

The Myanmar government must continue its reform momentum to bring better governance, effective public sector management, guidance and coordination with states and a favourable business environment. Myanmar's future looks bright, with its economy expected to quadruple by 2030 if it invests in more high-tech industries.[3] An overarching priority for the new government would, therefore, be to further strengthen the global integration process.

Myanmar is unique in terms of its strategic location—two large economies of the world, namely, India and China, are its immediate neighbours.[4] Myanmar is the bridge-head between South and Southeast Asia. India, China, Thailand and other neighbouring countries offer important development lessons to Myanmar, which can help Myanmar in its economic transition. Myanmar is one of the old member institutions of the United Nations (UN). Building stronger partnership with the multilateral trading system (through the WTO, the UN and other agencies) would bring economic sustainability in the country. At the same time, greater regional cooperation with regional blocks such as ASEAN (and EAS) can unlock Myanmar's growth potential arising from increased trade, cross-border investment and technology. Also, Myanmar can strengthen its ties with all regional initiatives such as BIMSTEC, SAARC, BBIN, GMS, SASEC, IORA and MGC. In other words, Myanmar should benefit from its geographic position, which offers a wide range of new opportunities.

This volume, *Myanmar's Integration with the World: Challenges and Policy Options*, captures Myanmar's integration process with the world economy as it embarks upon a new era of reform and journey. This volume has several seminal pieces of works. It presents fresh narratives on foreign policy and security challenges, trade and trade barriers, production networks and prospects of human resources development. Let us briefly discuss them one by one.

Restoration of democracy is the greatest achievement that Myanmar has witnessed in the contemporary period. Myanmar is fast moving towards a democratic framework of governance. Chapter 2 (Myanmar's Political Transition) argues that the success of Myanmar's transition to democracy will depend on devising successful response to three challenges: the civil–military contest, ethnic and sectarian conflict, and the complex geopolitical environment. It is important for Myanmar to navigate these three challenges deftly. This chapter presents a synoptic overview of Myanmar's political transition. It deals with the civil–military contest, ethnic and sectarian violence and regime change and geopolitics. The chapter tells us that democratic forces led by Aung San Suu Kyi and the Myanmar military have demonstrated considerable political sagacity in terms of acknowledging each other's political space. The contestation has also not resulted in broken political framework yet. Many armed ethnic groups have put aside decades of animosity and grievances to explore lasting political settlement. Myanmar thus far has been able to strike a balance in its relationship with major powers. Compared to a decade ago, Myanmar today seems to have a more balanced foreign policy. However, there is still a considerable distance to travel. Appropriate domestic policies, coupled with generous international assistance, will help Myanmar in its journey towards long-lasting peace. The success of Myanmar's political transition will have a lasting impact on the security of India, China and the wider Southeast Asia region. A peaceful Myanmar is essential for strengthening the country's economic integration with the world economy.

Chapter 3 (Myanmar's Growth and Employment Potential Through Trade and Investment: Some Challenging Issues) discusses Myanmar's path to globalisation. Myanmar's economy is still dominated by agriculture and natural resources with slow development of the industrial sector. Employment is largely dominated by the informal sector. The economy was almost isolated from the globalisation process for decades and whatever international trade it had was dominated by resource trade. While Myanmar has more flexibility in terms of aligning its trade basket according to dynamic comparative advantage, the country faces challenges, which any latecomer faces in an era of cut-throat international competition in an increasingly globalising world. It is not growth alone which is important, but creation of employment at all levels of skill is equally important for stability in the nation. At present, trade is dominated by manufactured products instead of agricultural or resource-based goods. This chapter suggests that Myanmar should try to take this into cognizance. Services now dominate the aggregate production in most economies, although agriculture still plays an important role in Myanmar. However, many of these services are generated in manufacturing activities. Thus, strengthening manufacturing activities will also give a boost to the service sector. The manufacturing sector is the real driver of employment creation in the Myanmar economy. The challenge is to integrate Myanmar in international trade in such a way that it not only boosts growth but also creates jobs. Unless Myanmar could participate in the expanding global value chain through its participation in parts and components production, it will not help Myanmar much in this regard. Thus, it follows that without a strong linkage to the large industries through the value chain process, the globalisation will benefit the large but not the small firms in Myanmar. At the same time, one must not be too much focused on trade and growth alone; the employment generation should get equal stress to have true inclusive growth and development.

The discussion in Chap. 3 is further taken forward through a case study on the Indian side in Chap. 4 (Myanmar–India Trade: An Empirical Study on Possible Employment Benefits for the State of Mizoram). In the current global scenario, increased employment opportunities assume a greater importance in public discourse as one of the more visible outcomes of economic development. Based on field survey, Chap. 4 makes an attempt to estimate the employment generation potential and additional new skill/upskilling needs of Mizoram state of India emanating from an enhanced Myanmar–India trade through the Zokhawthar border point in Mizoram. Trade flowing through Mizoram can serve the bigger markets of lower Myanmar and Thailand, using the India–Myanmar–Thailand links. This chapter has run a logit regression which identified that one of the major reasons for not having industries is the lack of skilled labour. It has further identified that potential growth will come from services industries in the short run. In the medium to long run, there is a possibility of growth in light manufacturing industries. Fresh investment, along with new technology, is required to improve the productivity of these sectors. The lessons learnt from this study are equally applicable to the Myanmar side as well. Some of the other chapters have addressed the problem of skill development in Myanmar very specifically.

Services trade has emerged as major source of income, employment and foreign reserves across the countries in the world. The importance of services in developing countries has also grown continuously. Bulk of employment comes from the services sector in Myanmar. Services sector reforms in Myanmar are therefore critical for sourcing technology and knowledge as well as facilitating the country's global integration process. Chapter 5 (Myanmar: Elements of a Policy Research Agenda in Services Trade) discusses policy research agenda in services trade and draws lessons for Myanmar. This chapter discusses the elements of the policy formulation supply chain in services. The trends in services trade suggest a large untapped potential for Myanmar to advance the development of services sectors. Major approaches towards this goal include the creation of an enabling environment through improved policy, regulatory and institutional frameworks for the service economy and more liberalised services trade to enhance market access and investment opportunities. Robust policies and reforms, adequate human resources as well as improved regulatory institutions and governance, can all help create an enabling environment in Myanmar. This enabling environment is critical to development-enhancing investment, trade flows and value chains.

Chapter 6 (Myanmar, Say Hello to the World of Global Value Chains) explores the scope of Myanmar's participation in global value chains (GVCs). GVCs are new to Myanmar and vice versa. Myanmar is new to the GVC world in the sense that lead firms are only now "discovering" Myanmar as a potential sourcing country and a "new frontier". Such participation in GVCs can bring economic and social benefits. However, as the experience of other countries has shown, the benefits from GVC integration do not materialise automatically and there are actually also risks associated with it. This chapter addresses the challenges Myanmar face on its way towards deeper GVC involvement. Public policy can play an important role in facilitating and promoting Myanmar's further integration into GVCs. The analyses presented here suggest that government reforms and support are most needed to upgrade the country's hard infrastructure (electricity, transport and ICT) to reduce transactions costs and improve international connectivity. In parallel, trade policy reforms should aim at streamlining export and import procedures (including licensing requirements), speeding up customs clearance processes (e.g. through automation), simplifying the tariff structure and stepping up export promotion measures. Industrial policy can play a role in enhancing the productive capacities and international competitiveness of Myanmar. Investment policy reforms can contribute to attracting more FDI in sectors with potential for GVC integration. Government efforts are required to spur human capital development and skills upgrading. A well-designed and coordinated reform programme will be helpful not only to enhance Myanmar's participation in GVCs but also to ensure that it benefits from it in the form of more exports, higher local value addition and an increase in decent jobs.

With increasing trade liberalisation, the relative importance of trade barriers arising from non-tariff measures (NTMs) has increased in recent decades. Though the majority of NTMs are WTO-consistent and designed to protect the well-being of consumers or the environment in the importing country rather than protecting domestic producers, in practice, they may impose undue or disproportionate burdens on some foreign producers or products, or be disguised restrictions on trade. Chapter 7 (NTMs in Textile and Apparel Industry in Myanmar: Analysis of Impacts of Trade Barriers) analyses the trade barriers arising from NTMs faced by Myanmar with particular reference to the apparel sector. The motivation for selecting the apparel sector as a case study arises from the sector's importance for employment and inclusive growth in Myanmar. The government has been undertaking many efforts to create a favourable investment climate, aiming at generating more employment opportunities, developing human resources and facilitating the economic growth of the country. The government allowed the private sector to start businesses in various sectors. The apparel industry has achieved phenomenal growth and a considerable share of Myanmar's total export. It is also a major source of employment, especially for the women. Policy measures are needed in order to enhance and create new trade opportunities that would also contribute to the larger employment opportunities in the country.

Labour reforms and skill development are one of the priority objectives of the current Myanmar government. The importance of TVET in Myanmar in creating skilled labour has been well recognised. However, the improvements are needed for the implementation of policies for TVET system to make it sustainable. Chapter 8 (Myanmar Technical and Vocational Education Training System and Policy Reform) discusses progress in TVET in Myanmar and suggests a set of policy reforms which are needed to sustain labour market development. Learning from countries that had implemented TVET would help Myanmar to better deal with the challenges.

Regional integration is not a panacea for Myanmar for everything, but it is certainly a helpful path to improve trade relations with the neighbours, attracting FDI, sourcing technology and know-how, among others. Myanmar is a latecomer to join regional blocks. Surrounded by the world's two great emerging economies, namely, China and India, Myanmar perhaps prefers bilateralism over regionalism. Myanmar is an important member of ASEAN and BIMSTEC. Chapter 9 (Regional Integration and Myanmar: Current Status and Prospects) analyses Myanmar's participation in regional integration initiatives, highlights the advantages and disadvantages, and discusses challenges that Myanmar has been facing in integrating with regional economies. Myanmar has great expectations from the ASEAN Economic Community (AEC).

Chapter 10 (ASEAN Economic Community and Preparedness of Myanmar's Services Sector: Case of Telecommunications Services) reviews the public policy reforms of state-owned enterprises in Myanmar, compares the services trade liberalisation in Myanmar along the AEC Blueprint and evaluates the current status and the progress of trade in services in Myanmar. This chapter examines service sector development in

Myanmar with particular reference to the telecommunication sector. Under the AEC, free flow of trade in services is one of the important components of regional integration. The AEC aims to remove substantially all restrictions on trade in services. Therefore, this chapter studies preparedness of Myanmar's services sector in the AEC.

Myanmar has started a journey to integrate with the world economy. There is a need to review the past and undertake new strategies to help both Myanmar and the global community achieving a new paradigm for Myanmar's global integration. In this book, the ten contributed chapters make an attempt to fulfil this objective through detailed analysis of economic and non-economic issues. Each chapter tries to capture essential features of various overlapping issues and attempts to draw some policy implications.

Appendix: List of Major Events in Myanmar Political History

Year	Event
1948	Burma was granted its independence from Great Britain, and became a democracy based on the parliamentary system. Aung San became Deputy Chairman of the Executive Council of Burma and U Nu as Prime Minister
1962	Ne Win led a military coup to oust U Nu as Prime Minister and initiated half a century of military rule that isolated Myanmar and turned it into one of the poorest countries in the world
1989	SLORC declared martial law, arrested thousands of people, including advocates of democracy and human rights, renames Burma 'Myanmar', with the capital, Rangoon, becoming Yangon. NLD leader Aung San Suu Kyi, the daughter of Aung San, was put under house arrest
1989	Aung San Suu Kyi, an increasingly outspoken critic of the junta, was put under house arrest, which continued on-and-off for 15 of the next 22 years
1990	The National League for Democracy (NLD) won landslide victory in general election, but the result was ignored by the military government
1991	Aung San Suu Kyi was awarded the Nobel Peace Prize for her peaceful struggle against the regime

(*continued*)

Year	Event
1992	Gen. Than Shwe replaced Saw Maung as junta leader, prime minister and defence minister. Several political prisoners were freed in a bid to improve Myanmar's international image
2005	Myanmar turned down the 2006 chairmanship of the regional grouping
2007	Wave of public dissent sparked by fuel price hikes. Dozens of activists were arrested
2008	Cyclone Nargis hit Myanmar's low-lying Irrawaddy delta, killing an estimated 134,000 people. Soon after, junta hold referendum on new military-drafted constitution that it claimed won 92 per cent support
2009	The EU extended the 2006 sanctions for another year, but added that they can be reviewed in the event of moves towards democracy
2010 March	Government announced that long-awaited election laws have been passed, with provisions for an electoral commission hand-picked by the junta The NLD voted to boycott polls. A splinter party—National Democratic Front (NDF)—later gains legal status and plans to compete in polls
2010	Government changed the country's flag, national anthem and official name
2010	Military-backed Union Solidarity and Development party won victory in the first election in 20 years. The NLD boycotted the polls, which were widely seen as neither free nor fair. Opposition groups alleged widespread fraud
2011	Former junta official Thein Sein had sworn in as President of a new, nominally civilian government
2015	Opposition NLD party, led by Aung San Suu Kyi, won the general election and enough seats in both houses of parliament to form a government
2016	Parliament elected Htin Kyaw as president, the country's first democratically elected leader in more than a half century

Source: Adapted from BBC's Listing of Myanmar's Historical Events

Notes

1. Refer Appendix for a list of major events took place since Burma (Myanmar) got its independence in 1948. Courtauld (2013) also nicely presents Myanmar's past history and an overview of Myanmar's current economy.

2. Asian Development Bank (2012).
3. McKinsey Global Institute (2013).
4. Thant (2011).

References

ADB. (2012). *Myanmar in Transition Opportunities and Challenges*. Manila: Asian Development Bank (ADB).

Courtauld, C. (2013). World Economic Forum for East Asia, Hong Kong. *Myanmar Today*, 24–67.

McKinsey Global Institute. (2013). *Myanmar's Moment: Unique Opportunities, Major Challenges*. Seoul/San Francisco: McKinsey Global Institute.

Thant, M.-U. (2011). *Where China Meets India: Burma and the New Crossroads of Asia*. New York: Farrar, Straus & Giroux.

2

Myanmar's Political Transition

Sanjay Pulipaka

1 Introduction

Myanmar has been making a slow and steady progress towards democracy. While the promise of democratic movements (Arab Spring) dissipated in the Middle East, Myanmar continues its journey towards democracy. If we go by conditions under which democracies tend to flourish, Myanmar would be the most unlikely place for the participatory politics to take firm roots. Its political landscape is dotted with intense ethnic conflict dating back to more than seven decades. It is a multilingual and a multi-religious society. However, ethnic minorities are worried that their languages and religions are not accorded appropriate space in the political frameworks. Myanmar is endowed with natural resources. However, it seems to be suffering from a Burmese variant of "resource curse." Natural resources have become the site of political

S. Pulipaka (✉)
Indian Council for Research on International Economic Relations (ICRIER), New Delhi, India

P. De, A. Raychaudhuri (eds.), *Myanmar's Integration with the World*,
DOI 10.1007/978-981-10-5134-0_2

contestation, rather than being important nodes of revenue generation. It has a large army compared to its counterparts in Southeast Asia. But Myanmar lacks robust administrative frameworks. This was clearly evident when the state apparatus struggled with its emergency response to Cyclone Nargis. There are towering political leaders, but there are concerns that party structures are very fragile. It is in this mix of complex and challenging conditions that Myanmar is slowly moving towards a democratic framework of governance. The success of Myanmar's transition will depend on devising successful response to three challenges: the civil-military contest; ethnic/sectarian conflict; and the complex geo-political environment.

In view of the above, this chapter presents a synoptic overview of Myanmar's political transition. Rest part of the chapter is organised as follows. Section 2 deals with the civil–military contest, while Sect. 3 discusses the ethnic and sectarian violence in the country. Regime change and geopolitics are then discussed in Sect. 4. Finally, conclusions are drawn in Sect. 5.

2 The Civil–Military Contest

After approximately six decades of military rule, Myanmar witnessed general elections in 2010.[1] These elections were organised under the Myanmar Constitution of 2008. It is important to note that the 2008 Constitution envisages a power-sharing agreement between the civilian and military units. It does not promise to usher-in complete civilian governance. As a consequence, there was very little optimism that 2010 General Elections would bring in any real change. Moreover, Aung San Suu Kyi was still under house arrest. Since prisoners could not contest elections as per the Election Law, Suu Kyi was also barred from the electoral process. The National League for Democracy (NLD), therefore, decided not to contest elections as its pre-eminent leader was barred from the political process. This left the electoral field open for the military-backed Union Solidarity and Development Party (USDP) to dominate the election process. Amid allegations of electoral irregularities, the USDP registered victories in approximately 80 per cent of seats open for election.

This, coupled with 25 per cent of the seats reserved for military in legislatures, ensured complete control of defence forces in the national decision-making process. These developments failed to generate optimism about Myanmar's transition in various assessments of international observers. A former military general, Thein Sein, was sworn in as President. There was a general opinion that military rulers have merely changed from military fatigues to civilian dressing. Implicit in the criticism was the perception that there was no substantial change in the governance framework. Contrary to expectations, President Thein Sein turned out to be reformer par extraordinaire. His political communication was often understated, but his reform measures were radical by Myanmar standards. A country which did not experience free media for decades witnessed the emergence of daily newspapers. Right to protest was allowed through legislation. Significant economic and financial reforms were ushered-in. The Parliament and other legislatures witnessed genuine debate, and functioned as they are supposed to. The constraints on Internet were removed. Aung San Suu Kyi was released from house arrest, and she was allowed to contest the by-elections in April 2012. As expected, she won 43 out of 45 seats. President Thein Sein did not roll back the reform process because of Suu Kyi's electoral victories. Instead, he continued with other diverse reform measures, such as the release of political prisoners and enactment of foreign direct investment legislation. In the international realm, President Thein Sein diversified Myanmar's external engagement. The organisation of the Association of Southeast Asian Nations (ASEAN) Summit in Nay Pyi Taw demonstrated the Myanmar government's ability, under Thein Sein, to deftly manage the big power politics. The ASEAN Summit witnessed participation of all the heads of the states from ASEAN countries as well as other big leaders, such as the United States (US) President Barack Obama and Russian President Vladimir Putin. Unlike the earlier ASEAN Summit in Cambodia, the Myanmar Summit did not break down on South China Sea issues. The Myanmar government, as a chair of ASEAN, can also be credited for this success.

In spite of the above-mentioned progress made by President Thein Sein's government, the democratic forces were disappointed with lack of progress on three important areas: (i) there was no attempt made to reduce the presence of the Myanmar military in the legislatures as well as in other decision-making processes; (ii) the procedure to amend the Constitution, which mandated 75 per cent of votes in parliament followed by national referendum, was also not diluted; and (iii) the constitutional provisions pertaining to qualification of President, Vice-President and other higher officials tended to be regressive.

It is with this mixed record of President Thein Sein and growing popularity of Aung San Suu Kyi that the 2015 General Elections were organised. It is possible that Thein Sein was not disliked by the electorate. However, they had a strong preference for Suu Kyi. There were concerns about Article 59 (f), on qualifications for the President, which stated that "shall he himself, one of the parents, the spouse, one of the legitimate children or their spouses not owe allegiance to a foreign power, not be subject of a foreign power or citizen of a foreign country. They shall not be persons entitled to enjoy the rights and privileges of a subject of a foreign government or citizen of a foreign country."[2] This constitutional provision effectively prevented Suu Kyi from becoming the President as her children had foreign citizenships. During the election campaign, Suu Kyi sought to address the concerns of her supporters by stating: "If we win, and the NLD forms a government, I will be above the president."[3] Her statement generated intense debate as to whether Suu Kyi is seeking to violate the Constitution. And there were concerns that such attitude would result in political crisis after elections. Unlike the views of political pundits, it appears that Suu Kyi's supporters strongly endorsed the statement of assuming a position above the President. In the elections, the NLD, under Suu Kyi's leadership, registered an emphatic victory winning approximately 77 per cent of seats in both houses of the Parliament and the military-supported USDP was able to secure only 10 per cent of the seats.[4] Interestingly, Suu Kyi's NLD's electoral performance was well above par even in the ethnic regions. The strong preference for the NLD over ethnic parties came as a surprise to many. The fear that since 25 per cent of the seats were reserved for the military, the defence forces may form a government with smaller parties may have prompted the electorate to vote overwhelmingly for the NLD. The elections were organised in November 2015, and the new government came to power in March 2016. In spite of the time lag in the run up to the formation of the new government, the transfer of power was smooth. The credit for this should go to Suu Kyi as well as the outgoing President Thein Sein.

At the time of the formation of the government, there was some disappointment that the NLD's pre-eminent leader Suu Kyi was not in a position to become the President. There were also concerns as to how Suu Kyi would act "above the President." This predicament was addressed by a two-pronged strategy: first, Htin Kyaw, a close confidante of Suu Kyi, was nominated as the NLD's candidate for the office of the President. In the Presidential elections, Htin Kyaw was elected as the President by the Parliament, General Myint Swe was elected as the First Vice-President, and Henry Van Thio was elected as the Second Vice-President. The Second Vice-President, Henry Van Thio, comes from the Chin Christian community background. The First Vice-President General Myint Swe, supported by the military, has a reputation for being a hardliner. According to Article 73 of the Myanmar Constitution, the first Vice-President can serve as the "Acting President if the office of the President falls vacant due to his resignation, death, permanent disability or any other cause."[5] In case of a few unfortunate developments, the First Vice-President Myint Swe can serve as an acting President. While the NLD was able to appoint a close friend of Suu Kyi as President, Suu Kyi herself took up important cabinet positions, such as, foreign affairs, education and energy. However, this did not ensure that Suu Kyi's leadership presence would be felt across the administrative framework. It is here that the NLD operationalised the second component of its strategy. Through a parliamentary legislation, a new office of the "State Counsellor" was created for Suu Kyi. It had all the functions and powers that are usually given to a Prime Minister. It is by creating this position of the State Counsellor that Suu Kyi was able to reinforce and legitimise a powerful position within the political and bureaucratic framework. The legislation did not go down well with the military members of the Parliament. They opined that the position of the State Counsellor violated the principle of *Separation of Powers*, and some argued that the process through which the legislation was pushed in the parliament amounted to "democratic bullying."[6] There were also concerns that there is significant concentration of power in the hands of Suu Kyi as she is now a State Counsellor as well as a cabinet minister holding important portfolios. It may indeed be true that there is concentration of power in the leadership of the ruling party. However, if we take the legislative and executive organs of the government, then the perception that there is too much power in the hands of one single elected individual may not be totally accurate. With defence, interior affairs and border affairs ministries in the hands of the military leadership, and 25 per cent of the seats in the legislature is reserved for the military, the accusation that an elected leader has concentrated power is not an accurate depiction of the political reality.

While the military members in the Parliament have expressed dissent on the "State Counsellor"s' legislation, one wonders if this legislation had tacit support of the senior military leadership. Prior to taking over the office, Suu Kyi interacted with former military leader Senior General Than Shwe. After the meeting, the Senior General reportedly observed: "Everyone has to accept the truth that Daw Aung San Suu Kyi will be the future leader of Myanmar after winning the elections. . .I will support her earnestly as much as I can if she really works for the development of the country."[7] It should be noted that it was General Than Shwe who subjected Suu Kyi for prolonged house arrest. The military leadership was always deeply suspicious of Suu Kyi's motives as well as objectives. Therefore, this meeting suggests a semblance of rapprochement between the military leadership and the Suu Kyi-led NLD. The convergences were also evident in the position adopted by the NLD and the military on important issues, such as responding to ethnic and sectarian violence.

3 Ethnic and Sectarian Violence

One of the important tasks that the NLD leadership had to address after resuming power was to ensure that there is genuine national reconciliation. It is well-known that Myanmar is experiencing numerous ethnic conflicts. There are more than a dozen potent armed ethnic groups located and controlling different parts of the country. While sustained military action has eroded the capabilities of some of these armed groups, many of them continue to remain powerful. Since 2010, President Thein Sein's government concluded various ceasefire agreements. There was also an agreement on the draft National Ceasefire Agreement (NCA).

However, for genuine ceasefires to come into play, there is need for political agreement on the nature/character of the Union. Many armed ethnic groups have given up their demand for independence. Nonetheless, many of these groups are seeking substantial autonomy. To achieve this, it is important to usher-in a genuine federal structure. In order to generate consensus on these issues, the NLD called for a national conference, also called as the 21st Century Panglong Conference in August 2016. While many ethnic groups have expressed reservations about the dialogue process, fairly large number of them participated in this process.[8] The Panglong Conference became the platform to have a greater understanding on the divergences and convergences among various ethnic groups on federalism. As Suu Kyi noted, "The most important thing is that we can agree to tackle the issues courageously. . .After listening to the presentations of all groups over the past four days, I know now who is concentrated on past wrongs and who is focused on how to build our future state. . .But there is time yet for those stuck in the past to look forward".[9] It appears that the military is not opposed to the NLD's approach of convening the Panglong conference.

There are concerns that Suu Kyi is not contesting the military's approach to sectarian violence in Myanmar. In the past few years, there were sectarian clashes between the Rakhine Buddhists and minority Muslims in the Northern Rakhine region. Myanmar claims that Muslims from Bangladesh are illegally migrating into Rakhine province and thereby contributing to disharmony in the society. On the other hand, the Myanmar government has been accused of failing to recognise the rights of a local ethnic community—Rohingyas—and unfairly branding them as aliens or non-citizens. The government of Myanmar denies the presence of an ethnic community called "Rohingyas" and terms them as illegal immigrants from Bangladesh. As a consequence of these clashes, large numbers of people have lost their lives and scores have been subjected to forced migration.

While there are no accurate numbers, it is estimated that some 30,000 people were displaced because of the violence, and often many of these travel to Bangladesh under harsh conditions.[10] Some Rohingya refugees do trickle into countries like India. However, large majority of these refugees travel to Thailand en route to Malaysia or Australia on rickety boats. Reuters journalists had carried out a rigorous study on Rohingya forced migrations to Thailand. The study, titled "Preying on the Rohingya," notes how state actors such as "Thai security forces work systematically with smugglers to profit from the surge in fleeing Rohingya." The study brings into relief the complicated and sophisticated smuggling industry that has developed around the Rohingya forced migration.

The violence on Muslim minority groups and consequent migration is having impact on regional politics. In countries such as Malaysia, there were protest demonstrations in which Prime Minister Najib Razak also participated and made caustic observations: "what's the use of Aung San Suu Kyi having a Nobel Prize? We want to tell Aung San Suu Kyi enough is enough. . .we must and we will defend Islam. UN, please do something. The world cannot sit by and watch genocide taking place. . .the world cannot say it is not our problem. It is our problem."[11] The probability that Malaysia's ruling party's tough posturing on the Rohingya issue may have been guided by the necessity to win the upcoming elections was noted by the same observers.[12]

Given the semi-democratic character of the regime, Suu Kyi is working under serious constraints. First, she has no control on the military. Second, all the critical ministers such as home, defence and border affairs are appointed by the military. Given these constraints, Suu Kyi's ability to determine the trajectory of the military's response in Rakhine state is minimal. Even if Suu Kyi were to criticise the military's response, the possibility of changing security policies in Rakhine state is nominal. With these constraints, she has important responsibilities as the State Counsellor and Foreign Minister, where she is expected to defend the actions taken in Rakhine state.

Suu Kyi's strategy, thus far, seems to be to argue that much of the international coverage has been exaggerated and is actually contributing to violence. For instance, Suu Kyi stated: "I would appreciate it so much if the international community would help us to maintain peace and stability, and to make progress in building better relations between the two communities, instead of always drumming up cause for bigger fires of resentment."[13] Implicit in Suu Kyi's statement is the concern that international organisation and media are putting out views without proper information. This could have been avoided if the Myanmar government allows independent international news agencies to travel to Rakhine state and report events from there. However, the concern that international media would amplify the fault lines may have prevented the Myanmar government from giving such permissions. The Suu Kyi-led civilian government was boxed into a corner. If she permitted international media, then Buddhist nationalists would have criticised her for letting the external agents to tarnish the image of the Myanmar military. Not permitting international media meant permitting information flows that are not corroborated.

4 Regime Change and Geopolitics

Has there been a significant shift in the foreign policy of Myanmar since Suu Kyi has taken over the helm? It appears that Myanmar under Suu Kyi seems to be guided more by pragmatist approach than idealist approach that mandates emphasis on values and rights. Suu Kyi seems to have brought a certain ease in interactions with the western countries and more calibrated approach towards neighbours. However, there seems to be continuity in the broader thrust of Myanmar's foreign policy. The continuity in the realm of foreign policy is understandable because Myanmar is located between two big powers (China and India) and is a member country of ASEAN. Further, the ongoing ethnic conflict in Myanmar has a cross-border dimension. For instance, according to the UN estimates, some 15,000 people have moved into China because of the hostilities in Myanmar.[14] Suu Kyi has to manage these complex interlinkages between internal peace and external interactions.

Suu Kyi apart from being the State Counsellor is also the foreign minister and is also considered as the de facto head of the government. As a consequence, during the foreign visits, she was often treated like the head of the state and given her stature as Nobel Laureate, she has greater reach in the international arena than many of her predecessors. This gives her a unique opportunity to argue on Myanmar's behalf with greater intensity. On the other hand, there is also greater scrutiny and quick expression of disappointment of her policies.

President Htin Kyaw's and State Counsellor Suu Kyi's first visit was to Laos, which was also the Chair of ASEAN in 2016. Subsequent visits of Suu Kyi included countries such as Thailand (June 2016) and Malaysia (July 2016). The necessity of good neighbourly relations, increased economic interactions and strong presence of Myanmar migrant labour in these countries may have impacted Suu Kyi's decision to visit these countries. The fact that a neighbouring country and a member country of ASEAN was chosen for the first visit and her subsequent visits gave an indication that the new government in Myanmar decided to adopt an ASEAN-first approach in its foreign policy.

4.1 China

Even prior to Suu Kyi's elevation as "State Counsellor," the Chinese government seems to have made efforts to build bridges with newly elected civilian government in Myanmar. Foreign minister of China, Wang Yi, was the first foreign minister to visit Myanmar after the NLD government came to power. In return, the first visit of Suu Kyi outside ASEAN was to China in August 2016. Not surprisingly, this was portrayed as Suu Kyi's preference for China over India in some of the news outlets. For instance, Liu Zongyi in *The Global Times* argued that the visit "shows that China seems to be more significant than India in Myanmar's diplomacy."[15] There was a tinge of disappointment in the western media over Suu Kyi's choice of first visit outside ASEAN. As an article in the New York Times noted:

> Hillary Clinton considers her a friend. President Obama has invited her to the White House next month. But on her first visit to a major capital since becoming leader of Myanmar, Daw Aung San Suu Kyi chose a different destination: Beijing…[this] offered a potent signal that her foreign policy would be more friendly toward China, which is eager to strengthen its foothold in the country.[16]

Such disappointment is located in the assumption that Suu Kyi, as an activist for democracy, would prefer a democratic country for her first visit outside ASEAN countries. However, her foreign policy choices clearly suggest that they are guided by realpolitik considerations.

The State Counsellor Suu Kyi's visit to China is understandable. China is one of the largest trade partners, significant investor and a member of the United Nations Security Council. More importantly, China has substantive influence with various armed groups that operate in Myanmar. As a consequence, Suu Kyi is involved in a complicated conversation with the Chinese. There are concerns in Myanmar about the Chinese economic activities. Bowing to popular pressures, former President Thein Sein in 2011 suspended the construction of the Myitsone Dam by the Chinese companies.[17] During Suu Kyi's visit to Beijing, the Chinese authorities pushed for the revival of the Myitsone Dam. As Liu Zhenmin, China's Vice Foreign Minister, said, "She also said that she is willing to look for a resolution that suits both sides' interests via both sides' energy administrations' cooperation."[18] What would such a resolution look like? There have been reports which suggest three possibilities: (1) China may get financial compensation in lieu of the project; (2) China, which was supposed to get approximately 90 per cent of the electricity generated, may give better terms to the Myanmar government; (3) Myanmar may allow construction of two smaller dams instead of one big Myitsone Dam.[19] Interestingly, during her visit to China, Suu Kyi endorsed China's Belt and Road initiative. If China–Myanmar relations deteriorate because of the cancellation of the dam project, then it may have impact on the ethnic peace in the country as well. As noted earlier, China reportedly has substantive influence on some of the armed ethnic groups. On the other hand, given the deep passion the dam project generates, its revival may have long-term political consequences. For instance, *The Irrawaddy* in its editorial observed, "resuming the project would seriously tarnish Suu Kyi's claims for moral and political leadership in Burma, and may even prompt a revolt among her own party members in the NLD."[20] In the near future, the domestic opinion in Myanmar will have strong impact on relations with China. Not surprisingly, Chinese President Xi Jinping in conversation with Suu Kyi, in 2015, noted, "We hope and believe that the Myanmar side will also maintain a consistent stance on China-Myanmar relationship and be committed to advancing friendly ties, no matter how its domestic situation changes."[21]

For China, Myanmar is strategically important as it gives access to the Bay of Bengal and the Indian Ocean region. Specifically, Yunnan and Sichuan provinces in China will get access to sea. It is well-known that China has already operationalised oil and natural gas pipelines from islands off the coast of Myanmar (in Bay of Bengal) to Kunming in Yunnan province.[22] These pipelines are intended to transport natural gas from the Bay of Bengal and also oil supplies from the Middle East will be offloaded and shipped through these pipelines. These pipelines, along with other pipelines from Central Asia and Russia, are aimed at addressing the Malacca dilemma that China faces.[23] The operationalisation of these pipelines has generated discontent in the local population along the route as Myanmar is suffering from severe energy shortages. Naturally there is an expectation that the natural gas resources could have been harnessed for domestic consumption in Myanmar. China has started operationalising the Kyaukpyu Special Economic Zone (SEZ) on the west coast of Myanmar. With oil and natural gas pipelines and a SEZ, Kyaukpyu SEZ is supposed to evolve into a hub of Chinese economic activities. In addition, China is planning to build a railway line from Kunming to Kyaukpyu.[24] While this effort is yet to find backing of the Myanmar government, it indicates the ambitious plans of China to access the Bay of Bengal. There are concerns that Chinese port-building activity in Kyaukpyu SEZ will also be used for military purposes. Such concerns cannot be brushed aside as Chinese submarines have docked in Hambantota in Sri Lanka and in Pakistani ports as well. This clearly suggests that the port infrastructure constructed by the Chinese has dual use dimensions. Chinese in the recent past have also proposed a waterway from Bhamow to the Irrawaddy delta.[25] Further Chinese have also evinced interest in Dawei SEZ that is being constructed by a conglomeration of Japanese, Thai and Myanmar firms. Taken in totality, one can see series of projects from Kyaukpyu to Irrawaddy delta to Dawei in which Chinese are either operating or evinced interests. It is only a matter of time that some of these projects will give substantive strategic space to China in the Bay of Bengal region.

China has also benefitted immensely from natural resources of Myanmar. Much of the forest products and precious stones have been shipped to China for significant value additions and subsequent exports. The Myanmar government did not benefit commensurately in terms of revenue generation due to the exploitation of these resources by the Chinese companies. Nonetheless, it appears that Myanmar is keen on leveraging Chinese capital for infrastructure-building. Because of sustained economic activity during the military regime, Chinese businessmen as well as officials have developed robust networks within Myanmar. While certain projects may face a few hurdles during the course of implementation, the Chinese have an ability to ensure successful completion of many projects. The intense negotiations on the Myitsone Dam, irrespective of the outcomes, indicate Chinese capacity to leverage various power centres in Myanmar for their commercial benefit.

4.2 India

While Suu Kyi is seeking to engage China, there are concerns in some quarters that she may neglect other important countries such as India. It appears that the Myanmar government has been seeking to engage India as well. Myanmar President U Htin Kyaw visited India in August 2016 and both sides signed agreements to upgrade the roads on the Trilateral Highway.[26] Subsequently, in October 2016, Suu Kyi also visited India to participate in the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) outreach summit on the sidelines of the BRICS Summit. Suu Kyi had fruitful discussions with senior leadership of India such as Prime Minister Narendra Modi and President Pranab Mukherjee. As former Indian Ambassador to Myanmar notes, the visit of Suu Kyi marks the "culmination of a series of interactions" which included other visits such as the visits by the commerce and industry minister Nirmala Sitharaman, national security advisor Ajit Doval and foreign minister Sushma Swaraj to Myanmar.[27]

For India, Myanmar constitutes a land-bridge to Southeast Asia. India shares about 1600 km of border with this important country. India has been operationalising a series of connectivity projects, such as the Kaladan Multi-Modal project, a trilateral highway. The Kaladan Multi-Modal project seeks to connect Kolkata in India with Sittwe in Myanmar, and then Mizoram in Northeast India. It is an attempt to overcome the connectivity challenges that Northeast India faces with the rest of India.

Similarly, the trilateral highway connects India, Myanmar and Thailand, thereby providing access to vibrant markets of Southeast Asia. There are various other minor cross-border projects that seek to improve the economic and social interactions in the border regions of both the countries.

There are ethnic groups living on both sides of the India–Myanmar border. The movement of armed ethnic groups across borders has been a source of concern for India. Indian and Myanmar's defence forces have carried out joint operations, such as Operation Golden Bird to tackle this challenge. More recently, the Indian government also reportedly carried out unilateral military actions across the border. The recent changes in Myanmar have thus far been beneficial to India. Being a democratic country, India welcomes strengthening of democracy in its neighbouring as well as distant countries. It is true that the Indian government has not made the promotion of democracy as an important foreign policy objective. This does not imply that India has not provided assistance to democratic forces in Myanmar. Instead of sanctions, the Indian government also gently often nudged the military regime there to initiate reform measures. Therefore, movement towards democracy in Myanmar is in consonance with the principles that India strongly adheres to. Further, the democratisation process increases the quantity and diversity of political actors. Such changes are bringing greater transparency in the political process in Myanmar. Such transparency in a neighbouring country provides India with some leverage. Instituting federal framework and restoration of minority rights will bring just peace in Myanmar, and this will have a positive spillover impact in the border regions of both the countries. Sustained economic growth will also provide economic opportunities for the Northeast India and spur economic activity in the Bay of Bengal region.

While Myanmar's relationship with neighbours is picking up momentum, the relationship between Nay Pyi Taw and Washington DC also witnessed significant improvement under the NLD government. While the earlier military leaders and their families were placed under sanctions, in September 2016, Suu Kyi received all the ceremonies that are usually reserved for the head of the state in the US and senior US lawmakers competed to interact with Suu Kyi. In a significant development, President Obama announced lifting of all sanctions that were imposed and reinstated the preferential tariffs (Generalized System of Preferences [GSP]), for Myanmar.[28] The lifting of sanctions indicates that there is growing confidence in the US that the reform process in Myanmar is difficult to reverse. Further, the sanctions removal will generate confidence among investors towards Myanmar. There is now a distinct possibility of US investments flowing into Myanmar with greater intensity. The reinstating of the preferential tariffs will give a flip to Myanmar's textile industry. As a consequence of all these, there will be greater diversity of economic players in Myanmar.

Politically, the improved relationships between Myanmar and the US can be regarded as one of the success stories of President Obama's foreign policy. When Obama came to power in 2009, he indicated the possibility of improved relations with countries, such as Cuba, Iran and Myanmar. While Cuba and Iran continue to be work in progress, the relationship with Myanmar has shown considerable improvement. The US Secretary for State, Hillary Clinton, suggested way back in Obama's first term the need for rethinking the Myanmar policy. The US policy seems to have adopted an incremental movement towards Myanmar for every reform measure that was carried out by the military. For the Myanmar military, opening up to the US and western countries was important to ensure that Myanmar does not get sucked into the Chinese orbit. A noted scholar, Stefan Halper, in his work "Beijing Consensus," argued that China is exporting "Authoritarian Capitalism" to other countries.[29] The Authoritarian Capitalism implies operationalisation of capitalist market principles within non-representative political frameworks. Myanmar's political transition towards democracy, therefore, negates the idea of Authoritarian Capitalism. Therefore, in the US pivot towards Asia, that was aimed also with an intent to contain China, Myanmar becomes an important pillar. A successful transition in Myanmar implies an ideological victory for democracy in continental ASEAN. This was evident when Obama visited Myanmar and received a rock star reception with people thronging the streets of Yangon to greet the American President. His meeting with Suu Kyi was marked by camaraderie and respect. The ascent of democratic forces to power also indicates the emergence of a regime that is seeking closer relationship with the US. In terms of capabilities, Myanmar has one of the largest armies in Southeast Asia, and therefore improved relations with the West will only reinforce the US pivot. Already there are news reports which suggest the possibilities of the Myanmar military receiving not just equipment but also training from the US forces.[30] It is being assumed that such processes may socialise the Myanmar military to work under a civilian rule. For the Myanmar military, closer relationship with Western militaries will give them greater ability to deal with domestic insurgencies. Thus, there is a three-dimensional play in the US–Myanmar relations—first, for the US, Myanmar strengthens the pivot to Asia; second, for Myanmar's democratic forces, interactions with western militaries may strengthen the democratic culture; and third, for the Myanmar military, engagement and support from other militaries will strengthen its capabilities against insurgencies.

5 Conclusions

This chapter reflected on the political transition that Myanmar is undergoing. In the process, it examined three important dimensions which have domestic as well as international ramifications. The chapter mapped the civil–military contest, ethnic and sectarian violence and the challenging geopolitical context. Myanmar's ability to emerge as a vibrant economy will be contingent on the complex interplay of the above-mentioned factors. It is important for Myanmar to navigate the three above-mentioned challenges deftly.

Democratic forces led by Suu Kyi and the Myanmar military have demonstrated considerable political sagacity in terms of acknowledging each other's political space. The contestation has also not resulted in broken political framework yet. Many armed ethnic groups have put aside decades of animosity and grievances to explore lasting political settlement. Myanmar thus far has been able to strike a balance in its relationship with major powers. While there is criticism that it is giving preference to China, it should be located in time and context. Compared to a decade ago, Myanmar today seems to have a more balanced foreign policy. However, there is considerable distance to travel. Appropriate domestic policies, coupled with generous international assistance, will help Myanmar in its journey towards durable peace. The success of Myanmar's political transition will have a lasting impact on the security of India, China and the wider Southeast Asia region.

Notes

1. The 1990 General Election results were not honored by then military regime.
2. Constitution of the Republic of the Union of Myanmar (2008) available at: http://www.wipo.int/edocs/lexdocs/laws/en/mm/mm009en.pdf
3. Refer Marshall and Mclaughlin (2015).
4. Refer Holmes (2015).
5. Constitution of the Republic of the Union of Myanmar (2008) available at: http://www.wipo.int/edocs/lexdocs/laws/en/mm/mm009en.pdf
6. Refer McKirdy (2016).
7. Refer The Times of India (2015).
8. Refer Myint and Slodkowski (2016).
9. Refer Lwin (2016).
10. Refer Islam and Lone (2016).
11. See, for example, The Bangkok Post (2016).
12. See, for example, The Guardian (2016).
13. Refer, for example, Aravindan and Lee (2016).
14. Refer Lewis (2016).
15. Refer Zongyi (2017).
16. Refer Perlez and Moe (2016).
17. Refer Burma Rivers Network (undated).
18. See Aneja (2016).
19. Refer Steinberg (2016).
20. Refer The Irrawaddy (2016a).
21. Refer The Global Times (2015).
22. Refer Rose and Tun (2015).
23. Refer Aneja (2015).
24. Refer Eleven Myanmar (2016).
25. Refer Perlez and Moe (2016).
26. Refer Mukhopadhaya (2016).
27. Refer The Wire (2016).

28. Refer Office of the United State Trade Representative (2016).
29. Refer Foreign Affairs (2010).
30. Refer The Irrawaddy (2016b).

References

Aneja, A. (2015, January 30). New China-Myanmar Oil Pipeline Bypasses Malacca Trap. *The Hindu*. Available at http://www.thehindu.com/news/international/world/new-chinamyanmar-oil-pipeline-bypasses-malacca-trap/article6839352.ece

Aneja, A. (2016, August 18). China, Myanmar Jostle Over Myitsone Project During Suu Kyi's Visit. *The Hindu*. Available at http://www.thehindu.com/news/international/China-Myanmar-jostle-over-Myitsone-project-during-Suu-Kyi percentE2 percent80 percent99s-visit/article14576488.ece

Aravindan, A., & Lee, Y. (2016, December 2). Myanmar's Suu Kyi Says International Attention Fuelling Divisions in North. *Reuters*. Available at http://www.reuters.com/article/us-myanmar-rohingya-idUSKBN13R0BZ

Burma Rivers Network. (undated). Myitsone Hydropower Dam Project and Decision of the President. *Burma Rivers Network*. Available at http://www.burmariversnetwork.org/index.php?option=com_content&view=article&id=758:myitsone-hydropower-dam-project-and-decision-of-the-president&catid=11&Itemid=46

Foreign Affairs. (2010, May/June). Stefan Halper's The Beijing Consensus: How China's Authoritarian Model Will Dominate the Twenty-first Century. Reviewed by Andrew J. Nathan. *Foreign Affairs*.

Holmes, O. (2015, November 23). Final Myanmar Results Show Aung San Suu Kyi's Party Won 77 Percent of Seats. *The Guardian*. Available at https://www.theguardian.com/world/2015/nov/23/final-myanmar-results-show-aung-san-suu-kyis-party-won-77-of-seats

Islam, M. N., & Lone, W. (2016, November 22). Hundreds More Myanmar Rohingya Flee to Bangladesh: Aid Workers. *Reuters*. Available at http://www.reuters.com/article/us-myanmar-rohingya-idUSKBN13H0EG

Lewis, S. (2016, December 20). U.N. Says 15,000 Flee into China as Myanmar's Army Battles Ethnic Rebels. *Reuters*. Available at http://www.reuters.com/article/us-myanmar-refugees-idUSKBN1490LJ

Lwin, Ei Ei Toe. (2016, September 5). Not without wrinkles, peace conference lauded for taking landmark 'first steps'. *The Myanmar Times*. Available at http://www.mmtimes.com/index.php/national-news/22313-notwithout-wrinkles-peace-conference-lauded-for-taking-landmark-first-steps.html

Marshall, A. R. C., & Mclaughlin, T. (2015, November 5). Myanmar's Suu Kyi Says Will Be Above President in New Government. *Reuters*. Available at http://www.reuters.com/article/us-myanmar-election-idUSKCN0SU0AR20151105

McKirdy, E. (2016, April 7). New Government Role Created for Myanmar's Aung San Suu Kyi. *CNN*. Available at http://edition.cnn.com/2016/04/06/asia/aung-san-suu-kyi-state-counsellor-role-created/

Mukhopadhaya, G. (2016, August 29). India- Myanmar Joint Statement During the Visit of the President of Myanmar to India. *Ministry of External Affairs*. Available at http://www.mea.gov.in/bilateral-documents.htm?dtl/27343/India+Myanmar+Joint+Statement+during+the+visit+of+the+President+of+Myanmar+to+India+29+August+2016

Myanmar, E. (2016, April 2). Kunming-Yangon Rail Project Rumors Denied. *Eleven Myanmar*. Available at http://elevenmyanmar.com/local/kunming-yangon-rail-project-rumors-denied

Myint, S. Y. S., & Slodkowski, A. (2016, August 31). Myanmar's Suu Kyi kicks Off Peace Conference with Appeal for Unity. *Reuters*. Available at http://www.reuters.com/article/us-myanmar-politics-peace-idUSKCN1160RF

Perlez, J., & Moe, W. (2016, August 17). Visiting Beijing, Myanmar's Aung San Suu Kyi Seeks to Mend Relations. *The New York Times*. Available at https://www.nytimes.com/2016/08/18/world/asia/visiting-beijing-myanmars-aung-san-suu-kyi-seeks-to-mend-relations.html?_r=0

Rose, A., & Tun, A. H. (2015, January 20). Oil Pipeline Through Myanmar to China Expected to Open in Jan – Sources. *Reuters*. Available at http://www.reuters.com/article/petrochina-myanmar-oil-idUSL3N0U22PP20150120

Steinberg, D. I. (2016, February 8). Myitsone Dam Is as Much Aung San Suu Kyi's Problem as Beijing's. *Nikkei Asian Review*. Available at http://asia.nikkei.com/Viewpoints-archive/Viewpoints/Myitsone-dam-is-as-much-Aung-San-Suu-Kyi-s-problem-as-Beijing-s?page=1

The Bangkok Post. (2016, December 5). Malaysian PM's Demands Meet with Yangon Protests. *The Bangkok Post*. Available at http://www.bangkokpost.com/print/1151629/

The Guardian. (2016, December 4). Malaysia PM Urges World to Act Against 'Genocide' of Myanmar's Rohingya. *The Guardian*. Available at https://www.theguardian.com/world/2016/dec/04/malaysia-pm-urges-world-to-act-against-genocide-of-myanmars-rohingya

The Irrawaddy. (2016a, June 7). Myitsone Dam Resumption Would Prove Suu Kyi's Downfall. *The Irrawaddy*. Available at http://www.irrawaddy.com/

opinion/editorial/myitsone-dam-resumption-would-prove-suu-kyis-downfall.html

The Irrawaddy. (2016b, September 13). US Training of Burma's Military Could Help Democratization: David Steinberg. *The Irrawaddy*. Available at http://www.irrawaddy.com/in-person/interview/us-training-of-burmas-military-could-help-democratization-david-steinberg.html

The Times of India. (2015, December 6). Myanmar's Ex-Dictator Tips Suu Kyi as 'Future Leader'. *The Times of India*. Available at http://timesofindia.indiatimes.com/world/south-asia/Myanmars-ex-dictator-tips-Suu-Kyi-as-future-leader/articleshow/50062518.cms

The Wire. (2016, October 22). A Visit that Sets the Stage for India, Myanmar to Take Ties to the Next Level. *The Wire*. Available at https://thewire.in/74995/suu-kyi-myanmar-india/

USTR. (2016, September). *United States Reinstates Trade Preference Benefits for Burma Following Review of Eligibility Criteria*. Office of the United State Trade Representative (USTR). Available at https://ustr.gov/about-us/policy-offices/press-office/press-releases/2016/september/united-states-reinstates-trade

Zongyi, L. (2017, August 23). India's Stake in Myanmar Remains Strong. *The Global Times*. Available at http://www.globaltimes.cn/content/1002094.shtml

3

Myanmar's Growth and Employment Potential Through Trade and Investment: Some Challenging Issues

Ajitava Raychaudhuri

1 Introduction

Myanmar is an example of textbook description of a developing economy. The economy is still dominated by agriculture and natural resources with slow development in the industrial sector. Employment is still largely dominated by the informal sector. The economy was nearly isolated from the process of globalization for decades and whatever international trade it had was largely dominated by resource trade. In the light of the above, Myanmar can be truly considered as young entity as far as its participation in international trade and investment post-WTO regime is concerned. This poses both positive and negative issues in front of Myanmar. The most important positive aspect is that it has more flexibility in terms of aligning its trade basket according to dynamic comparative advantage. The negative aspect includes challenges, which any latecomer faces in an era of cut-throat international competition in an increasingly globalized world. Many a time

A. Raychaudhuri (✉)
Jadavpur University, Kolkata, India

P. De, A. Raychaudhuri (eds.), *Myanmar's Integration with the World*,
DOI 10.1007/978-981-10-5134-0_3

it is believed that participation in regional economic groupings is the way out, but what we try to present in this chapter is the fact that the necessary condition for success on this route includes prior market interactions among businesses of the countries. Further, it is not growth alone which is important, but creation of employment at all levels of skill is equally important for stability in the nation.

Another important aspect which must be kept in mind is the fact that production and trade have undergone major changes in the last three decades. First, trade is now dominated by manufactured products instead of agricultural or resource-based goods. Thus, Myanmar should try to take this into cognizance. Second, services now dominate the GDP in most economies, although agriculture still plays an important role in Myanmar. However, many of these services are generated in the manufacturing activities. Thus, strengthening manufacturing activities will also give a boost to the service sector. Last, the informal or unorganized sector dominates the industrial sector in Myanmar as well, which is an important consideration for creation of employment in the economy. In view of above, the challenge is to integrate Myanmar in international trade in such a way that it not only boasts growth but also creates jobs.

Rest part of the chapter is organized as follows. Section 2 presents the trade pattern of Myanmar. The theoretical background is then presented in Sect. 3. Fragmentation, trade and employment are discussed in Sect. 4. Finally, Conclusions are drawn in Sect. 5.

2 Trade Pattern of Myanmar

As one may expect, Myanmar does not present the same picture as other countries in Southeast Asia as far as international trade is considered. Most of the countries in Southeast Asia now specialize in a variety of manufacturing activities. Not only that, they produce many types of parts and components, which now occupy a major part of intra-regional trade in the region.

Table 3.1 presents a problematic scenario for Myanmar's trade. The first point to note is the concentration of some countries in respect of certain products trade. For example, Thailand takes all the natural gas exported from Myanmar. The reason may be locational advantage but

Table 3.1 Myanmar's trade concentration

Partner country	Share of the item in Myanmar's exports to the country (%), average for 2006–10	Share of the partner country in total export of the item (%), average for 2006–10
Thailand	90.7 (natural gas)	100
India	62.0 (vegetables frozen)	73.6
	35.2 (wood)	53.3
China	24.1 (wood)	22.3
Japan	30.5 (men's and boys' coats etc.)	37.9
	18.7 (footwear)	88.6
Malaysia	24.5 (natural rubber)	45.9
Korea	26.8 (petroleum oil)	61.2
Germany	42.2 (men's and boys' coats etc.)	17.1
Singapore	27.6 (stones, gravels and sand etc.)	96.9
UK	33.3 (men's and boys' coats etc.)	7.9

Source: Berno Ferrarini, ADB Working Paper # 325, January 2013

such extreme concentration may cause instability in foreign exchange earning of a country. Similarly, frozen vegetables are largely exported to India alone. Wood products are exported mainly to India and China. Likewise, Singapore takes a large part of the exports of stones, gravels and sand and Japan buys almost all the footwear exported. Japan, Germany and the UK together take more than 60 per cent of exports of men's and boys' coats, etc. Such country concentration is not desirable. Second, one gets a little worried about the items which Myanmar exports. The basket is heavily loaded with agricultural and resource-based items. The implication of this will be clear when one judges the trade potential of Myanmar. But first let us have a clearer picture of Myanmar's exports and imports baskets along with structural change in GDP.

As can be observed from Tables 3.2 and 3.3, Myanmar's export data reveals heavy dependence on fuels, stone and glass, wood, textiles and clothing and vegetables. These items together constituted around 90 per cent of total exports of Myanmar in 2010 (see Table 3.2) and more than 75 per cent in 2015 (see Table 3.3). This is also supported by the revealed comparative advantage (RCA) scores as given for 2010. The important point to note is that nothing much has changed over the five years from 2010 and 2015 as far as export concentration of Myanmar is concerned.

Table 3.2 Myanmar's exports, 2010

Product group	Export (US$ thousand)	Export product share (%)	RCA	World growth (%)	Country growth (%)
All products	7,625,236.78	100.00	1.00	10.16	4.46
Capital goods	5376.88	0.07	0.01	11.49	−42.97
Consumer goods	3,524,470.13	46.22	1.81	8.31	1.86
Intermediate goods	2,895,234.58	37.97	1.06	12.49	4.17
Raw materials	1,174,909.84	15.41	1.59	14.15	11.92
Animal	341,072.28	4.47	2.88	6.08	1.90
Chemicals	933.37	0.01	0.01	7.48	34.66
Food products	17,791.77	0.23	0.24	4.49	1.77
Footwear	54,816.27	0.72	1.87	7.50	6.45
Fuels	2,936,005.67	38.50	2.58	14.34	0.46
Hides and skins	6733.78	0.09	0.16	10.79	73.34
Machinery and electrical machinery	1881.80	0.02	0.01	11.36	−28.38
Metals	53,176.05	0.70	0.11	14.23	28.40
Minerals	15,660.95	0.21	2.06	23.15	15.79
Miscellaneous	39,386.74	0.52	0.08	0.22	−4.12
Plastic or rubber	196,068.72	2.57	0.69	13.28	69.17
Stone and glass	1,871,261.06	24.54	0.72	16.39	33.36
Textiles and clothing	349,275.04	4.58	2.20	6.67	10.19
Transportation	2111.29	0.03	0.00	10.82	−66.33
Vegetable	1,146,638.78	15.04	6.58	6.73	−0.58
Wood	592,423.20	7.77	5.52	7.89	10.03

Source: WITS database based on HS 6-digit classification, accessed on 16 June 2016

Table 3.4 should be viewed in conjunction with the export structure of Myanmar. Share of industry in Myanmar's GDP grew by leaps and bounds from 2000 to 2014, while the services sector remained somewhat stagnant. Unlike some other countries, for example, what we have seen in South Asia, the structure of production in Myanmar does not have a pure non-Kuznets transition having a decline of agriculture largely compensated by a concomitant rise in the services sector. This gives some advantage to Myanmar as will be discussed later. However, such a transition is not reflected in exports of the country where industrial goods do not appear as major items in the export basket (see Tables 3.5 and 3.6).

Table 3.3 Top 20 exports of Myanmar, 2015

Sr. no.	HS code	Product label	Value (US$ million)	Share[a] (%)
1	271121	Natural gas in gaseous state	4852.80	36.82
2	710399	Precious and semi-precious stones, worked, whether or not graded, but not strung, mounted	1896.43	14.39
3	071331	Dried, shelled beans of species "Vigna mungo [L.] Hepper or Vigna radiata [L.] Wilczek", whether	729.92	5.54
4	260900	Tin ores and concentrates	367.14	2.79
5	711620	Articles of precious or semi-precious stones "natural, synthetic or reconstructed", not else specified	332.10	2.52
6	720260	Ferro-nickel	253.05	1.92
7	071360	Dried, shelled pigeon peas "Cajanus cajan", whether or not skinned or split	226.76	1.72
8	620193	Men's or boys' anoraks, windcheaters, wind jackets and similar articles, of man-made fibres	217.66	1.65
9	740311	Copper, refined, in the form of cathodes and sections of cathodes	204.79	1.55
10	620293	Women's or girls' anoraks, windcheaters, wind jackets and similar articles, of man-made fibres	147.70	1.12
11	440399	Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared (excluding)	126.88	0.96
12	710391	Rubies, sapphires and emeralds, worked, whether or not graded, but not strung, mounted or set	114.65	0.87
13	440729	Tropical wood specified in Subheading Note 1 to this chapter, sawn or chipped lengthwise, sliced	113.19	0.86
14	620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, night-shirts, singlets and)	111.42	0.85
15	640399	Footwear with outer soles of rubber, plastics or composition leather, with uppers of leather	96.72	0.73

(*continued*)

Table 3.3 (continued)

Sr. no.	HS code	Product label	Value (US$ million)	Share[a] (%)
16	620343	Men's or boys' trousers, bib and brace overalls, breeches and shorts of synthetic fibres (excluding)	88.56	0.67
17	620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding)	88.39	0.67
18	030617	Frozen shrimp and prawns, even smoked, whether in shell or not, incl. Shrimp and prawns in shell, cooked by steaming or by boiling in water (excl. cold-water shrimps and prawns)	85.87	0.65
19	071339	Dried, shelled beans "Vigna and Phaseolus", whether or not skinned or split (excluding beans)	83.38	0.63
20	270900	Petroleum oils and oils obtained from bituminous minerals, crude	77.99	0.59
		Total	13,179.27	77.51

[a]Share in total exports

Source: Trademap, accessed on 2 February 2017

Table 3.4 Structure of Myanmar's economy: share in GDP (percentage shares)

Sectors	2000	2005	2010	2014
Agriculture	57.2	46.7	36.8	27.9
Industry	9.7	17.5	26.5	34.4
Services	33.1	35.8	36.7	37.7

Source: Key indicators of Asia and the Pacific, 2015, 46th edition, ADB, 2015

Table 3.5 Myanmar's imports, 2010

Product group	Import (US$ thousand)	Import product share (%)
All products	4,164,318.25	100.0
Capital goods	1,089,758.85	26.2
Consumer goods	1,641,092.80	39.4
Intermediate goods	1,351,100.70	32.4
Raw materials	41,961.16	1.0
Animal	54,594.38	1.3
Chemicals	284,926.71	6.8
Food products	46,741.69	1.1
Footwear	8339.39	0.2
Fuels	947,748.44	22.8
Hides and skins	19,764.57	0.5
Machinery and electrical machinery	773,347.20	18.6
Metals	562,405.27	13.5
Minerals	94,459.71	2.3
Miscellaneous	61,405.56	1.5
Plastic or rubber	280,678.07	6.7
Stone and glass	43,585.87	1.1
Textiles and clothing	313,014.83	7.5
Transportation	362,404.70	8.7
Vegetable	247,983.36	6.0
Wood	62,918.50	1.5

Source: WITS database based on HS 6-digit classification, accessed on 16 June 2016

Imports of Myanmar mainly include machinery, metals and petroleum products, as well as some textile items such as yarn. However, the import structure of Myanmar is more varied compared to export structure. The real question is, given this structure of exports and imports, what prospects do Myanmar have for accelerating growth and employment through international trade (and as we will stress international investment too)? To explore this, one needs to look at Myanmar's most successful neighbours. What have they done that ASEAN countries have become the cynosure of

Table 3.6 Top 20 imports of Myanmar, 2015

Sr. no.	HS code	Product label	Value (US$ million)	Share[a] (%)
1	271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel	1317.14	5.92
2	890520	Floating or submersible drilling or production platforms	758.95	3.41
3	271012	Light oils and preparations, of petroleum or bituminous minerals which >=90% by volume "incl"	618.87	2.78
4	851712	Telephones for cellular networks "mobile telephones" or for other wireless networks	612.23	2.75
5	151190	Palm oil and its fractions, whether or not refined (excluding chemically modified and crude)	511.91	2.30
6	170199	Cane or beet sugar and chemically pure sucrose, in solid form (excluding cane and beet sugar)	452.79	2.04
7	871120	Motorcycles, incl. mopeds, with reciprocating internal combustion piston engine of a cylinder	386.50	1.74
8	722830	Bars and rods of alloy steel other than stainless, not further worked than hot-rolled, hot-drawn or extruded (excl. products of high-speed steel or silico-manganese steel, semi-finished products, flat-rolled products and hot-rolled bars and rods in irregularly wound coils)	319.02	1.43
9	711620	Articles of precious or semi-precious stones "natural, synthetic or reconstructed", n.e.s.	295.04	1.33
10	252329	Portland cement (excluding white, whether or not artificially coloured)	276.00	1.24
11	730890	Structures and parts of structures, of iron or steel, n.e.s. (excluding bridges and bridge-sections, ...	264.73	1.19
12	300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes	252.85	1.14
13	890190	Vessels for the transport of goods and vessels for the transport of both persons and goods	242.50	1.09

14	210690	Food preparations, n.e.s.	234.13	1.05
15	999999	Commodities not elsewhere specified	207.36	0.93
16	870422	Motor vehicles for the transport of goods, with compression-ignition internal combustion piston	205.69	0.93
17	851762	Machines for the reception, conversion and transmission or regeneration of voice, images or	204.98	0.92
18	842952	Self-propelled mechanical shovels, excavators and shovel loaders, with a 360° revolving superstructure	196.48	0.88
19	870410	Dumpers for off-highway use	185.95	0.84
20	220290	Non-alcoholic beverages (excluding water, fruit or vegetable juices and milk)	159.33	0.72
		Total	**22,232.59**	**34.64**

[a]Share in total imports
Source: Trademap, accessed on 2 February 2017
n.e.s. not else specified

all eyes now? In order to find an answer for this, we need to look at some theoretical insights which reveal important changes in production and trade pattern across countries in recent decades. In the next section we will touch upon this crucial issue.

3 The Theoretical Background

The traditional trade theory indicates countries trade according to comparative advantage in production of goods. Naturally, the question arises wherefrom the advantage originates? Heckscher–Ohlin model says it originates from difference in endowments of factors of production—such as labour and capital. This may be measured in terms of quantity of factors or relative prices of factors. On the other hand, Ricardian theory suggests it originates due to differences in technology resulting into differential productivity of labour and capital. Product cycle theory suggests it originates due to difference in types of goods produced in the countries—new and old varieties.

The assumptions of the traditional theories are as follows:

(a) Competitive markets where all prices are given to individual consumer and producer as well as to individual factors of production.
(b) Goods produced are homogeneous in quality with no brand differentiation.
(c) No transport and trade costs.
(d) No advantage of large scale of production.
(e) Vertically integrated production.

The traditional theories have undergone several changes in recent time. The most important of these are summarized as follows:

(a) Market imperfections which means either goods are differentiated through brand names or that sellers or buyers have market powers to influence prices
(b) Presence of trade and transport costs
(c) Evolution of fragmented production system
(d) Presence of benefits from large-scale production—so-called scale economies.

The fragmentation of production is a revolutionary change in production technique which is made possible by significant reduction in transport and communication costs as well as changes in production technology which allow separate facilities to produce parts and components.[1] According to Kimura et al. (2007), "Fragmentation of production processes takes place when (i) production costs can be substantially reduced and (ii) the costs of service links connecting production blocks are not prohibitively high." Reductions in production costs are realized by taking advantage of location differences in production conditions. A new site for a production block must have locational advantages such as low wages, inexpensive infrastructure services, the existence of supporting industries and industrial agglomeration, a favourable policy environment, and others. Service-link costs must be low enough not to cancel production cost advantages; costs rise because of tariffs and other trade impediments, transport cost, telecommunication cost, and various kinds of coordination costs among production blocks. We call this model the "East Asia" model. Myanmar has lot to learn from her East Asian neighbours and bring that to practice. The question then is how to attract foreign producers to locate their production in Myanmar? This brings up the crucial role of foreign investment mainly by multinational corporations (MNCs). As is well-known MNCs are enterprises that operate from several countries. Foreign direct investment (FDI) is about building plants or production facilities in foreign countries. Now, there may be two types of MNCs: horizontal MNCs and vertical MNCs. Let us dwell a little on these two entities.

Horizontal multinationals are those MNCs which locate their production facilities across different countries. Research has shown that MNCs go for horizontal FDI when (Feenstra 2006, p. 389):

(i) Transport costs of exporting goods are high;
(ii) Costs of setting up plants in a foreign country are low; and
(iii) The size of the economies are high or more similar across countries.

The first two are obvious. The last condition makes the market size large. This is the reason why most FDIs flow among developed economies if one leaves outlier like China. Other reasons may be agglomeration effects and strong intellectual property regime (IPR). Looking at these conditions, it is unlikely that Myanmar will have great success in attracting horizontal MNCs since it neither has a high GDP nor low costs for setting up plants. It also does not have a strong IPR regime.

On the other hand, vertical multinationals are those MNCs which have their headquarters in one country but fragments production by outsourcing components across different countries. MNCs go for vertical FDI when:

(i) There is sufficient difference in factor prices so as to locate some component production in a foreign country;
(ii) The production is carried out by foreign affiliates of the original MNC;
(iii) The presence of such FDI may help bring the intangible assets such as management and organizational skills of MNCs to the country where components are manufactured; and
(iv) It may also lead to higher trade between the countries involved through intra-firm trade.

The interesting aspect to note is that increasingly vertical multinationals are not just fragmenting production into various stages but are also investing in non-affiliate producers. In many cases, these are small and medium enterprises (SMEs). This phenomenon has gained ground during the last decade of the last century. It has resulted in:

(i) Increased FDI by MNCs through component production by low wage cost non-affiliates;
(ii) Increase in services trade whereby many developing countries took advantage of advancement of technology through which services could be fragmented from the manufacturing process and outsourced by MNCs based in developed countries to developing countries.

This way, many newly emerging market economies in ASEAN like Vietnam, Cambodia or Lao PDR have progressed well along with more established market economies like Thailand or Malaysia. Myanmar could emulate examples of some of these countries to change the product mix

Table 3.7 Share of parts and components, final assembly and total network trade in Asia

	Parts and components		Final assembly		Total network products	
	1992/3	2006/7	1992/3	2006/7	1992/3	2006/7
(A) Exports						
East Asia	20.20	34.10	31.60	26.20	51.80	60.30
Japan	23.90	34.40	44.50	32.60	68.40	67.00
Developing East Asia	17.30	34.00	21.80	24.50	39.10	58.50
People's Republic of China (PRC)	7.40	25.60	13.70	26.20	21.10	51.80
Hong Kong, China	15.80	33.30	18.00	17.80	33.80	51.10
Taipei, China	24.70	44.20	17.60	21.60	42.30	65.80
Republic of Korea	18.10	44.20	22.20	25.40	40.30	69.50
ASEAN	22.70	44.20	34.10	21.90	56.80	66.10
Indonesia	3.80	21.50	5.60	16.80	9.30	38.40
Malaysia	27.70	53.60	40.70	25.10	68.40	78.80
Philippines	32.90	71.70	20.50	15.60	53.40	87.30
Singapore	29.00	49.30	45.90	17.20	74.90	66.50
Thailand	14.10	29.90	29.00	33.00	43.10	62.90
Viet Nam	–	11.00	–	7.60	–	18.50
South Asia	2.30	8.20	2.90	3.10	5.10	11.30
India	3.00	10.40	3.40	3.80	6.40	14.20
North American Free Trade Area (NAFTA)	28.40	31.20	31.40	28.10	59.70	59.30
Mexico	42.10	34.60	30.80	42.10	72.90	76.60
European Union (EU) 15	18.30	22.40	22.40	21.10	40.70	43.50
Developed Countries	20.40	25.20	28.50	23.60	48.90	48.80
Developing Countries	14.60	29.20	21.80	24.30	36.40	53.60
World	19.30	27.10	26.30	23.80	45.50	50.90

Source: Athukorala (2010, p. 40, Table 2)

sufficiently. The trade data for ASEAN +3 (which includes China, Korea and Japan) clearly shows the impact of fragmentation on the industrial production of these economies. This is presented in Table 3.7.

Table 3.7 shows that within ASEAN around 44 per cent of trade was in parts and components in 2006–07 (which was 22.7 per cent in 1992–93). In addition, close to 70 per cent of products traded for developing Asia (ASEAN along with China and Korea) are networked, meaning thereby that they come from a vertically integrated production network. This

Table 3.8 Intra-regional trade and FDI in ASEAN+3 countries with focus on Myanmar

Reporter	Partner	Indicator (%)	2000	2005	2010	2014
ASEAN+3	ASEAN+3	Cumulative FDI share	18.863	20.135	18.489	18.489
ASEAN+3	ASEAN+3	Trade share	45.012	47.382	46.545	45.465
ASEAN+3	Myanmar	Cumulative FDI share	0.004	0.002	0.003	0.003
ASEAN+3	Myanmar	Trade share	0.107	0.112	0.160	0.396
Myanmar	ASEAN+3	Cumulative FDI share	N/A	1.012	0.656	0.656
Myanmar	ASEAN+3	Trade share	64.695	76.138	82.071	88.581
Myanmar	Thailand	Cumulative FDI share	N/A	0.225	0.146	0.146
Myanmar	Thailand	Trade share	15.689	32.975	29.705	17.464

Source: ARIC database, ADB, accessed on May 5, 2016

shows the importance of fragmented production within the ASEAN countries since stages of production were relocated to different countries in the region to take advantage of lower production, transportation, communication and transaction costs. However, although Myanmar is part of ASEAN, it is not part of this trend. This is largely due to Myanmar's isolation from the international trade scenario during the period mentioned above. One may not expect any dramatic change but the trend within ASEAN nations should be an eye opener for Myanmar.

The picture projected above was made possible by foreign investment in these countries by vertical MNCs mainly through non-affiliates whose origins in many cases were within ASEAN region itself. Such intra-ASEAN investment complemented the fragmentation process within ASEAN and was promoted largely by local business in the region itself. Table 3.8 presents this in detail.

It can be clearly seen from Table 3.8 that ASEAN+3 (ASEAN, China, Korea and Japan) had an intra-regional trade of around 45 per cent in 2014, which is largely dominated by parts and components trade. Further, the ASEAN+3 business groups have invested around 19 per cent of their cumulative FDI within the region. In other words, business within the region has actively promoted fragmentation in production processes, notwithstanding the fact that the region has taken advantage of fragmentation of MNCs of other regions as well. Clearly, Myanmar has failed to take this advantage, even within the region being a member country of ASEAN+3. Around 88 per cent of Myanmar's trade is within the

ASEAN+3 region. This trade is mainly dominated by agricultural and natural resources. So, one wonders if the rather large industrial sector in Myanmar in recent periods is dominated by construction, textiles, leather and agro-based industries has benefitted from this or not. One needs more detailed data to comment on that. But, the rather poor diversity of the manufacturing sector (leaving aside agro-based, textiles and leather) has not benefitted from the fragmentation in the production process worldwide, which Myanmar's neighbours in the ASEAN have utilized almost to the full. This has important bearing on the employment creation too.

4 Fragmentation, Trade and Employment

The importance of fragmentation on production and trade is stressed throughout this chapter. In fact, this has strong implication on employment as well. One must remember that over time, employment in agriculture will have a tendency to go down which is compensated by increase in employment in both the industry and services sectors. In Myanmar, agriculture still provides the bulk of employment; however, the share of the industry and services sectors in providing jobs is increasing. In this context two things need to be remembered. One is the dominance of the unorganized sector in both industrial production and services. Unfortunately, no clear estimate can be made about the magnitude of the unorganized or informal sector. The other is the general truth that the growth of the services sector is dependent to a large extent on the growth of manufacturing industries. The reason is obvious. The manufacturing sector requires complementary services such as transport, logistics, accounting, finance, marketing and repairing to reach final consumers. Thus, some of the received wisdom about labour-intensive and capital-intensive production needs to be revised in the light of the above. The total employment created by any manufacturing industry can be divided into direct and indirect employment. In that sense, some of the capital-intensive sectors create more jobs than the so-called labour-intensive sectors since they require more amount of services. Table 3.9 presents labour-to-capital ratio based on Asian input–output table. Although the data uses input–output matrices of 2000, the picture is unlikely to have changed dramatically over the years.

Table 3.9 Labour-to-capital ratio in select industries for Asia, 1990–2000 (average)

Code	Industry	L/K
008	Food, beverage and tobacco	1.12
009	Textile, leather and the products thereof	2.04
010	Timber and wooden products	1.89
011	Pulp, paper and printing	1.69
012	Chemical products	1.23
013	Petroleum and petro products	0.85
014	Rubber products	2.08
015	Non-metallic mineral products	1.82
016	Metal products	2.08
017	Machinery	2.04
018	Transport equipment	2.44
019	Other manufacturing products	1.85

Source: Inomata (2016, p. 92)

Note: The countries considered are Indonesia, Malaysia, the Philippines, Singapore, Thailand, People's Republic of China, Taipei China, the Republic of Korea, Japan, and the United States. One notes the inclusion of the United States in the transaction matrix

Table 3.9 clearly establishes our point just made. Apparently, the machinery, transport equipment or rubber products are capital intensive if only direct employment within the production sector is considered. However, if we take direct and indirect employment involving the services required for the production, these sectors are equally or even more labour intensive than sectors such as textiles and food. So, this factor needs attention while we aim at creating jobs through international trade route. Now, let us see how possibility of fragmentation is related to the sectors which create more jobs. Figure 3.1 gives a good idea about index of fragmentation based on Asian input–output tables. The index of fragmentation is based on the number of stages in the production of final output spread across nations. So, this is an index of international fragmentation.

Figure 3.1 shows an interesting aspect. Although Myanmar is not one of the countries taken into calculation of the international fragmentation index, this should serve as a benchmark for Myanmar's prospect for success in international trade bringing more growth and jobs in the country. The codes in Fig. 3.1 are the industry codes quoted in Table 3.9. Data in the parentheses are the capital-to-labour ratios. It can

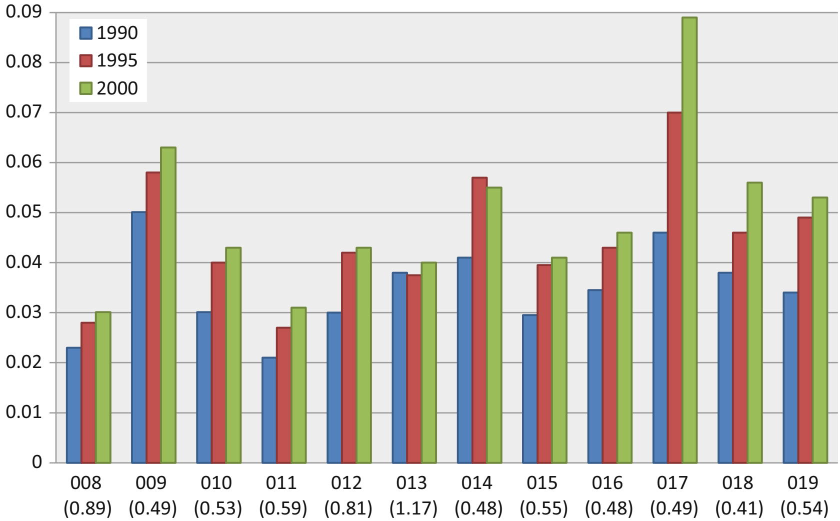


Fig. 3.1 F-Index of international fragmentation for Asian countries, average for 1990–2000 (Notes: F-Index refers to the international fragmentation index. Figure above shows the international fragmentation in East Asia by industry, 1990–2000, calculated by the original author based on the Asian International Input–Output tables, 1990–2000. Source: Inomata 2016, p. 92)

be observed that industries such as machinery (code 017), transport equipment (code 018) and textiles (code 009) have high international fragmentation as well as they create high employment opportunities (involving jobs at different levels of skills noting that not too many of young people have higher education in a country like Myanmar). On the other hand, the food sector (code 008), wood products (code 010), non-metallic mineral products (code 015), etc., do not have high fragmentation as well as large-scale employment. Looking at Myanmar's trade basket, one can see that agriculture, wood and natural gas together capture the majority share, which neither has great international fragmentation nor job creation potential. Only textile and leather products have such potential, which certainly is a source of strength for Myanmar economy. More is the scope of international fragmentation, more the potential for the country to participate in global value chain (GVC), which has done wonder for some ASEAN countries such as Thailand and Malaysia. Thus,

Table 3.10 Logistics performance index for Myanmar

Year	LPI rank	LPI score	Customs rank	Customs score	Infrastructure rank	Infrastructure score
2014	145	2.25	150	1.97	137	2.14
2012	129	2.37	122	2.24	133	2.1
2010	133	2.33	146	1.94	134	1.92
2007	147	1.86	124	2.07	145	1.69

Source: ARIC database, Accessed on 1 May 2016

it is clear that the present product composition of Myanmar's export basket is not conducive either for GVC or high job creation. Myanmar should explore more opportunities for participation of vertical multinationals either through affiliates or non-affiliates so that they could enter into parts and components production as is done by Myanmar's eastern neighbours. One problem which hinders such efforts to invite foreign MNCs is the poor logistics, including infrastructure and low ease of doing business. Table 3.10 shows the position of Myanmar in this regard. Clearly, it has one of the lowest ranks among all the nations. It is worrisome to see that instead of improving, the position worsened in 2014.

Here comes the additional dimension of industrial organization in Myanmar. It is natural that industrial enterprises in Myanmar are small and medium sized. Although reliable data is difficult to obtain, it can be conjectured that most of these SMEs are unorganized businesses, having informal labour relations and non-registration of units with the government. Taking example of India, one may find most of the unorganized employment is concentrated in such sectors which may not be aligned to India's comparative advantage (Raychaudhuri 2015). In such circumstances, trade or foreign investment promotion as well as better trade facilitation may not be very helpful in creating a momentum for employment generation. One needs further research on this aspect for Myanmar.

5 Conclusion

This chapter explores potentials that exist for Myanmar with respect to the creation of employment and accelerating growth momentum through trade and investment. In this chapter, we looked at various challenges to job creation and growth in Myanmar through trade and investment. At first it is found that trade basket of Myanmar needs to be made more comprehensive as at present it does not show the prospect of emulating the most successful countries in the neighbourhood of Myanmar. Unless Myanmar participates in GVC through increasing production of parts and components, trade and investment will not help Myanmar much. The second is the hard fact that the manufacturing sector is the main driver of employment in Myanmar. The moment one looks beyond the direct employment created by a manufacturing sector, one finds that the stereotypical identification of sectors as capital intensive and labour intensive needs a change of mind-set. The third is the need to take cognizance of the fact that the unorganized or informal sector, mainly in small industry and agriculture, is the predominant feature in the production sector of the economy. Unless they have linkage to the large industries through the value chain process, they would not get benefit of globalization. One must not be too much focused on trade and growth alone, employment generation should get equal stress for a true inclusive growth and development.

Note

1. For some theoretical insights, refer Raychaudhuri and De (2012). Kimura et al. (2007, p. 25) provide a good idea about this process.

References

Athukorala, P.-C. (2010). *Production Networks and Trade Patterns in East Asia: Regionalization or Globalization?* ADB Working Paper Series on Regional Economic Integration, Paper No. 56. Manila: Asian Development Bank (ADB).

Feenstra, R. (2006). *Advanced International Trade: Theory and Evidence*. Princeton: Princeton University Press.

Ferrarini, B. (2013). *Myanmar's Trade and Its Potential*. ADB Economics Working Paper, Number 325. Manila: ADB.

Inomata, S. (2016). An Alternative Measurement for the International Fragmentation of the Production Process: An International Input-Output Approach. In Y. Xing (Ed.), *Uncovering Value Added in Trade: New Approaches to Analyzing Global Value Chains* (pp. 81–100). Singapore: World Scientific.

Kimura, F., Takahashi, Y., & Hayakawa, K. (2007). Fragmentation and Parts and Components Trade: Comparison Between East Asia and Europe. *North American Journal of Economics and Finance, 18*, 23–40.

Raychaudhuri, A. (2015, December 16–17). *India's Trade Potential in Labour Intensive Manufacturing*. Paper Presented at the Seminar on "Trade and Employment Challenges in Asia: Insights for South Asia" Organized by ILO and IHD, New Delhi.

Raychaudhuri, A., & De, P. (2012). *International Trade in Services in India*. New Delhi: Oxford University Press.

4

Myanmar–India Trade: An Empirical Study on Possible Employment Benefits for the State of Mizoram

Partha S. Banerjee and Biswajit Nag

1 Introduction

Many studies have taken a macro perspective of regional integration through trade and investment cooperation between Myanmar and India. Studies by Bhatia (2015), Gottschlich (2015), Sailo (2013), Routray (2011) had focused on economic and political engagement and their impact on the development of the region. Some studies have explored trade and investment potential in specific areas such as energy, food processing, service sector and overall dimension of development cooperation. However, very few of these studies have made attempts to estimate the employment generation potential of increased trade and

P.S. Banerjee (✉)
Deft Advisory and Research, New Delhi, India

B. Nag
Indian Institute of Foreign Trade (IIFT), New Delhi, India

P. De, A. Raychaudhuri (eds.), *Myanmar's Integration with the World*,
DOI 10.1007/978-981-10-5134-0_4

investment in the participating economies. In the current global scenario, increased employment opportunities assume a greater importance in public discourse as one of the more visible outcomes of economic development. Such discourse is equally relevant for India, which is working towards ensuring its people sustainable livelihood and reasonable income through creation of new jobs and entrepreneurial opportunities.

The current study is a survey-based empirical study for the development of a naturally endowed but remote border district in Mizoram and how it can derive benefits from enhanced trade and investment in the region. The study makes an attempt to estimate the employment generation potential and additional new skill/upskilling needs of Mizoram State of India emanating from an enhanced Myanmar–India trade through border point Zokhawthar in Mizoram. This estimation has been made in two categories: (i) direct jobs created as a result of the investment in transport infrastructure and indirect jobs in its supporting services and (ii) jobs within the new value chains that could be created through the development of production networks in this region.

The current study focuses on the micro aspects of a broader macro development paradigm. Such focus could lead to better implementation, planning and securing border-area stakeholders' long-term and sustained commitment to the trade flows. It deals with ground level data and identifies complementary issues. More visible output can be expected once those issues are also addressed along with an attempt to ease the business between the two countries. It also highlights the importance of trade facilitation and recognizes smaller issues in this direction which may not require much additional costs for improvement. Rest part of the study is organized as follows. Section 2 discusses the approach to the study. Section 3 presents the trends in trade between the two countries. Data collection through primary surveys is then discussed in Sect. 4. Finally, conclusions are drawn in Sect. 5.

2 Approach to the Study

As a part of the UN Joint Initiative in Mizoram, at the suggestion of the State Government of Mizoram, the International Labour Organization (ILO) undertook a study for manpower planning, identifying industry linkages for employment opportunities and assessing skill development needs. Deft Advisory and Research Private Limited executed this mandate. Some of the data used for developing this chapter was collected during the survey works conducted in Mizoram during June–August 2016. As a part of this work, the survey teams spent substantial time travelling to multiple districts, and within districts to blocks, villages, industrial units and government offices. Zokhawthar border point was also visited for data collection and understanding trade facilitation challenges.

A delegation of industry leaders and potential investors, who have business interests in Eastern and North Eastern part of India as well as in Myanmar, were invited to Mizoram in July 2016. They stayed for a few days and had meetings with state government officials and Mizoram-based entrepreneurs. These deliberations were recorded by the study team for further analysis. Insights drawn from these analyses were merged with survey findings to develop the chapter.

As this chapter is based on an empirical study in a particular area, the findings may not be directly usable in other states of North Eastern India. However, the methodology and logical framework used for this analysis may be useful in designing similar studies for prospective impact analysis especially on employment.

3 Trends in Trade Between India and Myanmar

The continuing democratic process in Myanmar has raised hopes for better future in this region, both politically and economically. Studies identify that India's North East will receive huge benefits and India will be well connected with ASEAN through Myanmar (Bhatia 2015; Stancati 2012; ORF 2014).[1] As illustrated in Table 4.1, driven by high growth of India's export to Myanmar, the bilateral trade has increased from US$ 1338.29 million in 2010–11 to US$ 2054.92 million in 2015–16. As a result, India has witnessed a trade surplus of US$ 86.38 with Myanmar in 2015–16 ending the perennial trade deficit that India had with Myanmar over a decade.

Table 4.1 Trade between India and Myanmar (US$ million)

Particulars	2010–11	2011–12	2012–13	2013–13	2014–15	2015–16
Indian export to Myanmar	320.62	545.38	544.66	787.01	773.24	1070.65
Indian import from Myanmar	1017.67	1381.15	1412.69	1395.67	1231.54	984.27
Total trade	1338.29	1926.52	1957.35	2182.68	2004.78	2054.92
Trade balance	−697.05	−835.77	−868.03	−608.66	−458.30	86.38

Source: EXIM Databank, Department of Commerce, Government of India, New Delhi

The 5th India–Myanmar Joint Trade Committee in a meeting, held in Myanmar, aimed to increase the trade and investment flows between the two countries by way of improved road transportation and banking arrangements.[2] Almost all of India's official border trade with Myanmar is currently routed through Moreh in Manipur. India has also invested heavily in building road infrastructure on both sides of the border along India–Myanmar–Thailand Trilateral Highway. The road crosses through difficult terrain and conflict zones both in India (Manipur and Nagaland) and Myanmar (Sagaing).[3] In comparison, Mizoram has been peaceful since the Mizo accord of 1986. However, the geographically adjacent states of India, namely, Mizoram and Myanmar (Chin and Rakhine in Myanmar), have not been on the international trade map for about six decades. Development happening in this part has brought both India and Myanmar to a threshold where international trade through these states can be expanded. This trade potential, if harnessed, could usher in a new set of economic activities to create much needed job opportunities for the local population.

To avoid hassles posed by insurgents along the India–Myanmar trade route through Manipur, of late, traders are shifting their interest towards Mizoram. With the democratic transition in Myanmar being smooth and the new-found peace in Chin State, the India–Myanmar trade prospects have further brightened through Mizoram State of India. There are nearly 15 major cross-border trading routes along the 510 km unfenced border shared by Mizoram with Myanmar. Some traders estimate that more than 20 per cent of informal cross-border trade between India and Myanmar is now being routed through Mizoram.

Within Mizoram, Champhai district shares the longest boundary with Myanmar. A Border Trade Agreement was signed on 21st January 1994 between India and Myanmar (came into force with effect from 12th April 1995) for trading 22 items subsequently increased to 62 items. The trans-border trade (duty at the rate 5 per cent) between Myanmar and India (through Mizoram State) is mostly done through Zokhawthar border post in Champhai district (Fig. 4.1). On 25th March 2015, 20 years after the India–Myanmar Border Trade Agreement was made effective, the Land Customs Station (LCS) at Zokhawthar border was opened by the Government of India.

At present, the LCS is equipped with a weigh bridge, plant quarantine building and toll gate, but some of these facilities need to be made functional and some more need to be added. Nevertheless, the opening

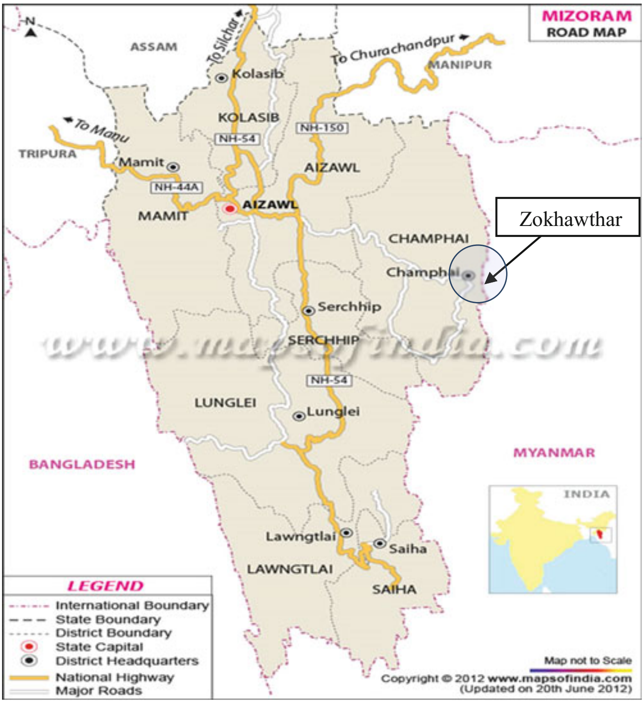


Fig. 4.1 Location of Kolasib, Aizawl, Champhai and Zokhawthar (Source: Authors' own)

of LCS has been a step in the right direction and with the completion of the World Bank-funded upgrading works of Champhai–Zokhawthar road (27 km), the formal trade between India and Myanmar through Zokhawthar could get the required boost. However, transportation and connectivity challenges remain on the Myanmar side which are serious impediments to growth of formal trade and cargo movement which are necessary to use formal channels. The road from Rih—located right across Zokhawthar—to Kalemyo is a single lane 'kuchha' road. Similar Indian investment plans to build a highway from Rih to Kalemyo via Tiddim and Falam in Myanmar are yet to take off.

The latest official trade flow data through Zokhawthar border post shows that export from India is almost zero and imports are limited to betel nuts and energy drinks from Myanmar (worth approximately INR 0.4 million). However, it is generally known that consumer goods including electronic gadgets, apparel, footwear, cigarettes, tube lights, spectacle frames and even some outdated automotive spare parts informally arrive at Champhai from Myanmar, China, South Korea and Malaysia. When compared to Indian products they are significantly cheaper. These products are then distributed inside Mizoram State and beyond.

While there are hardly any formal exports from India to Myanmar through Zokhawthar, the informal movement of goods from Champhai to Myanmar covers a variety of items. These, inter alia, include fertilizers (urea), LPG cylinders, medicines (paracetamol, antibiotics, analgesics, skin ointments etc.), mosquito repellents, fertilizers and pesticides, motorcycles and bicycle parts, flavoured *zarda*, baby food, smartphones and solar power appliances. These goods mostly move into Falam, Tiddim and Kalemyo, which are the three largest consumption centres in western Myanmar, all within 300 km of Zokhawthar border post. Though such movement indicates trade complementarities, being informal in nature, there is a lack of data to estimate the trade potential.

Some Mizoram-based chambers of commerce estimates indicate informal trade to be in favour of India due to export of relatively high value items. Such estimates are based on market source information that at least two truckloads (each carrying 9–10 tonne cargo) of medicines (analgesics, skin ointments and antibiotics) and five truckloads of fertilizer reach Myanmar every week.[4]

Myanmar is identified as a bridge between India and Southeast Asia. Also, a transit through Myanmar is less costly to reach North Eastern states of India from main production centres of India compared to current route. Ramaswamy and Maini (2014) have argued that Indian investment in Myanmar is not only for the economic reason but also for the diplomatic reason as Myanmar is member of both ASEAN and BIMSTEC. A significant and unique agreement between India and Myanmar is to operationalize a multi-modal transit route for Indian goods to reach Mizoram from Kolkata port via Myanmar using the Kaladan inland waterways. This transit agreement between Myanmar and India will allow Indian cargo to move from Kolkata port to Sittwe port of Myanmar through Bay of Bengal. At Sittwe, the goods will move through riverine barges, which will then carry the consignments through Kaladan river up to Paletwa in Myanmar. Another transhipment will make the goods transported through road for the last leg of journey from Paletwa in Myanmar to Zorinpui in Mizoram. The Kaladan route will help Indian goods to reach Mizoram bypassing Bangladesh and cutting down on the distance through the much longer 'chicken neck' route via Siliguri (in West Bengal) and other North Eastern states. This Government of India-funded project is expected to be operationalized by 2018 and likely to change the trade dynamics of Mizoram State.

At the same time, broad gauge railway connectivity has just reached Mizoram State (Bairabi) in June 2016, and will get further extended to Sairang (near Aizawl) within the next three years. This has received interest among potential investors. The Government of Mizoram has welcomed such investments by further developing the small-sized industrial estates at Kolasib (at Bairabi), Aizawl and Champhai districts. The landlocked nature, geographical position and topography of Mizoram State can only support the development of medium and small enterprises (SMEs) clusters rather than large industries. Opening up of international trade routes can, thus, contribute to faster economic growth of Mizoram and other North Eastern states of India.

Among several production networks that may flourish are the horticulture and food processing, small and medium industrial units such as galvanized corrugated sheets needed for housing, new technology lightweight, low-horsepower farm equipment suitable for hilly states which could be produced in Mizoram, distributed into neighbouring North Eastern states as well as could contribute to the international trade in a significant way.

However, significant challenges still remain to be overcome, both at policy and administrative levels, and all of which need to be executed in a difficult terrain by institutions, whose capacity are generally weak. Today's Mizoram needs creation of productive employment for its young population and sustaining growth of its economy midst difficult fiscal conditions. This calls for overcoming the policy and administrative challenges in a systemic, but expeditiously manner.

4 Primary Surveys and Findings

4.1 Large-Scale Survey Across Mizoram State

District-wise survey was conducted on various industrial establishments in Mizoram with a focus on labour force participation and skill development. A total of 430 industry establishments and 943 micro-enterprises were surveyed in Mizoram (Table 4.2). Considering the size of the state economy and number of enterprises this was a large-scale survey conducted in difficult terrain and during the 2016 monsoon period, when accessibility to many parts of the state become challenging.

Table 4.2 Sample survey among enterprises across the districts of Mizoram

Districts	No. of industries and establishments surveyed	No. of micro-enterprises surveyed	Proportion of women-led micro-enterprises in the survey sample (%)
Aizawl	230	392	45
Champhai	48	80	63
Kolasib	50	103	40
Lunglei	20	187	52
Mamit	27	95	59
Serchhip	42	35	52
Saiha	1	32	50
Lawngtlai	26	83	51
Total	**430**	**943**	

Source: Compiled by authors' based on survey

Among the micro-enterprises surveyed, 50 per cent were roadside/street vendors, 29 per cent were small restaurants, 9 per cent were electronics and computer hardware repair/maintenance shops and 6.3 per cent were involved in light fabrication works. Among the slightly larger formal industry setups, 27 per cent were producing furniture, 21 per cent were automobile repair workshops, 19 per cent were metal fabrication workshops and a mere 2 per cent were food and fruit processing units. Nearly a quarter of the survey respondents (27 per cent) were establishments fragmented into multiple sectors which were clubbed together in a notional 'others' category which included brick making units, grape winery, cotton mill, tobacco producers, water processing and handloom. Apart from these, trading is an important economic and employment generating activity.

4.2 Extent of Survey in Champhai District

With a population of 20,000, the district town of Champhai has a disproportionately large and thriving marketplace dotted with stores selling a wide range of household appliances, electrical wares, medicines, smartphones, footwear and others. The survey covered 48 industry establishments and 80 micro-enterprises in Champhai district.

From a Myanmar-India trade flow (existing and prospective) perspective, the data collection exercise also attempted to capture the preparedness and capability of Champhai district (and Mizoram as a whole) in harnessing possible benefits that could emerge due to increased trade between India and Myanmar through Zokhawthar border post. There are over 50 registered importers at Champhai, but only a few are active. Officially, their trade is limited to import of a single consignment of betel nut per week (Table 4.3), and a few parcels of energy drink from Myanmar. The volume of this import shows a substantial increase over the years.

Presently, goods from Champhai get to Zokhawthar in trucks with unloading—loading into smaller vehicles happening at the ends of the narrow and weak bridge (axle load restrictions are in place) over River Tiao, which serves as the natural boundary between the two countries. Mini-trucks, maxi cabs, bikes and handcarts are deployed for transportation of small-sized consignments and people.

Table 4.3 Trends in customs duty collection at Zokhawthar

Year	Commodity	Number of consignment	Quantity (metric ton)	Assessable value (INR)	Revenue duty and cess (INR)
2010–11	Betel nut	04	11.68	433,548	40,564
2011–12	Betel nut	07	60	2,227,740	208,446
2012–13	Nil	Nil	Nil	Nil	Nil
2013–14	Betel nut	14	140	12,479,489	1,511,594
2014–15	Betel nut	62	584	76,540,890	7,161,190
2015–16	Betel nut	134	1132	167,414,039	15,663,286

Source: Indian Customs, Champhai

The lack of storage facilities poses a challenge. For example, betel nuts are kept in an open shed. Uncertain road conditions (temporary closure of road traffic due to frequent landslides and challenges) delay transportation of goods increasing chances of rotting and perish, especially during monsoons.

4.2.1 Impact of Improving Road Conditions on Jobs

Investments in transport infrastructure foster sustainable development of the region. Studies have identified that SMEs along the road will get a boost and border trade will be enhanced.[5] Bangladesh–China–India–Myanmar Economic Corridor (BCIM-EC) project has also received sufficient interest from foreign investors.[6] This is expected to bring people from the neighbouring countries closer to each other, which is a necessary condition for generating more regional trade. Such planned investments, integrated production networks, enhanced people-to-people connectivity leading towards mutual ideas for product innovation (which is a pre-requisite for increasing trade flows), new business models etc., play a vital role in poverty reduction, particularly at the border areas. The costs involved are also often quite high. The field study team captured the variable costs (fuel, maintenance), and number of trips covered by each of the vehicles. Capital costs of fleet acquisition were referred to, but not considered for this analysis.

Zokhawthar, which lies 27 km east of Champhai, is the only and nearest village situated on the international boundary between India and

Myanmar. According to the 2011 census, the total population of Zokhawthar was 2632, of which, at least 994 were in the labour market; 842 being main workers and 146 marginal workers. At least 40 per cent of the population was engaged in the informal sector.

There are about 40 trucks and 20 maxi cabs in regular Champhai–Zokhawthar service carrying goods (excluding other vehicular service like pick-up, tippers etc.). Besides, there are bikers, who render their passenger transportation services within this area and they would normally earn around Rs. 500 per day. These were estimated by obtaining survey responses from experienced local people involved in the trade and not through any official or trade chamber's recorded data. In terms of employment, this provides regular jobs to more than 150 people (taking only the types of vehicles mentioned above) in this area.

It was seen that there are more than 30 restaurants/tea stalls between Aizawl–Champhai–Zokhawthar, employing around 100 people. These are family run outlets with females comprising most of this workforce (of the 80 individuals interviewed, 50 respondents (62.5 per cent) were females), with an average age of 42 years.

The study team conducted a survey among transport operators and collected primary data on the cost reduction they could achieve after improvement in road connectivity between Aizawl and Lunglei, implemented under an earlier World Bank-funded project. Using these estimates on the Aizawl–Champhai–Zokhawthar stretch (assuming the road conditions improve from what it is at present), it was seen that at least 5 per cent reduction in maintenance costs was possible even while transporters continue to use their existing (mostly used-vehicles being re-conditioned and deployed) fleet.

In addition, more business benefits can be achieved by traders with faster turn-around time of trucks, improving fleet utilization for operators, which can then be augmented by new fleet acquisition. Better and wider roads will certainly attract bus services by private sector as well as by the government agencies. People will prefer to travel by bus because of low fare compared with maxi cabs, which, at present, is the main vehicular mode of people transportation.

Overall, at least 3–5 percent increase in goods flow as well as improvement in passenger traffic can take place through this route by availing existing infrastructure, and without making any other additional investments such as a building a better bridge over River Tiao. In terms of new employment generation, another 180 direct and supporting jobs can be created (taking only the vehicles mentioned including new entrant buses). It is expected that as interaction among people increases and as more goods flow, there will be a secondary effect and indirect job creation is possible. However, specific skills are required to be developed within the local population, who are participating in the labour force, to harness the full benefit of improved trade flows.

4.2.2 Jobs and Skill Development in the Value Chain

Almost half of the state-wide respondents (Table 4.2) saw difficulties in the present situation. Constraining factors such as 'inefficient market access' and 'high capital requirements required to expand business' scored the higher than 'lack of skilled workforce'. About 42 per cent of the respondents identified 'lack of capital' as the most important constraint to expand business followed by low market access, land, water and electricity shortage, storage facility etc. Interestingly, only 4.61 per cent respondent talked about lack of skill labour as a constraint to expand business (Fig. 4.2).

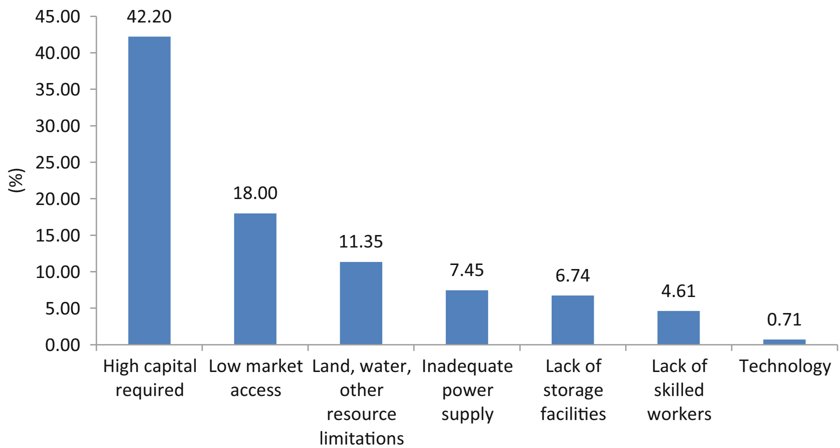


Fig. 4.2 Constraints to expand business (businesses view, state-wide analysis) (Source: Authors' own)

Within Champhai district, the study team surveyed a sample of 40 micro and small industries which were collectively employing more than 200 people. The enterprise owners were interviewed to get their perspective on business environment and growth prospects emerging from improved international trade. Of these respondents, 37 (92 per cent) owners were confident to increase or expand their business if the overall trade flows between India and Myanmar improved through Zokhawthar without any additional fiscal incentives being provided to them.

This revealed, while entrepreneurial spirit was present among local businessmen, infrastructural constraints need to be addressed to let enterprise take off. Yet, another 60 per cent of the respondents said that there is a mismatch between present levels of income and expenditure. This supported the survey evidence that the prices of basic necessities in Champhai were high, and without a corresponding increase in incomes, the informal flow of cheaper goods from Southeast or East Asia through Myanmar would continue to surge.

Reasonably good employment generation prospects were seen among these businessmen. Within the sample of 40 owner-respondents, 27 (67.5 per cent) reported they would be willing to recruit new workers with different levels of skill. For the sample size studied, this could translate into approximately 150 jobs with different sets of skills. Extrapolating to the population and size of Champhai district, an increase of 330 long-term jobs roles without any significant investment besides road improvement is a sizeable impact. This excludes additional jobs that could come up through expansion of production networks and providing basic services to cross-border visitors.

Survey findings show that with the expansion of the trade, more skilled workers will be required by enterprises. A logit regression model was constructed using a weighted variable from the nature of constraints highlighted by respondents, then converted into a scale ranging from 0 to 1. Further, a binary dependent variable was constructed considering an indexed value faced by respondents in their business operation. An index value of less than 0.5 categorized the enterprise as facing ‘low constraints’, and an index value of more than 0.5 categorized the enterprise as facing ‘high constraints’. This was then regressed on two important variables, number of employees in the organization and whether jobs

Table 4.4 Regression results

Variable	Coefficient	Std. error	*z*-statistic	Prob.
Constant	0.687008	0.315328	2.178712	0.0294
Number of employees	−0.104329	0.050842	−2.05203	0.0402
Skilled workers (few 0; mostly: 1)	−0.529264	0.309840	−1.70819	0.0876
Log likelihood	−251.337	McFadden *R*-squared	0.11977	
LR statistic (2 df)	6.093343	Total obs.	367	
Probability (LR stat)	0.047517			
Prediction evaluation (with cutoff at 0.5): percentage correct: 51%				

Note: Dep. Var: Level of constraints faced (Low: 0 and High: 1)

in the enterprise were done mostly by skilled or low skilled workers (dummy variable). The model was run on state-wide survey data and the results are given in Table 4.4.

The results in Table 4.4 indicate that despite capital availability and market access (considered as major constraints to expand business), there is a definite relationship between size of the firm (expressed in terms of number of employees) and level of employee skills. The logit regression model could explain that probability of high constraints is negatively related to number of employees and level of skills. This corroborates the empirical survey finding that enterprises looking to receive benefits of increased trade are likely to hire more skilled workers in future. Induction of skilled workers is likely to reduce some the operational constraints (to the extent it can be circumvented by a more skilled workforce) and help bringing in efficiencies in business operations. Both the coefficients are significant at 10 per cent level. The model has moderate predictability as it could predict 51 per cent of the cases correctly.

Further assessments on skill needs revealed that Mizoram has semi-skilled craftsman but lacks skilled ones. It can be argued that current state of manufacturing in the state does not require highly skilled workforce. Skilled people from neighbouring Indian states as well as semi-skilled (but willing to learn on-the-job at minimal cost), Mizo-speaking Myanmarese come into the state in search of livelihood. These inbound migration characteristics do not greatly encourage skill acquisition by local youth in many of the craftsmanship trades. In Champhai district, enterprises surveyed recruit only 2 per cent workforce who are trained in industrial training institutes (ITI). Most of the jobs (about 80 per cent) were based on referral sourcing from outside the state. Only about 15 per cent of enterprises felt that they are unable to source the skilled workers and the existence of a mismatch between the demand and the expertise of the workforce affected their production and other activities.

4.2.3 Expansion of Production Networks

Creation of clusters and expansion of existing small production networks aligned to trade routes can be an important step towards economic development. However, mere attempt to expand production does not necessarily result in economic expansion. This is especially true for a remote border district such as Champhai. In order to achieve that production capacity augmentation needs to be supported by permitting cross-border market access (in this case upper and western Myanmar), and implementing trade facilitation measures that either take into account cross-border trade complementarities (in case countries wish to maintain a positive list) or move towards a more open cross-border trading regime and keep only a few items in the negative list.

At present, the production networks in Champhai district are not vibrant and do not produce enough for goods to move to other regions in the country. However, the district has potential and new networks could be created, if supported.

Although most of Mizoram is hilly terrain and 91 per cent of the state is under forest cover, Champhai district is an exception and has some plain lands. The nature, topography and agro-climatic zone of the district is suitable for almost all agricultural crops, which can be a great source for trade in agricultural produce with relatively under developed parts of western Myanmar. The study team has looked into some examples to understand, if such possibilities could be explored. Two of such examples are as follows:

- Recently, a bottling water plant has been made operational by a private entrepreneur. The plant purifies stream water, bottles and sells it to accessible market by litres. As of now, no value addition (mineral) is done on the water. The processed water is packaged in bottles of 4 L and 10 L and delivered to the customers. Though it is a simplistic start up, and only about a year old, the product has received good response from the combined domestic and cross-border markets. The promoters are expecting to expand their business by installing better equipment and recruiting more workers. Financing and technology support can be of help, but the business plan can better succeed, if cross-border markets are also made accessible through formal channels.
- Two wineries in the private sector, which together produce about 300 cases of wine per day in three different products, were studied for this work. They currently employ 26 workers. At least 300 families are engaged in the supply of raw materials (grapes) to these two production units. However, their production declined in recent years due to low demand in the market. With the easing of prohibition allowing opening up of permitted wine shops within certain areas of the state, the consumers have begun to avail of better quality products (mainly from outside the state) at competitive prices. These wineries can now hardly buy sufficient raw materials from the vineyards, thereby increasing pressures on the livelihoods of cultivators. One of the viable options for reviving the demand of products from the local wineries is portfolio innovation and production technology upgrade to compete with the new entrants. However, such technology upgrade needs economies of scale and inclusion of cross-border markets through formal trade routes can help induct such technology in the units.

  There is more grape production potential within this district than what is presently being grown. Looking at the present scenario, the priority is to implement innovative product portfolio diversification measures of grapes outside of wineries into sorting and packaging as final products, conversion into juices and dried seeds. Simultaneously, the general problem of market linkages, and cold chains if necessary, needs to be addressed with state support. Thereafter, proper policies to regulate the market by ensuring proper matching of the demand and supply can boost production. Industry representatives, practitioners and cultivators spoken to during the survey felt that production can double, if all measures are successfully implemented.

Provisioning of healthcare and education (basic services) is of utmost importance for social and economic development of any society. While Mizoram lags behind in the development of its healthcare system, the upper and western Myanmar regions barely have any facility. Throughout the way from Zokhawthar to Aizawl, the study team found few good health clinics, Primary Health Centers (PHCs) and hospitals, but, at the same time, found many instances of residents of Chin Hills (in and around the international border) coming to even these underdeveloped facilities in Mizoram for their healthcare needs. One of the main reasons for such visits could be that it is less difficult to travel with the ailing to Champhai than to reach Mandalay in upper Myanmar. The weather in Champhai area is mostly moderate and suitable for building up much better health-related infrastructure. Good connectivity between the regions has the potential to not only increase formal trade in goods through Zokhawthar border post but also improve people-to-people contact and provisioning of basic services to those who need it across the border. A few good hospitals built in Champhai district may attract many patients from nearby areas of Myanmar.

On the other hand, the elementary, primary and secondary education systems in Mizoram are quite robust. There are quite a few good government, private and community organization run schools. The demand for good education is high on both sides of the border, but education service delivery infrastructure in Myanmar is far weaker than what is in Mizoram. With improved road connectivity, a conscious effort to get cross-border students into Mizoram schools and by implementing supportive student-friendly travel regimes, Mizoram education sector can become a more attractive proposition to Myanmar that what it is today.

Lastly, the region requires better internet connectivity and banking facilities, which will help people to expand their business, access new technology and communicate with the people from Myanmar.

5 Conclusion

The current study has taken up a case of how local level development issues are connected to broader policy change. Champhai district in Mizoram is well positioned to harness its potential strength as part of ongoing drive to improve India–Myanmar relations. Currently, Moreh border post in Manipur is mostly used for trade. This alternatively route can also be used and has significant potentiality as the travel time (with improved roads) from these two border points to upper Myanmar (Mandalay region) can almost be the same (11 hours approximately).[7] From that point onward, trade flowing through Mizoram can serve the bigger markets of lower Myanmar and Thailand, using the India–Myanmar–Thailand links.

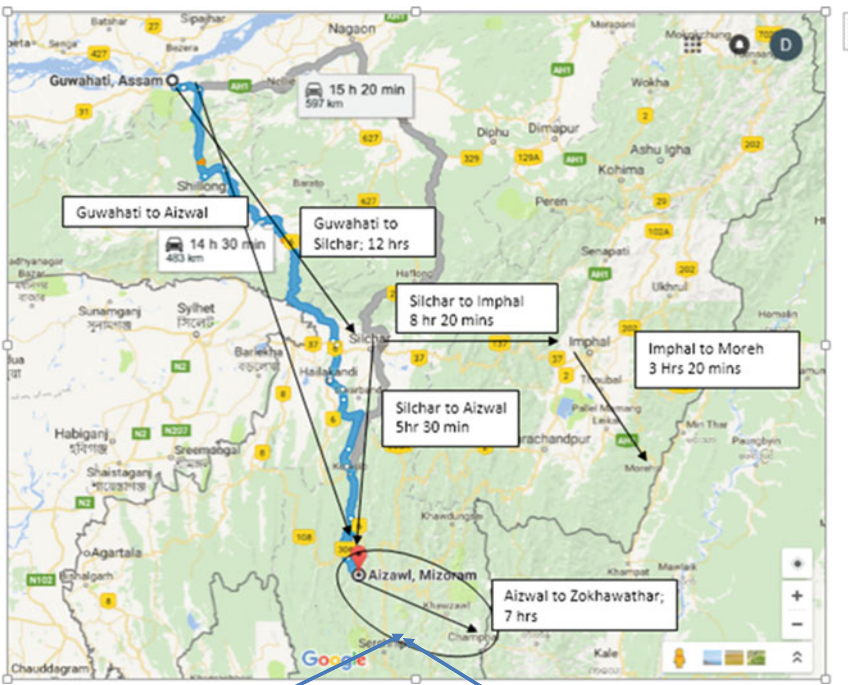
However, this cannot be achieved automatically. Mizoram government requires analytical inputs to identify existing and potential sectors, which could work as engines of growth. Some level of early investment in these sectors can accentuate the growth process as more goods and services will cross borders. There is a business case to expedite infrastructure projects that aim to improve highway infrastructure (and strengthen bridges wherever needed) on both sides of the border on the Mizoram–upper Myanmar route.

The study has identified that potential growth will come from transport, hotel/restaurant, trading and basic services in the short run. In the medium to long run, there is a possibility of growth in food processing, winery, bottled drinking water etc. Fresh investment along with new technology is required to improve the productivity of these sectors. In case of services, there is a hidden demand for good schools, colleges and hospitals/diagnostic centres. If the state government focuses on these services, it will create substantial demand among the people from Myanmar, who are expected to cross border to avail these services.

Finally, with North East being put at the centre stage of India's Act East Policy (AEP) for promoting trade link with South East Asia, Moreh has been identified as one of the strategic business location for cross-border business. However, there is a need for multiple business hubs for seamless trade through different border crossing points across the North

Eastern region which can provide alternative routes in case there is a disruption on a particular link.[8] The business case for Zokhawthar border post and Champhai district as a whole gains an additional justification on this ground.

Appendix: Trade Route to Myanmar Through Zokhawthar



Source: Google Maps

Direct employment benefits are there in transport and hotel / restaurant sectors. Indirect employment generation is possible in allied sectors especially in food, components and basic services due to increased trade.

New business possibilities are there in sectors such as bottling plant for drinking waters, winery, more productive cultivation of grapes, etc. This will open new export opportunities in Myanmar. Improvement in schools and hospitals will attract students and patients from Myanmar, and, hence, export of services at the local level is also possible. This will have a cascading effect on the employment.

Notes

1. Refer, "A lot of scope to improve ties between India and Myanmar". Report of the three-day international conference on 'Future of India Myanmar Engagement: Existing Impediments, Untapped Opportunities' organized by the Jadavpur Association of International Relations (JAIR) in collaboration with Observer Research Foundation, Kolkata Chapter and the Maulana Abul Kalam Azad Institute of Asian Studies from February 27 to March 1, 2014, available at http://www.orfonline.org/research/a-lot-of-scope-to-improve-ties-between-india-and-myanmar/
2. Held at Nay Pyi Taw, Myanmar in February 2015.
3. Refer Bose (2015).
4. Refer http://www.thehindubusinessline.com/economy/the-reality-behind-mizorams-trade-hotspot/article7375439.ece
5. "India, Thailand, Myanmar to be connected with a 1400-km road", *The Economic Times*, 23 May 2016. http://economictimes.indiatimes.com/news/economy/infrastructure/india-thailand-myanmar-to-be-connected-with-a-1400-km-road/articleshow/52399232.cms
6. "Connecting With Neighbours: Cross-border infra development to open new avenues for India", *Indian Express*, 6 January 2016; http://indianexpress.com/article/india/india-news-india/connecting-with-neighbours-cross-border-infra-development-to-open-new-avenues-for-india/
7. Refer Appendix.
8. "India–Myanmar border trade hit by Manipur blockade", *Times of India*, 8 January 2017; http://timesofindia.indiatimes.com/business/india-business/india-myanmar-border-trade-hit-by-manipur-blockade/articleshow/56405998.cms

References

Bhatia, R. (2015). *India-Myanmar Relations: Changing Contours*. New Delhi: Routledge.

Bose, P. R. (2015, July 1). The Reality Behind Mizoram's Trade Hotspot. *The Hindu Business Line*.

Gottschlich, P. (2015). New Developments in India–Myanmar Bilateral Relations? *Journal of Current Southeast Asian Affairs, 34*(2), 139–163.

Observer Research Foundation. (2014, February 27). *Proceedings in "A lot of scope to improve ties between India and Myanmar, Kolkata*. Accessed at http://www.orfonline.org/research/a-lot-of-scope-to-improve-tiesbetween-india-and-myanmar

Ramaswamy, S., & Maini, T. S. (2014, August 12). The Strategic Importance of Myanmar for India. *The Diplomat*.

Routray, B. P. (2011). India-Myanmar Relations: Triumph of Pragmatism. *Jindal Journal of International Affairs, 1*, 301–321.

Sailo, L. (2013, July 25). Prospects for Border Trade in Mizoram. *ISAS Insights*, No. 216, National University of Singapore, Singapore.

Singh, S. (2016, January 6). Connecting with Neighbours: Cross-Border Infra Development to Open New Avenues for India. *Indian Express*.

Stancati, M. (2012, May 29). What Better Myanmar Ties Mean for India's Northeast. *The Wall Street Journal*.

5

Myanmar: Elements of a Policy Research Agenda in Services Trade

Pierre Sauvé

1 Introduction

The case for open services markets is today considerably easier to make than when services were first mooted for inclusion as a potential agenda item for multilateral trade diplomacy in the years that preceded the launch of the Uruguay Round (Francois and Hoekman 2010; Ghani 2014). This is so for a number of reasons, not least of which the much greater level of understanding of the contribution of services to the process of economic development and, centrally, of the dual nature of services as both final and intermediate products (Sauvé and Roy 2016). Equally important is the greater familiarity with the conduct of service sector reforms that two and a half decades of learning by doing made possible by the rising tide of services negotiations conducted at the WTO and in preferential settings have allowed (Mattoo and Sauvé 2011). Just as important are significant,

P. Sauvé (✉)
External Programs and Academic Partnerships, World Trade Institute (WTI), University of Berne, Berne, Switzerland

P. De, A. Raychaudhuri (eds.), *Myanmar's Integration with the World*,
DOI 10.1007/978-981-10-5134-0_5

if far from optimal, improvements in the availability of empirical evidence on the effects of service sector reforms and of trade and investment liberalization in the sector (Maurer et al. 2016).

Developing countries were long hostile to considering services as a desirable issue to take up in trade diplomacy, convinced as they were, in classic mercantilistic terms, that developed countries possessed a clear, almost absolute, comparative advantage in the production and exchange of virtually every category of commercially traded services. There is indeed today a much finer appreciation, rooted in the significantly greater doses of empirical methods and evidence noted above, that services represent a significant and growing source of comparative advantage for a host of developing countries, including least developed ones, and one that spans an increasingly diverse set of sectors and modes of supply (Rentzhog and Anér 2014; Saez 2010). There is, similarly, a much finer understanding of the critical trade facilitating role that a wide range of services play in allowing countries to put themselves more sustainably in the supply chain dynamics that characterize today's evolving global geography of trade and investment (Maurer et al. 2016). Simply put, regardless of a country's factor endowments, size or even geography, the efficiency with which service inputs are supplied can make a world of difference to the ability of firms and countries to take advantage of and move up supply chain production, be it in agriculture, fisheries, extractive industries, manufacturing or indeed other service industries (Marconini and Sauvé 2010).

Across countries, the contribution of services to income generation, employment creation, gender mainstreaming and foreign exchange earnings has increased significantly over the last two decades. The importance of services in developed countries has grown continuously, with services now accounting for over 70 per cent of both gross domestic product (GDP) and total employment. The growth of the service economy has been equally, if less spectacularly, pronounced in developing countries, where the share of services in GDP and employment averages 50 per cent and 35 per cent respectively, but with enormous variance across countries and regions.

Since 1990, services exports from developing countries have grown at an average annual rate of 8 per cent and their share of world services exports increased from 23 in 2000 to close to a 32 today. Expressed in value-added terms, that share is seen as approaching 50 per cent (Rentzhog and Anér 2014; Maurer et al. 2016). The above trends offer evidence of far-reaching structural changes in domestic output and outward orientation. Moreover, and as noted above, for a growing number of developing countries, services exports contribute significantly to economic growth, and increasingly in new sectors such as business, telecommunications, construction, environmental, distribution, health, education and cultural services. Such a trend holds even for least developed countries even as their share in aggregate exports remains marginal (Sauvé and Ward 2016).

The trends depicted above suggest a large untapped potential for developing countries, including Myanmar, to advance the development of their services sectors. Principal approaches towards this goal include the creation of an enabling environment through improved policy, regulatory and institutional frameworks for the service economy and more liberalized services trade to enhance market access and investment opportunities (Saez 2010). Equally important is the contribution that a sound, evidence-based, policy research ecosystem, linking universities, policy research institutions, business associations and public sector decision-makers, can make to enhance trade policy formulation in services (Marconini and Sauvé 2010).

Important opportunities now exist for developing countries to identify and pursue optimal service sector paths suited to their national objectives, evolving capacities and lingering constraints. Deliberate policies and reforms, enhanced supply of human capital as well as improved regulatory institutions and governance, can all help create an enabling environment at the domestic level which, coupled with the properly sequenced progressive (outward) liberalization of services markets, can promote development-enhancing increased investment and trade flows.

The last three decades of experimentation with service sector reforms conducted in all parts of the world offer ample evidence that an enabling environment and the pursuit of orderly market opening strategies can help attract the financial resources, skill transfers and technologies required to modernize domestic service sectors, thereby helping to enhance supply capacities for the provision of higher quality and higher value-added services for both domestic and export markets (Saez 2010; Ghani et al. 2012).

Rest part of the chapter is organized as follows. Section 2 discusses the elements of the policy formulation supply chain in services. The *process* of policy research and the *substance* of policy research are then discussed in Sects. 3 and 4 respectively. Concluding Remarks are drawn in Sect. 5.

2 Elements of the Policy Formulation Supply Chain in Services

An optimal service sector policy formulation supply chain can be seen as consisting of a number of essential components. These comprise:

(i) sound policy analysis, rooted first and foremost in evidence-based decision-making, whose chief input always and everywhere involves better and more detailed (disaggregated) data;
(ii) the availability of an adequate (and strengthened) policy research ecosystem (universities, think tanks and other policy research institutions) able to provide decision-makers with a steady stream of timely, evidence-based, objective policy analysis;
(iii) an inclusive architecture of trade policy consultations that reaches out to all key stakeholders with a view to identifying economy-wide and sector-specific reform trajectories;
(iv) an effective architecture of inter-agency coordination whose aim is to design and implement chosen policy paths and secure whole of government commitment to policy implementation;
(v) a sustained upgrading of regulatory regimes and of the institutions (and technical staff) that adopt and implement domestic regulations;
(vi) enhanced trade and investment promotion efforts whose aim is to ensure that negotiated outcomes translate into sustained gains for private sector service suppliers, particularly SMEs; and
(vii) sustained efforts at measuring the effects of policy reforms through proper impact assessment methodologies to ensure that a country's policy aims are met and that proper corrective steps are taken when

policy reforms encounter unanticipated implementation bottlenecks or generate setbacks calling for corrective measures.

While all of the above components are interrelated and influence each other, the adequacy of a sound policy research capacity arguably ranks among the most important elements of a successful reform agenda in services. We devote the remainder of this note on ways to enhance a country's research capacity for effective services trade policy formulation and reform design.

3 The *Process* of Policy Research

The starting point of any effort aimed at generating a sustained capacity for policy research concerns the availability of an adequate critical mass of properly trained local experts in the law, economics, regulatory dynamics and political economy of service sector reforms. In most countries, and particularly in least developed country settings, such human capital is in chronically short supply, implying the risk of marked aid dependence on the priorities, analytical or policy advice (and potential biases) of foreign-supplied expertise.

Determined efforts at redressing the above analytical deficit through proper knowledge import substitution means should command the priority attention of national decision-makers early on in the reform process. There are no magic formulas for achieving this goal. Promising young researchers have to be identified through merit-based means and properly trained in leading centres of excellence in trade and economic governance. Donor dependency in this regard need not be unduly problematic if the scholarship or training funding on offer results in a sustained increase in the supply of indigenous trade policy skills. Care needs to be given, however, through proper programme design, to ensure that the developing country sending promising young researchers abroad do not suffer from more permanent brain drain effects by monitoring (and mandating) the return of the human capital trained abroad for agreed periods of time.

Capacity strengthening in trade and investment policy analysis needs to be envisaged across the multiplicity of disciplines—economics, law and political economy—that are characteristically involved in sound policy formulation. In countries, like Myanmar, that have long experienced a dearth of academic and political freedom, the ready supply of critical policy research capacity cannot materialize overnight. Nor is it likely that much capacity will exist in political science/international political economy, such that capacity building efforts in trade governance may need to concentrate chiefly on strengthening law and economics expertise.

A further approach to buttressing the supply of domestic analytical capacity is to attract leading foreign educational or training institutions and indigenizing their training activities in the host country through greater tailoring and the training of local trainers. Such an approach, rooted in the increasingly common trend of transnational academic cooperation, need not of course preclude recourse to foreign training but can help mitigate the loss of talent often associated with extended periods of study abroad. While attracting foreign universities may prove challenging in a least developed country such as Myanmar, more targeted forms of academic cooperation twinning local and foreign experts and research centres and institutions through memoranda of understanding can help build targeted expertise in priority policy domains.

A significant share of foreign trained experts in trade policy will naturally turn to governmental agencies for employment upon completing their studies abroad. This will most likely be the case of economics graduates, whose scope for private practice (though rising and varied across disciplinary specializations) is generally lesser than that of lawyers. Yet in promoting a sustainable capacity at informed policy research, it is important that countries ensure, through dedicated scholarship programmes and academic cooperation assistance from the donor community, that the human capital of universities and of university-related research institutes be strengthened.

Indeed, a centrally important element of a vibrant policy ecosystem concerns the presence of credible, expert, policy research institutions that are sufficiently divorced from governmental influence as to provide objective and, where needed, critical policy advice to decision-makers. In many countries, such institutions will be affiliated to—or anchored in—leading universities, such as the Yangon Institute of Economics in Myanmar. In general, functional separation from public sector institutions may help preserve greater analytical and editorial independence, subject to adequate and secure funding sources. A major problem plaguing policy formulation in many countries, particularly those experiencing a democratic transition such as Myanmar, is how to reduce what is often the considerable distance that separates the academic and policy-making worlds. As one participant at a roundtable discussion recently organized by ESCAP on the role policy research in economic and trade reforms remarked: "*We know mostly theory, we do not know what the ministries exactly need or want. That is why we need collaborative efforts to do good research.*" The famous saying that "It takes two to tango" applies centrally to the need for policy makers and researchers to interact more regularly, for academics to speak the language of governance with greater fluency and to raise the level of trust required to reduce the distance noted above.

A further need in strengthening indigenous analytical capacity in the service sector is to invest in continuous learning on the part of the country's services negotiators and the multiplicity of sectoral policy officials typically involved in policy design and formulation in services. A plethora of training opportunities can be found in this regard, ranging from ESCAP, the ADB, APEC, ASEAN or ERIA in South East Asia as well as the World Bank and the WTO, UNCTAD and the ITC globally, to which Myanmar can direct some of its training efforts of public officials. Tapping more resolutely into those segments of the donor community that have shown the greatest readiness to fund trade-related training activities (e.g. the European Union, DFID, GIZ, the Netherlands, Australia, USAID) can prove a further key source of technocratic upgrading, as can training conducted in partnership with leading university providers specialized in trade governance. These include institutions such as the World Trade Institute at the University of Bern, the Centre for Trade Policy and Law at Carleton University and the University of Ottawa, in Canada, or the Institute for International Trade at the University of Adelaide in Australia, to name a few.[1] Efforts directed at training both officials and a younger generation of academics and policy researchers together in the above programmes could once more create the desired synergy between academia and policy making.

4 The *Substance* of Policy Research

Several avenues of policy research can be identified as forming the building blocks of a sustained improvement in the knowledge base required for sound policy formulation in services trade. Some of these fall more squarely in the province of economics, while others involve stronger doses of legal or political economy analysis, while still others call for specialized skills in regulatory and institutional design.

A country long cut off from the rest of the world, Myanmar suffers from a chronic dearth of reliable data on its own economy, its trade and investment linkages to the world and its own neighbourhood. A sound starting point to generate a credible initial critical body of knowledge on the country's service economy would be to align donor support in calling on UNCTAD to conduct one of its Service Policy Reviews (SPRs) in Myanmar (see Box 5.1) whilst investing at the same time in a sustained strengthening of Myanmar's capacity to generate better and more detailed data on trade and investment in services. The challenge of doing so in services should not be underestimated: the intangible nature of many services seriously hampers attempts at assigning and measuring the value of service transactions, both domestically and even more so at the international level (Francois and Hoekman 2010).

Box 5.1: UNCTAD's Services Policy Reviews[3]

The objectives of UNCTAD SPRs are to assist developing countries and countries with economies in transition to:

(a) **Manage a successful services reform process**: The country projects on assessments of service economies and of trade in services carried out by UNCTAD that aim to assist developing country governments and regulatory authorities in designing, pacing and sequencing regulatory, institutional and trade policy reforms.
(b) **Ensure sustainable development gains through services reform**: Integrated by design, the SPRs extend beyond an assessment of the economic impacts of services reform packages to reveal many of the social and environmental implications of prospective policies to allow for the

(continued)

Box 5.1 (continued)

fine-tuning of reform packages, that includes the development of flanking policies, so that balanced developmental gains can be achieved through reform. Special attention is given to ensuring that national MDGs (and now SDGs) are advanced by services sector reform packages.

(c) **Strengthen negotiating capacities on services trade negotiations**: Results from UNCTAD SPRs help trade negotiators to identify and promote conditions for increasing the beneficial participation of their countries in international trade in services through trade negotiations.

(d) **Monitor results achieved through reforms and adjust related policies over time**: Experience demonstrates that policy making in any realm is invariably iterative and incremental. For this reason, UNCTAD provides continued advisory services to countries participating in its technical assistance projects, notably by maintaining regular two-way contact with project experts and national ministries, and with Geneva-based missions, to assist beneficiaries in achieving benchmarks set for reforms that have been adopted based on project recommendations.

The sheer regulatory intensity of services trade, where the bulk of the trade negotiating agenda consists of tackling the trade and investment impacts of domestic regulatory measures, implies that key attention in policy research also needs to be devoted to assessing the design, efficacy and optimality of domestic regulatory regimes in services as well as of those institutions responsible for formulating and implementing regulatory policy (Marconini and Sauvé 2009; Mattoo and Sauvé 2011).

Several elements of policy research enter into play in this regard, starting once again with the need to train researchers and relevant policy officials on latest trends in the intricacies of efficient (typically pro-competitive) regulation, the design of legitimate responses to market failure, the granular analysis of market structures and a finer mastery of the metrics of regulatory impact assessment. Doing so across the diverse landscape of the service economy is no easy task, as the competition and regulatory realities of finance, telecommunications, health or logistics all differ markedly. While such work is typically the province of economists, there is an equally important need to conduct an audit of countries' regulatory regimes, particularly as they intersect with trade and investment regulation, so as to map the regulatory landscape of a country with a view both to identifying regulatory instruments that may represent antiquated, unduly burdensome, or explicitly discriminatory obstacles to trade and investment in services but also, crucially, to uncover areas where weak or inadequate regulation may also be inimical to the sound pursuit of various public policy objectives. The World Bank's recently developed *Regulatory Assessment Toolkit of Services Trade and Investment (RATSI)* offers an interesting methodology available to Myanmar to benchmark its regulatory regime in services and identify areas where the development of new—or the strengthening of existing—regulations and regulatory enforcement practices is most in need prior to or in the context of a reform and external liberalization agenda (see Box 5.2).

Box 5.2: The World Bank Regulatory Assessment Toolkit[4]

The World Bank's *Regulatory Assessment Toolkit: A Practical Methodology for Assessing Regulation on Services Trade and Investment* provides guidance on how to assess and reform the regulatory policies of service industries. The toolkit can help government officials evaluate whether prevailing regulatory frameworks properly address market failures, achieve public interest goals in an efficient manner, and promote the development of a competitive domestic services market. Depending on the circumstances and needs of the authorities, the Toolkit can serve different purposes, including supporting regulatory reform, improving regulatory governance, negotiating and implementing trade agreements, and streamlining regulations to attract foreign investment. The Regulatory Assessment Toolkit was designed to be of particular interest to policy makers and government officials from regulatory bodies, experts at development banks and donor agencies, as well as academics and researchers in the field of economic regulation.

Domestic regulation in services markets exerts a significant impact on the vibrancy of trade in services and simultaneously on trade in goods, since services such as telecommunications, transport, financial, and energy are core inputs to the manufacturing process. Not surprisingly, domestic regulation in services faces steep technical, institutional, and political challenges which are frequently not obvious either to the casual observer looking in from the outside or to the sectoral specialist steeped in the nitty gritty of day-to-day regulatory conduct (Molinuevo and Saez 2016). The Regulatory Assessment Toolkit offers a framework for structured diagnosis of regulatory challenges and the discussion of reform measures to improve efficiency on a sound basis. The Toolkit offers a practical guide to assess the impact of services regulations: the Regulatory Assessment on Services Trade and Investment

(continued)

Box 5.2 (continued)

(RASTI). The RASTI is a methodology for identifying restrictions to trade and investment in services within a country, assessing the impact of those restrictions, and developing suitable regulatory alternatives. Since the way in which governments administer and implement laws and regulations can affect trade, a RASTI also scrutinizes the institutional backdrop for reforms.

A third and closely related policy research priority in services trade is for Myanmar to map the country's trade and investment policy stance and the degree of prevailing openness or restrictiveness in key sectors. Both the World Bank and the OECD have recently developed instruments called the Services Trade Restrictiveness Index (STRI) for which data is currently not available for Myanmar (see Box 5.3).[2] Gaining a better sense and alerting policy makers as to how restrictions in key producer (intermediate) service sectors affect backward or forward linkages are key to determining both final competitiveness in export markets and the ability to take part in value chains (Saez and Taglioni 2016). STRI data can help identify regulatory or policy bottlenecks which reform efforts can prioritize.

Box 5.3: Measuring the Restrictiveness of Domestic Services Regimes

(a) **The World Bank STRI**[5]

The World Bank's STRI database covers 103 countries that represent all regions and income groups of the world. For each country, five major services sectors are covered that encompass a total of 19 subsectors: (i) financial services: retail banking (lending and deposit acceptance) and insurance (automobile, life and reinsurance); (ii) telecommunications: fixed-line and mobile; (iii) retail distribution; (iv) transportation: air passenger (international and domestic), maritime shipping, maritime auxiliary, road trucking and railway freight; and (v) professional services: accounting, auditing, and legal services (advice on foreign/international law, advice on domestic law, and court representation). Each subsector in turn covers the most relevant modes of supplying the respective services, yielding overall 34 country-subsector-mode combinations: Mode 1: financial services, transportation and professional services; Mode 3: all subsectors; and Mode 4: professional services.

(continued)

Box 5.3 (continued)

To obtain original information about applied services trade policies prevailing in 2008, World Bank conducted surveys in 79 developing countries. The surveys were completed by local law offices with extensive expertise in local investment laws, regulations, and with practical experience of working in these sectors. The surveys were based upon each country's objective legislative information, augmented with information on implementation of regulatory measures as applicable. The accuracy of all policy information, whether collected through surveys or otherwise, was confirmed by the Government and Ministry officials of the countries. The information presented in the database reflects the Government feedback, if any, in cases when the feedback deviated from the survey information. The World Bank aims to update its first set of STRI estimates to account for policy changes observed over the past eight year period.

(b) **The OECD STRI**

The OECD STRI provides a comprehensive portrait of *applied* services trade restrictions. It includes two essential elements. First is a regulatory database that has been compiled, verified and peer reviewed by the OECD, based on the laws and regulations in existence in 40 countries (both developed and developing) across 18 sectors. The database is maintained online, is frequently updated, and is interactive. A second element consists of composite indices that have been developed to quantify identified restrictions across five standard categories, with values ranging between zero and one. Complete openness to trade and investment gives a score of zero, while being completely closed to foreign services providers yields a score of one.

The STRI provides a useful diagnostic tool, generating a picture of services restrictiveness at the national level, and by sector. It allows benchmarking for individual countries and relative to global best practice. It also allows countries to identify where the outlier restrictions are and where potential bottlenecks exist. For the sample countries covered by the OECD database, comprehensive and comparable information is available for policy makers to scope out reform options, benchmark them, and assess their likely effect. The data can also help trade negotiators clarify those restrictions that most impede trade, investment, growth and employment; and for businesses to shed light on the requirements that traders must comply with when entering foreign markets.

A fourth area where policy research in services can usefully be undertaken concerns specific sectors where Myanmar offers strong potential for export growth. These of essence include tourism and its gender favourable properties, where considerable scope exists to draw on the country's experience with traditional medicine to develop a wellness component able to add significant value to the country's already significant tourism potential. In conducting policy research in specific sectors, particular attention will need to be devoted to identifying both competitive strengths and likely growth bottlenecks. The latter are generally well known in services and relate to the availability, quality and language proficiency of human capital (a useful input for educational—particularly vocational training—reforms); ICT readiness; the adequacy of physical infrastructure and its impact on upstream or downstream industries; the quality of regulatory regimes, institutions and enforcement capacities; access to finance, particularly for service sector SMEs whose owners typically face acute constraints in collateralizing intangible (knowledge-based) assets; the cost of telecommunication services (particularly mobile services and including internet access and charges) and any other regulatory barriers affecting economy-wide and sector-specific performance, including those weighing on labour mobility (so-called Mode 4 trade in services).

A further and closely aligned area concerns more specifically Myanmar's connectivity agenda: the determinants of its logistics performance; the quality of its road, port, inland waterway and airport infrastructure; the scope that exists for expanding intra-regional trade, particularly within the sub-region in the context of ongoing ASEAN Economic Community objectives but also with neighbouring India; as well as how best to enhance the quality of services that most centrally facilitate trade of the commodities and manufactured products that Myanmar chiefly exports (e.g. transport, warehousing, border management services, finance, telecoms, ICT software, and related business and professional services). All are areas where a plethora of global and regional institutions (e.g. the World Bank Group, the Asian Development Bank, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), the ASEAN Secretariat, the Economic Research Institute for ASEAN and South-East Asia (ERIA)) devote considerable policy research and/or infrastructural funding attention. Finding ways once more to associate local policy researchers to such work through twinning arrangements can prove instrumental to scaling up the supply of local expertise over time to substitute for foreign-sourced expertise.

UNESCAP would appear particularly well suited to taking the lead in coordinating a programme aiming, in those service sectors deemed of priority interest to the Government of Myanmar's reform trajectory, to twin promising academic and policy researchers with a group of expert mentors drawn from various country settings but with a proven track record in policy research in specific sectors and key rule-making challenges in services trade.

Finally, one should not, at the very outset of a journey dedicated to strengthening Myanmar's policy research capacity in a sustainable manner, forget to invest in the core fundamentals of language skills, particularly English, the inadequate supply of which seriously hampers access to knowledge. The same applies to the finer mastery of the very research skills (drafting, sourcing, mastering advanced methods of empirical analysis) best able to guarantee the quality and legitimacy of the policy research being produced and disseminated to the academic and policy-making communities.

5 Concluding Remarks

The contribution of services to income generation, employment creation, gender mainstreaming and foreign exchange earnings has increased significantly over the last two decades. The trends in services trade suggest a large untapped potential for developing countries, including Myanmar, to advance the development of their services sectors. Principal approaches towards this goal include the creation of an enabling environment through improved policy, regulatory and institutional frameworks for the service economy and more liberalized services trade to enhance market access and investment opportunities. Equally important is the contribution that a sound, evidence-based, policy research ecosystem, linking universities, policy research institutions, business associations and public sector decision-makers, can make to enhance trade policy formulation in services. This chapter discusses the elements of the policy formulation supply chain in services including the *process* and *substance* of policy research. Important opportunities now exist for developing countries to identify and pursue optimal service sector paths suited to their national objectives, evolving capacities and lingering constraints. Deliberate policies and reforms, enhanced supply of human capital as well as improved regulatory institutions and governance, can all help create an enabling environment at the domestic level in Myanmar, which, coupled with the properly sequenced progressive (outward) liberalization of services markets, can promote development-enhancing increased investment and trade flows.

[An earlier version of the paper was presented by author at an ARTNeT/ESCAP seminar on "Myanmar and the Asia-Pacific: The Role of Policy Research in the Country's Economic and Trade Reform" held at Yangon, Myanmar on 19–21 February 2015. Author is grateful to ARTNeT/ESCAP and Mia Mikic in particular for extending due approval for this publication.]

Notes

1. Some of the above institutions, notably the WTI, have established strong regional partnerships with leading universities in South East Asia, notably in Vietnam (the Hanoi-based Foreign Trade Institute) and Universitas Pelita Harapan (UPH) in Jakarta, both of whose Masters' programmes in trade governance have been developed jointly with the WTI and whose individual week-long course modules are open to external participants from the region. See http://www2.ftu.edu.vn/index.php/vi/ and http://global.uph.edu/component/wmcontents/content/15/150.html
2. Ibid.
3. To date, UNCTAD SPRs have been conducted in Kyrgyzstan, Lesotho, Nepal, Nicaragua, Peru, Rwanda, Uganda (two reports), Paraguay and Bangladesh (two reports). The Secretariat has also usefully produced a detailed methodology for reviewing policy, regulatory and institutions for services. For more information on the SPR process, see: http://unctad.org/en/pages/publications/Services-Policy-Reviews.aspx
4. For more information, see: https://elibrary.worldbank.org/doi/book/10.1596/978-1-4648-0057-3
5. For more information on the World Bank and OECD STRI databases, see: http://iresearch.worldbank.org/servicetrade/default.htm and http://www.oecd.org/tad/services-trade/services-trade-restrictiveness-index.htm

References

Francois, J., & Hoekman, B. (2010). Services Trade and Policy. *Journal of Economic Literature, 48*, 642–692.

Ghani, E. (2014, August 17). Growth Escalators and Growth Convergence. *Vox-EU*.

Ghani, E., Goswami, A. G., & Kharas, H. (2012, November). Service with a Smile. *PREM Economic Premise*, No. 96. Washington, DC: The World Bank.

Marconini, M. & Sauvé, P. (2009). *Negotiating trade in services: A practical guide for developing countries, international trade department, PREM*. Washington, DC: The World Bank Group, (May). Available at http://siteresources.worldbank.org/INTRANETTRADE/Resources/239054-1248204247129/Negotiating_Trade_in_Services.pdf

Marconini, M., & Sauvé, P. (2010). Negotiating Trade in Services: A Practical Guide for Developing Countries. In S. Saez (Ed.), *Trade in Services Negotiations: A Guide for Developing Countries, Directions in Development: Trade* (pp. 19–85). Washington, DC: The World Bank.

Mattoo, A., & Sauvé, P. (2011). Services. In J.-P. Chauffour & J.-C. Maur (Eds.), *Preferential Trade Agreement Policies for Development: A Handbook* (pp. 235–274). Washington, DC: The World Bank.

Maurer, A., Magdeleine, J., & Lanz, R. (2016). Measuring Trade in Services in a World of Global Value Chains. In P. Sauvé & M. Roy (Eds.), *Research Handbook on Trade in Services* (pp. 42–65). London: Edward Elgar.

Molinuevo, M., & Saez, S. (2016). Services Trade and Regulatory Reform: A Methodology for Developing Countries. In P. Sauvé & M. Roy (Eds.), *Research Handbook on Trade in Services* (pp. 152–187). London: Edward Elgar.

Rentzhog, M., & Anér, E. (2014). *The New Services Era – Is GATS Up to the Task? E-15 Initiative*. Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum.

Saez, S. (2010). The Strategic Development Role of Trade in Services. In S. Saez (Ed.), *Trade in Services Negotiations: A Guide for Developing Countries, Directions in Development: Trade* (pp. 1–17). Washington, DC: The World Bank.

Saez, S., & Taglioni, D. (2016). Nurturing the Competitiveness of Services Exports: Metrics and Policy Options. In P. Sauvé & M. Roy (Eds.), *Research Handbook on Trade in Services* (pp. 123–151). London: Edward Elgar.

Sauvé, P., & Roy, M. (2016). Introduction and Overview. In P. Sauvé & M. Roy (Eds.), *Research Handbook on Trade in Services* (pp. 1–24). London: Edward Elgar.

Sauvé, P., & Ward, N. (2016). A Trade in Services Waiver for Least Developed Countries: Towards Workable Proposals. In P. Sauvé & M. Roy (Eds.), *Research Handbook on Trade in Services* (pp. 535–578). London: Edward Elgar.

6

Myanmar, Say Hello to the World of Global Value Chains

Thomas Bernhardt

1 Introduction

For decades, Myanmar's economy has been relatively closed and isolated. After 26 years of inward orientation under the "Burmese Way to Socialism" pursued by the military regime starting in 1962, the country suffered from economic sanctions imposed by the West from the late-1990s onward. During the same time, the nature and patterns of the international division of labour changed significantly. International trade and production increasingly became organized and governed within global value chains (GVCs). While this development has been facilitated by trade liberalization as well as revolutions in transportation and information and communication technologies (ICTs), it has considerably been driven by the strategies of multinational corporations (MNCs) and other

T. Bernhardt (✉)
Myanmar Centre for Economic and Social Development (CESD), Yangon, Myanmar

P. De, A. Raychaudhuri (eds.), *Myanmar's Integration with the World*,
DOI 10.1007/978-981-10-5134-0_6

leading firms to concentrate their activities on "core competencies" while outsourcing and offshoring other parts of the production process.

The concept of a "value chain" refers to the full range of functions or activities undertaken by economic actors to bring a product from its conception to its end use (including research & development (R&D), design, production, assembly, marketing, distribution). Today, value chains are increasingly of international (regional or even global) scope as a result of production processes being increasingly unbundled and distributed across different countries (Gereffi and Korzeniewicz 1994; Sturgeon 2001). GVCs, hence, can be thought of as "factories that cross international borders" (Taglioni and Winkler 2016: 11). This phenomenon has also been called "international fragmentation of production" (Arndt and Kierzkowski 2001), "transnational production" (Feenstra 1998) and "global production networks" (Ernst and Kim 2002). The rise of GVCs has also led to the ascent of "vertical specialization" (Hummels et al. 2001) whereby tasks, rather than sectors, define the specialization of countries in value chains (Grossman and Rossi-Hansberg 2008). As a side effect, international trade of parts and components and other intermediate goods and services has grown rapidly.

Apart from this, another key feature of GVCs is the importance of their governance. Research has emphasized the role of lead firms in coordinating and controlling GVC activities and shaping conditions of production (e.g. decisions on price, quality, quantities and location) while highlighting the strong nexus between trade and foreign direct investment (FDI) and focusing on lead firms' strategic decisions on vertical integration vs. outsourcing/offshoring of business functions (Gereffi et al. 2005).

In any case, GVCs are an essential feature of today's world economy. UNCTAD (2013) estimated that MNC-coordinated GVCs now account for some 80 per cent of global trade. At the same time, intermediate goods make up almost two-thirds of world trade. As part of the process, more and more production has been re-located to developing countries. However, not all developing countries have been integrated into GVCs to the same extent nor do GVCs play an equally important role across all sectors. "Traditionally a select number of manufacturing industries have been at the forefront of value chain segmentation (. . .) and of associated trends such as outsourcing and offshoring" (UNCTAD 2013). Prominent examples of global(izing) value chains include garments and footwear, electronics, automobiles, agro-business, furniture or tourism.

Myanmar, so far, has been pretty much left out by these developments. GVCs are new to Myanmar and, vice versa, Myanmar is new to the GVC world in the sense that lead firms are only now "discovering" Myanmar as a potential sourcing country and "new frontier". However, the end of military rule in 2011 marked the beginning of a rapid opening of Myanmar's economy. Since then, a plethora of economic, social and political reforms have been implemented and initiated. These included measures to enhance the institutional and business environment, encourage private sector development, liberalize trade and FDI, modernize the financial sector and improve the rule of law (Gabusi 2015). The international community welcomed these reforms, started to lift economic sanctions and gradually re-integrated Myanmar. This trend can be expected to continue under the new government led by the National League for Democracy (NLD). This will definitely lead to increased exposure to, and possibly more integration into, GVCs for Myanmar. Such participation in GVCs can bring economic and social benefits to Myanmar. However, as the experience of other countries has shown, the benefits from GVC integration do not materialize automatically and there are actually also risks associated with it.

Against this backdrop, this chapter addresses the following questions: What is the extent of Myanmar's current participation in GVCs? Where do opportunities for further integration into GVCs come from? And what challenges will Myanmar face on its way towards deeper GVC involvement? These questions will be analysed in Sects. 3, 4 and 5, after a brief general discussion of potential benefits and risks of GVC participation in Sect. 2. The analysis will draw on trade, investment and firm-level data as well as on information collected through expert and stakeholder consultations. Throughout the chapter, comparisons will be made with other Southeast Asian countries to contextualize and benchmark Myanmar's position and performance. The chapter will conclude by delineating a number of broad policy recommendations.

2 Potential Benefits and Risks of GVC Participation

From the beginning, the rise of GVCs has involved developing countries. Indeed, GVC integration is often presented as a new avenue to promote economic development. However, GVC participation also brings with it some risks.

2.1 Potential Benefits of GVC Participation

Research and practical experience have shown that developing countries can benefit from integration into regional and GVCs in various ways. First, GVC integration can serve as a springboard for industrialization as developing countries no longer need to develop capabilities to produce entire products and to directly compete with advanced nations but can instead focus on specializing in certain stages of the value chain. That is, they can promote industrialization by joining value chains instead of building whole chains themselves. Second, it can be an entry gate for participation in international trade for firms in developing countries, for example as sub-contractors, suppliers of parts and components or assemblers of final goods. Third, participation in GVCs can facilitate access not only to external markets but also to business and distribution networks more generally, and to high-quality foreign inputs more specifically. Fourthly, these business networks can help alleviate financial constraints of their developing country suppliers by offering access to capital, for example trade finance. Fifth, doing business with foreign companies can lead to the transfer of technology (e.g. local producers being provided with more modern machinery or guidance on new investments), the dissemination of know-how (on both production processes and non-production activities such as managerial practices, sourcing, marketing, logistics or distribution) as well as to knowledge spillovers to the wider economy. Sixth, some foreign companies that sub-contract certain productive tasks to firms in developing countries provide (at least initial) trainings to these suppliers to familiarize them with better production processes and help them to improve quality, skills and productivity. Seventh, foreign buyers are often quite demanding when it comes to volumes, quality and consistency of supply. They typically require their suppliers to have a minimum level of capacity to comply with technical, quality and other standards. Being confronted with such stringent requirements can provide a stimulus to developing country companies to improve production processes, efficiency and the quality of their products. These last four points imply that GVC participation can offer opportunities for "upgrading" for companies or indeed entire industries. "Upgrading" is, in fact, a key concept of the GVC literature and, broadly speaking, can be understood as a process by which economic actors move from lower-value to higher-value activities that allow them to increase the benefits (e.g. value-added, profits, security and capabilities) from GVC participation.[1] Finally, integration into GVCs can contribute to employment creation and facilitate entry into the job market for marginalized social groups (e.g. women, youth and ethnic minorities). Through comparatively higher wages and increased pressure to apply labour standards, it can also trigger "social upgrading" (i.e. improvements in the situation of workers).[2]

2.2 Risks of GVC Participation

While GVC participation potentially brings benefits, there are also certain risks. First, there is a risk of contagion: close interconnectedness in GVCs means that shocks in one location can easily spread to the rest of the network, generating cascade effects. Second, GVCs can be characterized by power asymmetries whereby a small number of lead firms can choose from a large number of suppliers in activities with low entry barriers (i.e. downstream oligopoly vs. intense competition upstream). As a result, there can be a "ceiling" for upgrading within GVCs, that is obstacles for developing country companies to upgrade beyond a certain point (as lead firms control those GVC activities that yield the highest rents). In fact, upgrading does not occur automatically but is a complex and often contested process. Third, there is, thus, the risk that GVC participation leads to "thin industrialization" whereby local firms are trapped in activities with low skill and technology content, few linkages and spillovers to the local economy and little local value addition. Fourth, integration into GVCs can happen through "footloose capital", that is the setting up of production facilities by foreign investors that have no intention to build long-term economic relationships with the host economy (e.g. through supply linkages, training of local managers and transfer of technology) and that shut down production and leave once business conditions look more favourable elsewhere. That is, the ability of MNCs to shift production across countries can increase economic volatility for host economies (Taglioni and Winkler 2016; Kaplinsky 2005). Fifth, GVC participation can contribute to social "downgrading" (i.e. the degradation of working conditions, the spreading of precarious work, real wage declines and occupational health and safety issues). That's because differentials in factor costs and regulatory stringency (e.g. of labour or environmental standards) are important determinants of lead firms' decisions on the location of investment and production so there is pressure on supplier firms to keep costs, including wages, low—often in the context of less stringent national (labour) regulation and tax enforcement. Similarly, GVC integration entails the risk of environmental downgrading when lead firms exploit less strict environmental standards and regulation in developing countries, causing environmental pollution and degradation through production-related emissions, usage of chemicals etc. (Barrientos et al. 2011; Rossi 2013).

To what extent the above-mentioned potential benefits, or rather the risks, materialize depends on a range of factors. Research has shown that alongside GVC governance structures, lead firm strategies, sector specificities and the characteristics of end markets, local conditions such as firm-level upgrading efforts, the institutional landscape (including business associations, labour unions, research centres and industrial parks), the nationality of firm ownership, as well as government support and regulations can play an important role in shaping the outcomes of GVC participation (Gereffi et al. 2005; Morris and Staritz 2014).

3 Current Status of Myanmar's Participation in GVCs

Over the past couple of decades, the world economy has seen a strong trend towards increased integration in the shape of a more refined international division of labour and the rise of regional and GVCs. While many Southeast Asian countries have actively been part of this trend, Myanmar first followed an inward-orientated development strategy and then was shut out of large parts of international markets by economic sanctions by the West. As a result, today Myanmar is participating much less than its neighbours in cross-border trade and investment flows which are key constituents of GVCs. This is clearly visible in trade, FDI and firm-level data, as the following analysis will document.

3.1 Myanmar's External Trade

A first indicator that Myanmar's economy is much less integrated into cross-border trade networks can be seen in Fig. 6.1 which shows that exports account for only 18 per cent of GDP in Myanmar, a percentage that is far below that is seen in other countries of the region such as Vietnam (90 per cent), Malaysia (71 per cent) and Thailand (69 per cent). This percentage is also much lower than that of poorer Southeast Asian

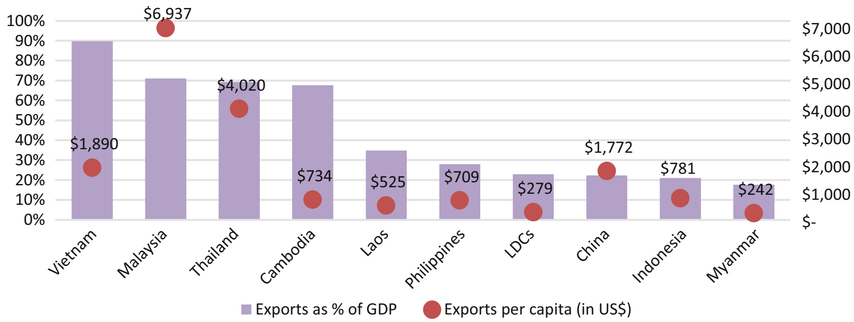


Fig. 6.1 Exports of goods and services as share of GDP (*left axis*) and per capita (*right axis*) in 2015 (Source: World Bank WDI database)

peers such as Cambodia (68 per cent), Laos (35 per cent) and the average for the group of Least Developed Countries (LDCs) (23 per cent) to which Myanmar belongs. Figure 6.1 additionally reveals that Myanmar also lags behind in terms of export value per capita. At US$ 242, Myanmar's exports per capita are less than half of Laos' (at US$ 525) and only around a third of Cambodia's (US$ 734), the Philippines' (US$ 709) and Indonesia's (US$ 781). Moreover, exports per capita are almost 9 times higher in Vietnam, 17 times higher in Thailand and 29 times higher in Malaysia.

On the positive side, Myanmar's exports have grown fast at more than 10 per cent per year since 2010 so that today exports contribute three percentage points more to GDP than five years and are also 1.6 times higher in per capita terms than back then. However, Myanmar's exports are currently concentrated in a few primary commodities and a small number of export markets. In fact, they are dominated by natural gas exports to Thailand and gems exports to China. More generally, and not least as a result of Western sanctions, Myanmar's trade relations are predominantly with countries in the region, that is Southeast and East Asia (Kudo 2008). Other significant export partners include Japan, Malaysia, Korea, India and Singapore, while China, Singapore, Thailand and Japan account for over 75 per cent of Myanmar's imports. However, in recent years there has been a certain re-orientation towards Western markets which has been accompanied by an incipient upswing in manufactured exports, particularly garments (IMF 2015). Accelerating this trend of export product and export market diversification will require Myanmar firms to connect to GVCs that supply to these markets.

Yet, not all exports are GVC-related; some of them relate to final goods entirely produced in one country, while others take place through arm's-length transactions without coordination and governance by a GVC lead firm. To get an idea about the extent of Myanmar's trade that can be assumed to be GVC-related, we look at the share of its exports and imports that are made up of "parts and components" (as opposed to final products). This is because the international fragmentation of production in GVCs implies trade in intermediate goods within cross-border production networks with parts and components being produced in one location but then assembled somewhere else. Athukorala (2010) defined a

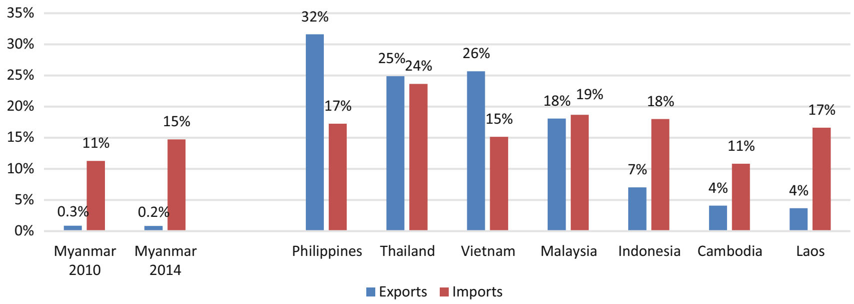


Fig. 6.2 Share of parts and components in total exports and imports (2014) (Source: UN COMTRADE database)

list of products that are "parts and components" and not final manufactured goods which is the basis for the calculations shown in Fig. 6.2. As can be seen there, parts and components only account for a small share of Myanmar's imports and a minimal share of its exports (0.2 per cent). These shares, especially on the export side, are well below those seen in other Asian countries. Moreover, while the proportion of parts and components in Myanmar's imports has grown between 2010 and 2014 (from 11.3 per cent to 14.7 per cent), their share in Myanmar's exports has actually slightly decreased (from 0.26 per cent to 0.23 per cent). Since rising imports of parts and components indicate a country's increased assembly activity, whereas a rise in their export suggests its growing importance in GVCs (Athukorala 2010), it can be observed that Myanmar's involvement in GVC assembly activities has not expanded much over the past five years but rather remained at a low level.

The same can be seen in Fig. 6.3 which shows trade data based on the Multilateral Trade Negotiations (MTN) classification scheme. This scheme categorizes products into raw materials, semi-finished and finished products. The top bar in Fig. 6.3 shows that semi-finished products (which have a similar interpretation as the "parts and components" above) account for merely 3 per cent of Myanmar's exports, while raw materials make up 87 per cent (confirming what was discussed above). This suggests that, if anything, Myanmar's firms are involved in the early (upstream) segments of cross-border value chains, supplying unprocessed primary commodities, while they are not much integrated further

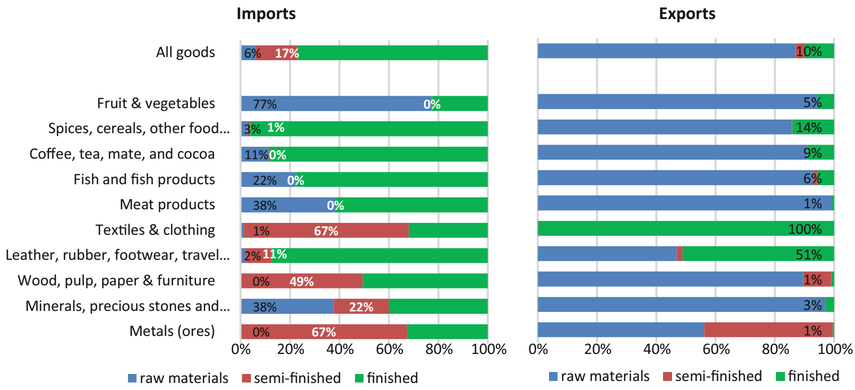


Fig. 6.3 Composition of exports and imports according to degree of processing, by sector (2014) (Source: UN COMTRADE database)

downstream in the processing stages. By contrast, semi-finished and finished products account for much higher shares of exports in other Southeast Asian economies such as Cambodia, Malaysia, Thailand and Vietnam, reflecting their higher degree of participation in GVCs. Moreover, while 17 per cent of Myanmar's imports are semi-finished goods, only 10 per cent of its exports are finished products. This suggests that imported intermediate goods are used for domestically oriented production rather than for GVC-related processing and assembly.

However, there are differences across sectors. In the textiles and clothing sector, for example raw materials and semi-finished goods together make up 68 per cent of sectoral imports, while all sectoral exports consist of finished products (see Fig. 6.3). This reflects the fact that Myanmar's garment sector is actually already quite integrated into cross-border value chains (which are often regional, supplying to end markets in Japan and Korea) and that, at present, most Myanmar apparel factories operate under the Cut-Make-Pack (CMP) model whereby they assemble mostly foreign inputs and components into final products for foreign lead firms and buyers (MGMA 2015). In a much less pronounced fashion, a somewhat similar pattern can be observed for the leather goods and footwear sector where raw materials and semi-finished items account for 13 per cent of imports, while finished products make up 51 per cent of exports. By contrast, in all other sectors one can hardly see any pattern of international production sharing. In the fishery sector, for example 78 per cent of imports are finished products, whereas 93 per cent of exports are unprocessed goods. Meanwhile, in the fruit and vegetable sector trade is predominantly in raw materials (Fig. 6.3).

One issue with the trade analysis presented so far is that it is based on conventional trade statistics which—in a world of GVCs—give an increasingly distorted view of international trade due to double-counting of intermediate goods which are counted each time they cross borders. In response to this issue, recent years have seen growing efforts to collect trade statistics that better reflect the new reality by measuring trade in value-added (and not gross) terms. This new data allows to calculate the share of foreign value-added in a country's exports which captures the extent of foreign intermediate products embedded in the country's exports—which can be interpreted as a measure of its "backward integration" into GVCs (UNCTAD 2013). In 2012, foreign value-added accounted for a mere 2.3 per cent of Myanmar's exports. While this represents a threefold increase compared to the year 2000, this percentage is far below what can be observed for other countries in the region where the share of foreign value-added in exports ranges from 10 per cent to 65 per cent (see Fig. 6.4). According to this metric, Myanmar's industries only to a very limited extent rely on internationally integrated production networks to provide inputs to be embodied in Myanmar's exports.

Moving from the macroeconomic and sectoral pictures towards the enterprise level, we find that the proportion of firms that engage in international transactions is smaller in Myanmar than in other countries in the region. According to data from the World Bank Enterprise Surveys database, at 5 per cent the share of firms that export is actually lowest in Myanmar among all Southeast Asian economies for which such data is available (see left panel of Fig. 6.5). The percentage of Myanmar firms that uses foreign inputs and/or supplies (25 per cent) is lower than in Cambodia, Malaysia, Thailand and Vietnam but higher than in Indonesia and Laos. However, given the much lower share of exporters, it seems that these foreign inputs are primarily used for domestically oriented production and not GVC-related processing and assembly.

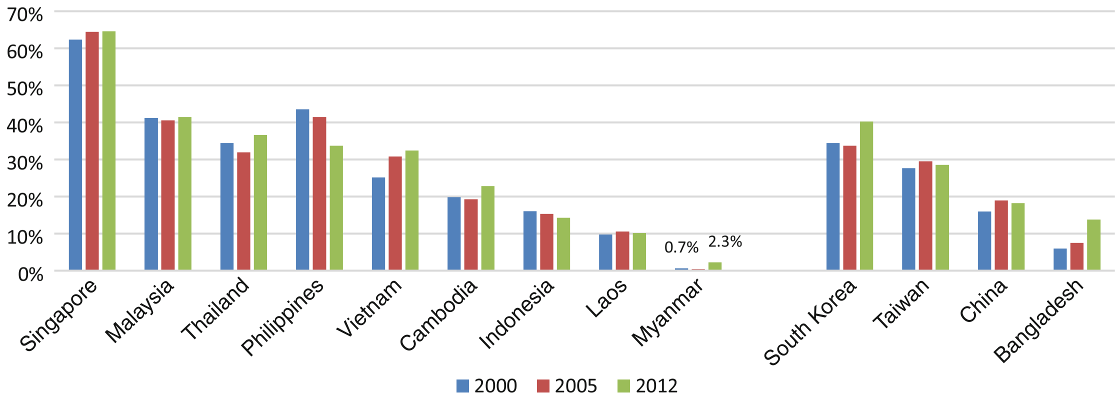


Fig. 6.4 Share of foreign value-added in exports, 2000–2012 (Source: UNCTAD/Eora Trade in Value Added database)

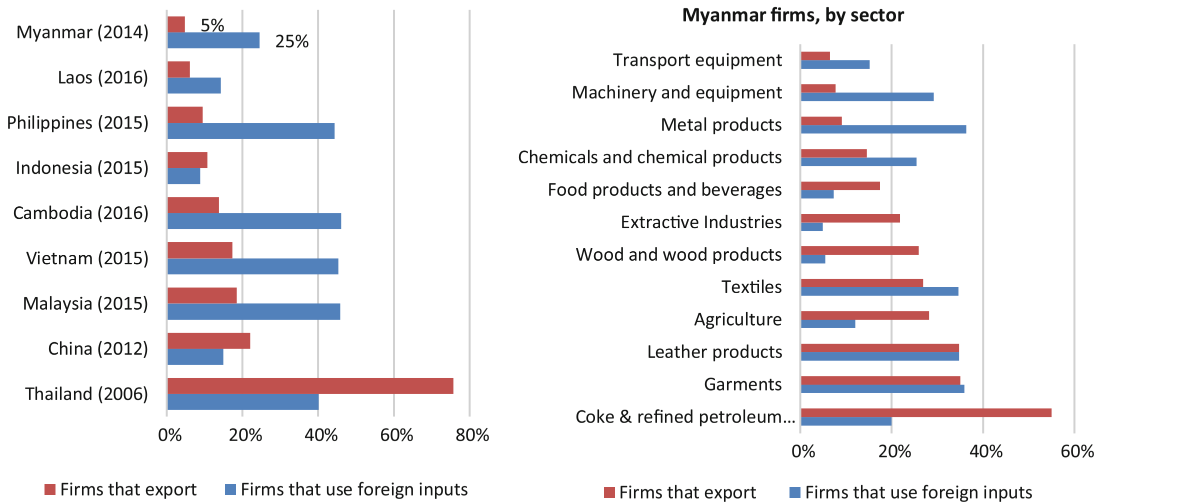


Fig. 6.5 Share of firms that export and share of firms that import inputs from abroad (Source: World Bank Enterprise Surveys database and UNESCAP-OECD-UMFCCI business survey)

The right panel of Fig. 6.5, drawing on data[3] from a Myanmar business survey conducted by UNESCAP, OECD and UMFCCI (see Soans and Abe 2015), again reveals some differences across sectors in Myanmar. It displays that sectors with significant shares of firms that export and firms that source inputs from abroad include the textiles and garment, leather products and coke and petroleum industries. By contrast, despite Myanmar's favourable natural endowments, only a small percentage of food and beverage firms report to be exporting. In the machinery and transport equipment sectors, the share of companies that export is even lower, pointing to a lack of competitiveness and GVC participation.

3.2 Foreign Investment in Myanmar

In a world of GVCs, international investment and trade are more intertwined than ever (UNCTAD 2013). In many cases, the spreading of cross-border value chains involves FDI flows whereby lead firms and first-tier suppliers set up production facilities or enter joint ventures with local producers. FDI allows lead firms to connect factories across borders, to govern and improve efficiency of GVC transactions and to protect assets (such as intellectual property or technology) (Taglioni and Winkler 2016).

Figure 6.6 shows, however, that Myanmar has not yet benefitted much from such FDI. At US$ 18, it received the lowest amount of FDI per capita inflows among all Southeast Asian states in 2014. This amount is a far cry from the US$ 358 of FDI per capita that Malaysia received and only a fraction of the values seen in Cambodia, Laos, Thailand and Vietnam. Similarly, Myanmar is lagging behind its peers when FDI inflows are measured against GDP. In 2014, FDI inflows corresponded to 1.4 per cent of Myanmar's GDP. In Cambodia, Laos and Vietnam, this percentage was between 3.5 and 7.5 times higher, while in Malaysia and Thailand it was more than twice as much. On a positive note, however, Myanmar's FDI inflows have been on an upward trend, especially in recent years. They are much higher both in per capita terms and as a share of GDP compared to the levels seen in 2005.

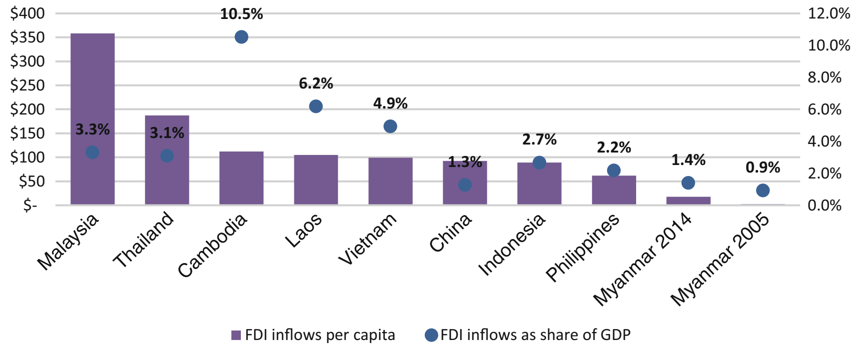


Fig. 6.6 FDI inflows per capita (*left axis*) and as share of GDP (*right axis*) in 2014 (Source: UNCTAD stat database)

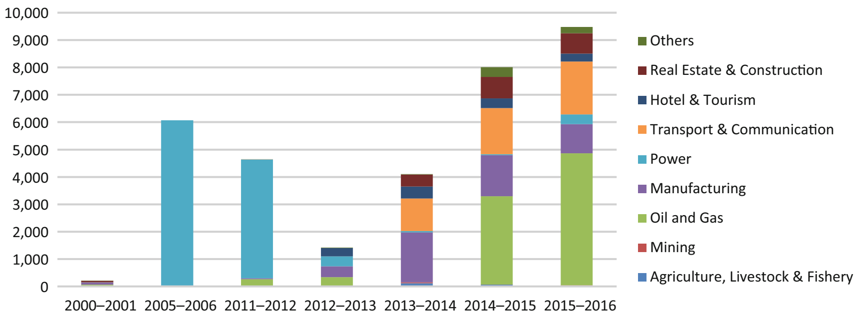


Fig. 6.7 Approved FDI flows to Myanmar, by sector (in million US$) (Source: DICA)

The rise in FDI inflows can also be seen from Fig. 6.7. However, the numbers presented there as well as in Table 6.1, in fact, only refer to "approved" FDI amounts and not to actual FDI flows.[4] In any case, Fig. 6.7 suggests that quite a big share of FDI has not been related to GVCs. A large proportion actually went into extractive industries, particularly oil and gas, which in Dunning's (2000) typology would be categorized as resource-seeking FDI. The power-generation sector and lately also the transport and communication sectors have also received considerable shares of (presumably mostly market-seeking) FDI. By contrast, the share going into the manufacturing sector has not been all too impressive

Table 6.1 Approved FDI inflows by top 10 foreign investors in Myanmar (in US$ million)

	2000–01	2005–06	2011–12	2012–13	2013–14	2014–15	2015–16
Singapore	36.9	–	(14.6)	418.2	2340.1	4297.2	4246.9
China	29.0	–	4345.7	231.8	56.9	516.9	3323.9
Netherlands	–	–	–	10.3	–	302.4	438.0
Malaysia	9.8	–	51.9	4.3	616.1	6.7	257.2
Thailand	25.8	6034.4	–	1.3	489.1	165.7	236.2
Hong Kong	13.2	–	–	84.8	107.1	625.6	224.7
India	–	30.6	73.0	11.5	26.0	208.9	224.2
Japan	–	–	4.3	54.1	55.7	85.7	219.8
South Korea	47.2	–	25.6	37.9	81.2	299.6	128.1
UK	30.6	–	99.8	232.7	156.9	850.8	75.3
Others	25.2	0.7	48.7	332.5	178.7	656.6	107.1
Total	217.7	6065.7	4644.5	1419.5	4107.1	8010.5	9481.3

Source: DICA

(ranging from 11 per cent in 2015–16 to 28 per cent in 2012–13 and 44 per cent in 2013–14), although in the last three years manufacturing-related FDI consistently exceeded US$ 1 billion. Moreover, it must not be forgotten that investment in light manufacturing or labour-intensive industries is not necessarily bulky as capital intensity is lower than in extractive industries. Indeed, data from Myanmar's Directorate of Investment and Company Administration (DICA) shows that the number of FDI projects in the manufacturing sector in the last four years has by far exceeded that of all other sectors together, growing from 4 in 2010–11 to 78 in 2012–13 and 158 in 2015–16. It can be assumed that a non-negligible share of manufacturing-related FDI has been of the "efficiency-seeking" type which is particularly associated with GVCs and through which lead firms seek to locate discrete parts of their production process in low-cost locations.

Most FDI has been originating from other countries in the region. Table 6.1 shows the list of the most important foreign investors in Myanmar (ranked by the top 10 in 2015–16). Singaporean, Chinese, Malaysian, Thai and Hong Kong investors have been the most active in recent years, accounting for 70 per cent to 80 per cent of all incoming FDI. Apart from the Netherlands and the UK, all the countries in the list are Asian, reflecting the strong regional nature of FDI in Myanmar. The flipside is that FDI that can help Myanmar integrate into Western-oriented or non-Asian GVCs does not yet seem very prominent.

Overall, international trade statistics, firm-level information and FDI data expose that Myanmar, at present, is not well linked to GVCs and that GVC participation is definitely much more limited than in other Asian countries. Hence, there seems to be quite some room for Myanmar to deepen its integration into GVCs. The next sections will look at opportunities for further GVC integration but also the challenges ahead.

4 Opportunities for Deeper GVC Participation

Neither GVC participation nor the potential benefits described in Sect. 2 can be expected to materialize automatically. Taglioni and Winkler (2016) developed a framework that helps to strategically think about how countries can gain from GVC participation. The framework identifies three stages and will help to reflect about Myanmar's opportunities and challenges:

1. *Securing entry to GVCs*, which is about joining GVCs and starting to participate in GVC activities;
2. *Expanding and strengthening participation in GVCs*, which is about increasing the number of firms and workers that participate in GVC activities;
3. *Upgrading within GVCs and creating new GVCs*, which is about increasing value capture of GVC activities and promoting various types of upgrading.

Given its current low degree of GVC integration, for Myanmar the first area is of particular relevance, although a small number of sectors has reached a stage where the second and third points become important. In this context, one can identify various factors that provide Myanmar with opportunities to join GVCs (stage 1) and to expand its participation in GVCs (stage 2). They can be distinguished into local and external factors.

4.1 Local Factors

Myanmar's endowments provide its economy with certain comparative advantages. First, Myanmar has a large pool of untapped labour and labour is comparatively cheap. Myanmar introduced a minimum wage in September 2015 which is among the lowest in the region; in fact, it is much lower than in Cambodia, Laos and Vietnam and higher only than that in Bangladesh. Moreover, Myanmar's population is relatively young, with the 15–29 age group accounting for nearly 40 per cent of the working-age population. There is also a potential demographic dividend in that population dynamics are expected to contribute to high potential growth in the coming decades (ADB 2014). This makes Myanmar a major point of attraction for GVCs, especially in labour-intensive manufacturing sectors.

Second, Myanmar is blessed with an abundance of natural resources. For one, the country is rich in hydrocarbons and minerals. It also has abundant agricultural resources in the form of large areas of fertile and arable land. Moreover, Myanmar accounts for almost 40 per cent of Southeast Asia's total forested area, including a variety of major commercially viable timber species. Finally, Myanmar has enormous water resources that provide the country with a rich and diverse basis for the fishery and aquaculture industry. It means that Myanmar has a large potential for integration in resource-based, agricultural and food-related GVCs.

Third, Myanmar is in a very advantageous geo-strategic position. It is located between the two emerging giants of China and India and their fast growing markets. Myanmar is also close to the Southeast Asian economies and their dense production networks, offering the potential for easy access to supplies of key inputs and intermediate goods. From a GVC perspective, there are, hence, significant opportunities for backward and forward integration. Moreover, Myanmar forms a land bridge between South Asia and Southeast Asia and offers access to maritime trade routes in the Indian Ocean which further ensures its geo-strategic importance.

Finally, Myanmar has the advantage of being a "new frontier" for international business, making it attractive for GVC lead firms that seek to diversify their supply base.

4.2 External Factors

First, rising labour costs in other countries have incited lead firms and first-tier suppliers to start re-locating production. In particular, rising wages increasingly push China out of low-end, labour-intensive manufacturing, while it is moving up the value chain. This opens up opportunities for low-income economies like Myanmar to step into the lower ladders of the value chain and move into the production of simple manufactured goods (Donaubauer and Dreger 2016; Zhu and Pickles 2014). In some consumer goods industries, the re-location of factories is also driven by lead firms' strategies to diversify their sourcing base and minimize reputational risks related to low labour standards and environmental hazards to which they increasingly have been exposed in recent years (e.g. the Rana Plaza tragedy in Bangladesh or workers' suicides in Chinese electronics factories). Thanks to its long years of isolation, Myanmar is still relatively unscathed by such reputation issues (MGMA 2015).

Second, exports from Myanmar enjoy preferential access to many markets. Most importantly, the EU in 2013 reinstated Myanmar's eligibility for its Generalized Scheme of Preferences (GSP). Myanmar benefits from the most favourable regime available, namely the "Everything But Arms" (EBA) scheme which gives LDCs duty-free access to the EU market for all exports, except arms and ammunition. Similarly, Myanmar enjoys preferential treatment under the GSP schemes of other advanced economies such as Australia, Japan, New Zealand, Norway and Switzerland. Moreover, while the United States has not yet re-integrated Myanmar into its GSP scheme, negotiations on this are anticipated to start soon. This is of importance as in some sectors (e.g. garments) trade preferences play an eminent role in shaping location decisions of GVC lead firms (Pickles et al. 2015).

Third, regional economic integration dynamics should also promote Myanmar's linking up to GVCs. In particular, the establishment of a single market among the ten member states of the Association of Southeast Asian Nations (ASEAN) will further connect their economies and facilitate the flow of goods, capital and labour. On the one hand, this might spur Myanmar's integration into regional value chains. On the other hand, this might also attract FDI inflows from third-country investors that are interested to tap into the dynamic ASEAN market via Myanmar (IMF 2015).

These local and external factors will not be equally at work for all sectors. This implies that opportunities for Myanmar to integrate into GVCs will differ across sectors; in some industries, integration will be deeper or faster than in others. For example, integration of Myanmar's garment sector is already strongly underway. To an important extent, this has been driven by re-location decisions of lead firms. In 2014, in an average week two new garment factories started operations, many of them foreign-owned and almost all export-oriented (MGMA 2015). According to Taglioni and Winkler's (2016) strategic framework presented above, this means that the garment industry is currently in the middle of stage 2 and that the challenge now will be to achieve upgrading. In various sectors, GVC integration is in a nascent stage (e.g. footwear, fishery and aquaculture, certain fruit, tea and tourism) whereas in others it has not even begun (see also Fig. 6.4 above). Given its factor endowments (abundant agricultural resources and low-cost labour), other candidate sectors where Myanmar has good chances to deepen GVC integration in the short- to medium-run include agriculture and labour-intensive manufactures (e.g. food and beverages, furniture, jewellery, toys and various rubber and plastic products). In other sectors where lead firms require their suppliers to have more (technological, managerial, organizational) capabilities and a higher-skilled workforce (e.g. automotive parts and assembly, ship-building, consumer electronics, chemicals and electrical machinery), breaking into GVCs will take more time and will be more challenging (IMF 2015; Ayres and Freire 2014). The challenges that

Myanmar will face on its way towards deeper GVC integration will be discussed in the next section.

5 Challenges for Myanmar's Further GVC Integration

Competition for GVC participation is intense. Integration into GVCs, hence, is not easy and requires company competitiveness, appropriate infrastructure and business support services and an enabling and supportive policy framework. Myanmar faces various challenges on each of these fronts.

5.1 Firm-Level Challenges

Given that Myanmar only recently re-opened to the international economy, many companies have not kept up with the global transformation of business strategies and practices and have little or no experience in international transactions. Operating in an almost closed economy with little exposure to foreign competition over several decades, many companies do not engage in innovation and technology efforts such as R&D or acquisition of machinery, equipment or external knowledge (Bernhardt et al. 2016). According to World Bank Enterprise Survey data, only 6 per cent of companies use technology licensed from foreign companies—the lowest percentage among all Asian countries as shown in Fig. 6.8. Meanwhile, more than 60 per cent of the Myanmar firms in a UNESCAP-OECD-UMFCCI survey made zero investment in R&D and only 25–30 per cent of them reported innovation achievements in the form of significantly improved production or distribution processes, sales and marketing practices, or management systems (Soans and Abe 2015).

Similarly, quality management and assurance according to international standards are still alien concepts for most Myanmar firms, as reflected in the mere 1.7 per cent that possess an internationally recognized quality certification (e.g. from ISO), which is a proportion much lower than seen in Cambodia, Thailand and Vietnam (see Fig. 6.8). At the same time, connecting to GVCs that supply to Western markets will

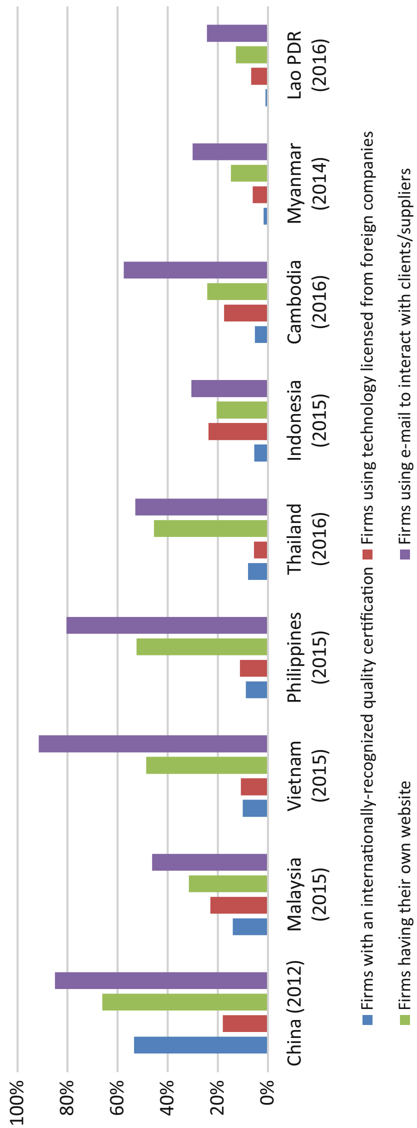


Fig. 6.8 Companies' quality certification and usage of ITC and foreign technology (Source: World Bank Enterprise Surveys database)

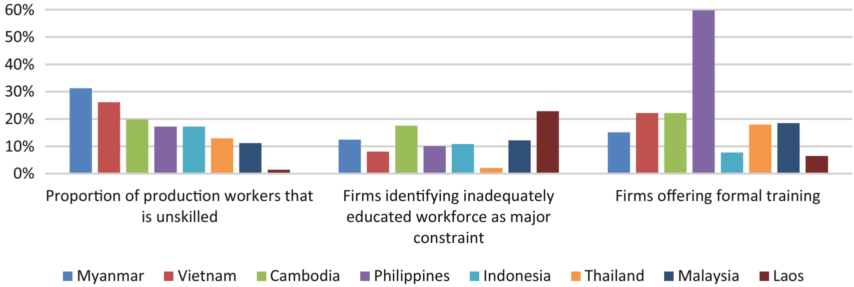


Fig. 6.9 Training and skills of workforces in Southeast Asian firms (Source: World Bank Enterprise Surveys database)

require high levels of awareness and compliance with different types of standards (e.g. quality, sanitary but also social standards).

There is currently only very limited usage by Myanmar businesses of ICT. They hardly make any use of online sales or marketing; at most, firms have a website or use e-mail to interact with clients or suppliers (Bernhardt et al. 2016) but even the usage of websites and e-mail is much less common than in other Asian countries (see Fig. 6.8). However, employment of ICT is essential to enable coordination between different GVC participants (e.g. suppliers, assemblers and logistics firms) and to ensure smooth transactions along the value chain.

Moreover, a relatively large share of production workers is unskilled (larger than elsewhere) and many Myanmar companies view a shortage of skilled labour as a major constraint on their success (see Fig. 6.9 and Soans and Abe 2015). Despite this, only few Myanmar companies currently invest in human capital development, and those who do only spend little on it. In two enterprise surveys by the Myanmar Centre for Economic and Social Development (CESD) and the World Bank, only 15 per cent of respondents indicated spending money on training for their workforce (see Bernhardt et al. 2016 and Fig. 6.9). In the UNESCAP-OECD-UMFCCI survey, this percentage is higher at 47 per cent, but in two-fifths of these firms the annual training expenditure per employee is less than US$ 45 (Soans and Abe 2015).

As a result of these firm-level shortcomings, productivity is comparatively low in Myanmar. Table 6.2 shows the average annual labour

Table 6.2 Annual average labour productivity in selected GVC sectors (in US$ of sales per employee)

Sector	Myanmar	Cambodia	Indonesia	Laos	Malaysia	Philippines	Thailand	Vietnam
Food	15,746	n.a.	104,858	10,211	217,819	118,689	117,879	36,822
Textiles	5104	2581	38,887	7548	69,658	24,876	25,863	70,948
Garments	5040	16,766	20,094	6149	28,880	12,486	28,451	30,370
Leather	2721	n.a.	24,930	n.a.	39,179	18,212	23,862	10,461
Wood products	9936	5949	22,350	8751	48,690	22,318	22,439	33,332
Furniture	15,950	12,956	15,832	6762	46,644	26,535	33,691	21,272
Plastics & rubber	6598	7080	56,493	3007	82,425	52,528	90,208	46,378
Chemicals	8320	n.a.	196,714	6198	290,678	128,550	101,045	81,829
Fabricated metal products	5840	3933	60,582	6959	69,310	44,465	50,017	59,450
Machinery and equipment	6333	5654	59,596	27,737	94,433	30,117	95,045	72,815
Electronics	4683	8678	128,573	8898	103,340	119,860	89,778	67,285
Hotel and restaurants	6515	30,238	11,726	8886	8670	36,830	20,083	14,655

Source: UNIDO INDSTAT and World Bank Enterprise Surveys databases

Note: "n.a." refers to instances where either no data was available or where sample sizes were so small as to render results unreliable productivity, measured as US$ of sales per employee, for different sectors where GVCs play an important role. As can be seen there, in most sectors Myanmar's labour productivity is far below that in more advanced Southeast Asian economies. In some cases, productivity in Myanmar companies is a tenth or even less of that observed for firms in Indonesia, Malaysia, the Philippines and Thailand. There is also not a single sector in Table 6.2 where labour productivity is higher in Myanmar than in Vietnam. In fact, Cambodia and Laos are the only two countries in the region where labour productivity is at a comparable level to Myanmar's. However, in garment production—Myanmar's most important GVC-oriented sector—labour productivity is lower than in Cambodia and Laos. In comparison, productivity seems relatively high in Myanmar's wood products and furniture sectors. By contrast, it appears to be very low in food production (a low-tech sector) as well as in the chemicals, electronics and machinery and equipment sectors.

Finally, it can be observed that—due to very reduced exposure to the global economy over the past decades—many Myanmar enterprises have limited knowledge on international markets and international business trends. Moreover, their awareness and usage of trade agreements and trade preferences are minimal (Bernhardt et al. 2016; Soans and Abe 2015). At the same time, the extent to which a country has preferential access to other markets can be an important factor shaping lead firms' decision where to locate production, especially in sectors with slim profit margins such as garments (Pickles et al. 2015). This implies that many Myanmar firms are unaware of possible export or business opportunities in foreign markets, for example those arising from trade preferences, making them unable to fully take advantage of the benefits and opportunities provided by regional and global integration.

5.2 Challenges Related to Business Support Services

For successful integration into GVCs, local companies need to have access to a range of support services. Participation in international business requires companies to make investments in competitiveness, to be able to make cross-border financial transactions and to insure themselves against the risks that arise from international transactions. For all this, they need a well-functioning financial sector.

However, Myanmar's financial sector is still very underdeveloped and far from modern. Part of the explanation is that, despite critical reforms since 2011, the regulatory framework and relevant government capacities are not up to speed (Turnell 2014). Myanmar's financial sector is lacking depth and breadth, and many financial instruments, including trade finance, that are common elsewhere are not available. Figure 6.10 shows that the density of the commercial bank branch network is the second lowest in Southeast Asia after Lao PDR. Meanwhile, the share of firms with a checking or savings account (at 30 per cent) and the share of firms with a bank loan/line of credit (at 7 per cent) are the lowest for all countries displayed in Fig. 6.10. Moreover, only 3 per cent of Myanmar firms use banks to finance investments, and actually only 1 per cent of companies' investments is financed by banks. In most other Southeast Asian countries, these percentages are much higher. Overall, thus, Myanmar's banking system is not (yet) properly fulfilling its role as financial intermediary, hampering businesses' efforts to invest in competitiveness improvements and link to GVCs.

Above we have seen that Myanmar companies only make limited use of ICT which at least partly is to be explained by an underdeveloped and outdated telecommunications infrastructure. Another type of services that are key for allowing smooth coordination and flows of goods along the value chain is logistics. Figure 6.11 allows an assessment of logistics capacities in Myanmar. It shows overall scores for the Logistics Performance Index (LPI) as well as the scores for three LPI sub-components for Myanmar and other Southeast Asian countries with scores ranging from 1 = low to 5 = high. As can be seen there, with a score of 2.25, Myanmar has the lowest LPI. Areas where Myanmar received particularly bad scores include the "competence and quality of logistics services" and the "ease of arranging competitively priced shipments". In both domains, it lags far behind more advanced economies such as Malaysia and Thailand and significantly behind peer countries such as Cambodia, Laos and especially Vietnam. Interestingly, however, Myanmar fares quite well in terms of the cost of exporting which, at US$ 620 per container, is lower than in Cambodia, Laos and the Philippines (see right axis of Fig. 6.11).

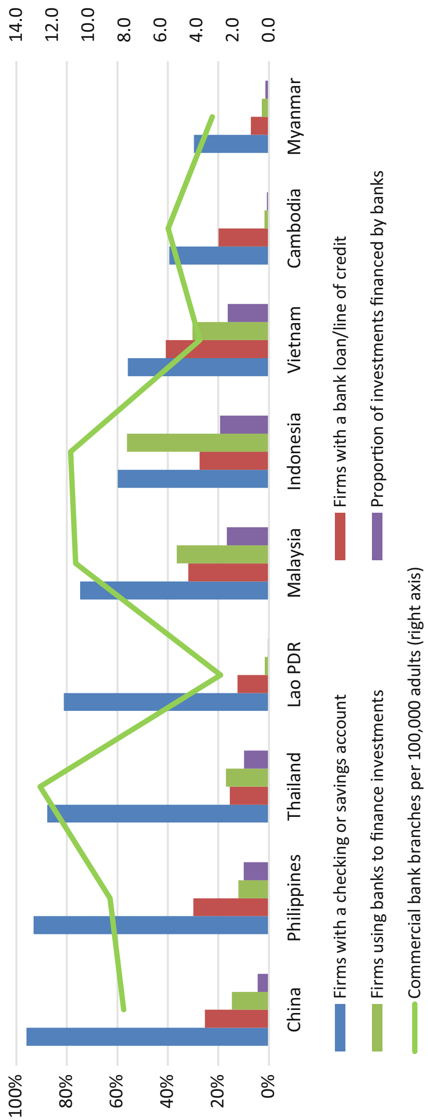


Fig. 6.10 Financial sector indicators (Source: World Bank Enterprise Survey and WDI databases)

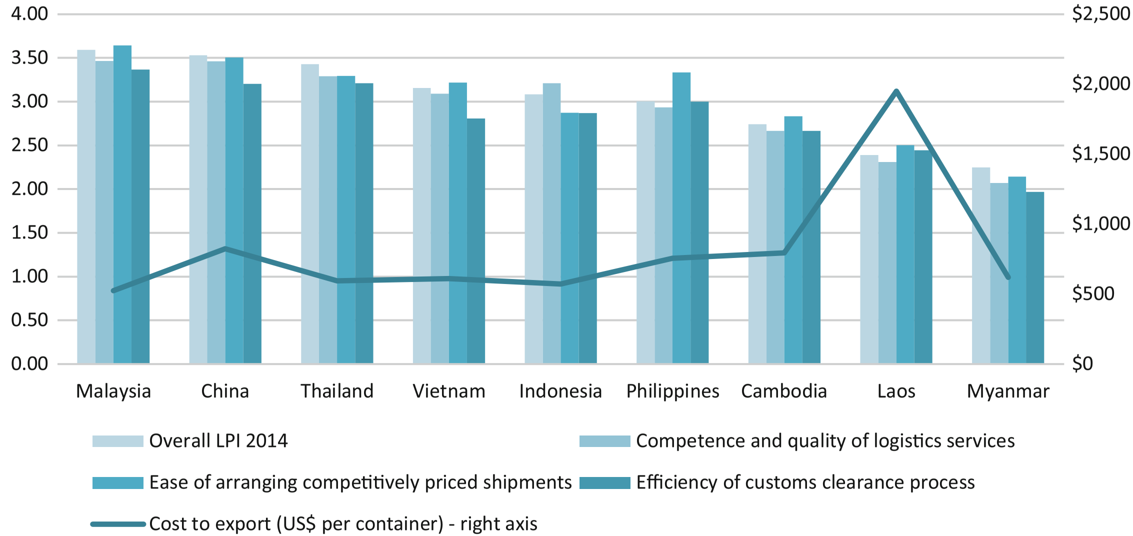


Fig. 6.11 Logistics Performance Index (LPI) and cost of exporting. (Source: World Bank WDI database. Note: LPI scores range from 1=low to 5=high)

5.3 Challenges Related to Infrastructure and the Policy Framework

How easily firms can connect and transact across borders not only depends on how capable and efficient the logistics sector is but also on infrastructure and the policy framework. The challenges that Myanmar faces in these two areas are discussed in this section.

The first area of infrastructure which is characterized by deficiencies is electricity. Supply of electricity and its reliability is a big issue for Myanmar enterprises. They suffer from the highest number of electrical outages in Southeast Asia—12.5 per month compared to just 1.4 in Cambodia or 0.9 in Laos (see Table 6.3). In fact, electricity outages cause financial losses corresponding to 2.1 per cent of annual sales—two to seven times more than in Cambodia, Laos, Indonesia, Vietnam or Thailand. In response to unreliable electricity supply, 76 per cent of Myanmar enterprises either own or share a generator—a percentage well in excess of what is common in other Southeast Asian countries. It points to weaknesses in the country's power infrastructure which are a burden on the international competitiveness of Myanmar's companies.

Second, transportation infrastructure is underdeveloped and outdated in Myanmar. "Due to massive underinvestment and neglect in recent history, Myanmar's infrastructure lags behind its [ASEAN] neighbours and hinders access to markets" (ADB 2016). While countries at similar

Table 6.3 Issues related to access to electricity

	Number of electrical outages in a typical month	Losses due to electrical outages (per cent of annual sales)	Percentage of firms owning or sharing a generator
Myanmar	12.5	2.1	75.7
Cambodia	1.4	1.0	40.0
Laos	0.9	1.1	3.4
Indonesia	0.5	0.4	11.7
Thailand	0.2	0.3	0.4
Vietnam	0.2	0.4	25.2
China	0.1	0.1	8.0
Malaysia	0.1	0.3	10.8
Philippines	0.1	0.2	42.7

Source: World Bank Enterprise Surveys database

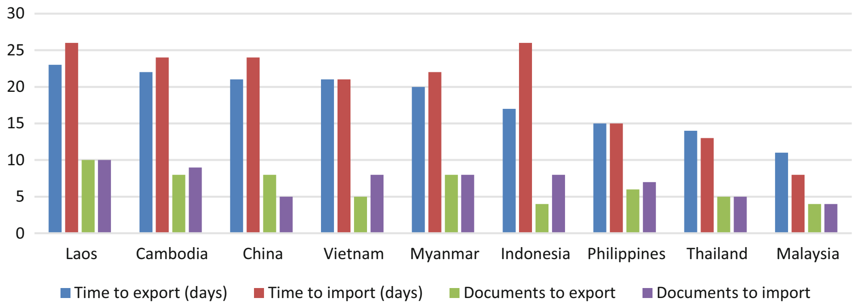


Fig. 6.12 Time and documents to export and import (Source: World Bank WDI database)

stages of development typically invest 3–5 per cent of GDP in transport, in Myanmar it was only around 1–1.5 per cent between 2005 and 2015. As a result, (sea)port capacity is insufficient, an estimated 60 per cent of highways and most railways lines require urgent maintenance, rehabilitation or modernization, and river transport is virtually non-existent (ADB 2016). This increases the cost and time needed for cross-border shipments.

Inadequate transport infrastructure is one of the reasons why it takes more time to export from and import into Myanmar than in the cases of Malaysia, Thailand and the Philippines (see Fig. 6.12). Another key cause for comparatively long exporting and importing times is Myanmar's policy framework. Myanmar scores very poorly on the LPI sub-component on "efficiency of customs clearance process" (see Fig. 6.11). Moreover, Myanmar stands at 140 in the ranking of 189 countries in the sub-category on "Ease of Trading Across Borders" of the World Bank's "Ease of Doing Business" index. Both exporting and importing require eight different documents, respectively, more than in most other Southeast Asian countries (see Fig. 6.12). These include export and import licences which companies need to obtain from the Ministry of Commerce for the trading of most products. Apart from these non-tariff trade barriers, Myanmar's trade policy is characterized by a rather complex tariff structure. There is a significant difference between bound and tariff rates which, together with the fact that only 18.5 per cent of tariff lines are bound, gives authorities considerable scope to raise import duties, implying a certain unpredictability for traders (WTO 2014). Overall, border-crossing of shipments can be time-consuming and costly in Myanmar which is a major deterrent for GVCs where goods cross borders multiple times before reaching the final consumer and where reliable lead times are crucial for a smooth production flow.

6 Conclusions

This chapter has shown that, at present, Myanmar is hardly participating in GVCs—definitely much less than other Asian countries. However, various local factors (including its abundance of cheap labour and natural resources and its advantageous geo-strategic position) and external factors (e.g. regional production re-location trends, lead firms' attempts to diversify their supply bases, trade preferences and regional economic integration dynamics) provide Myanmar with opportunities to deepen its integration into GVCs. Yet, for this to happen, a number of challenges have to be overcome, including at the firm level (especially low productivity and awareness of international business) and related to infrastructure, the supply of business support services (e.g. finance and logistics) and the policy framework. Crucially, this will require local firms to make adequate efforts, for example to modernize technology, invest in workforce skills, update management practices and keep abreast of international market trends.

In addition, public policy can play an important role in facilitating and promoting Myanmar's further integration into GVCs. The analyses presented here suggest that government reforms and support are most needed in the following areas.

First, public investment is required to upgrade the country's hard infrastructure (electricity, transport and ICT) to reduce transactions costs and improve international connectivity. Second, trade policy reform should aim at streamlining export and import procedures (including licensing requirements), speeding up customs clearance processes (e.g. through automation), simplifying the tariff structure and stepping up export promotion measures. Third, industrial policy can play a role in enhancing the productive capacities and international competitiveness of

Myanmar firms. It can take the form of supporting firms' technology upgrading and innovation efforts, improving the business environment (e.g. making regulation more coherent, facilitating contract enforcement), fostering firms' uptake and usage of ICT and promoting the development of business support services industries (e.g. logistics and quality assurance). Fourth, investment policy reforms can contribute to attracting more FDI in sectors with potential for GVC integration, for example by passing a new Investment Law to provide certainty for investors interested in Myanmar and by establishing an investment promotion agency. Smart negotiations with foreign investors will be necessary to ensure longer-term development benefits for Myanmar (e.g. backward/forward linkages, technology transfer and knowledge spillovers). Fifth, government efforts are required to spur human capital development and skills upgrading. From a longer-term perspective, this implies the need to upgrade the education system at all levels and increase funding for it. In the short- to medium-run, policy can aim at expanding the supply of both government-provided and private (technical) training and vocational education. Sixth, to improve firms' access to finance will require financial regulatory and institutional reforms that enable the financial sector to increase the breadth and depth and quality of its service offerings (including the supply of trade finance).

Given slim public resources and limited government capacities, not all challenges can be tackled simultaneously so the government will need a clear strategy, dedication and the will to prioritize and sequence policy measures. A well-designed and coordinated reform programme will be helpful not only to enhance Myanmar's participation in GVCs but also to ensure that it benefits from it in the form of more exports, higher local value addition and an increase in decent jobs.

Notes

1. For a typology of upgrading, see the seminal work by Humphrey and Schmitz (2002).
2. See, for example, Barrientos et al. (2011), Gereffi and Korzeniewicz (1994), Gereffi et al. (2005), Taglioni and Winkler (2016), UNCTAD (2013) and UNESCAP (2015).

3. This data was kindly made available to the author by UNESCAP with special thanks being due to Masato Abe and Aaron Soans.
4. It is important to emphasize this distinction. The numbers reported there reflect the value of investment projects that were approved by Myanmar authorities. However, approved FDI does not necessarily materialize so these figures do not describe actual FDI flows which, in fact, might fall short of these amounts.

References

ADB. (2014). *Myanmar: Unlocking the Potential*. Mandaluyong: ADB.

ADB. (2016). *Myanmar Transport Sector Policy Note: How to Reduce Transport Costs*. Mandaluyong: Asian Development Bank (ADB).

Arndt, S. W., & Kierzkowski, H. (2001). *Fragmentation: New Production and Trade Patterns in the World Economy*. Oxford: Oxford University Press.

Athukorala, P. (2010). Production Networks and Trade Patterns in East Asia: Regionalization or Globalization? ADB Working Paper on Regional Economic Integration, No. 56.

Ayres, S., & Freire, C. (2014). In Which Industries to Invest? Aligning Market and Development Incentives in Myanmar. *Journal of Southeast Asian Economies, 31*(3), 395–411.

Barrientos, S., Gereffi, G., & Rossi, A. (2011). Economic and Social Upgrading in Global Production Networks: A New Paradigm for a Changing World. *International Labor Review, 150*(3-4), 319–340.

Bernhardt, T., Kanay De, S., & Dickenson-Jones, G. (2016). Myanmar SMEs' Participation in ASEAN and East Asian Regional Economic Integration – With a Focus on Food and Apparel Manufacturing. *CESD Economic Reforms Working Paper,* No. 1/2016.

Donaubauer, J., & Dreger, C. (2016). The End of Cheap Labour: Are Foreign Investors Leaving China?. *DIW Discussion Paper,* No. 1598.

Dunning, J. H. (2000). The eclectic paradigm as an envelope for economic and business theories of MNE activity. *International Business Review, 9*, 163–190.

Ernst, D., & Kim, L. (2002). Global Production Networks, Knowledge Diffusion, and Local Capability Formation. *Research Policy, 31*, 1417–1429.

Feenstra, R. C. (1998). Integration of Trade and Disintegration of Production in the Global Economy. *Journal of Economic Perspectives, 12*(4), 31–50.

Gabusi, G. (2015). State, Market and Social Order: Myanmar's Political Economy Challenges. *European Journal of East Asian Studies, 14*(1), 52–75.

Gereffi, G., & Korzeniewicz, M. (Eds.). (1994). *Commodity Chains and Global Capitalism*. Westport: Greenwood Press.

Gereffi, G., Humphrey, J., & Sturgeon, T. (2005). The Governance of Global Value Chains. *Review of International Political Economy, 12*(1), 78–104.

Grossman, G. M., & Rossi-Hansberg, E. (2008). Trading Tasks: A Simple Theory of Offshoring. *American Economic Review, 98*(5), 1978–1997.

Hummels, D., Ishii, J., & Yi, K.-M. (2001). The Nature and Growth of Vertical Specialization in World Trade. *Journal of International Economics, 54*(1), 75–96.

Humphrey, J., & Schmitz, H. (2002). How Does Insertion in Global Value Chains Affect Upgrading in Industrial Clusters? *Regional Studies, 36*(9), 1017–1027.

IMF. (2015). Selected Issues Paper – Myanmar. *IMF Country Report*, No. 15/268. Washington, DC: IMF.

Kaplinsky, R. (2005). *Globalization, Poverty and Inequality*. Cambridge: Polity Press.

Kudo, T. (2008). The Impact of U.S. Sanctions on the Myanmar Garment Industry. *Asian Survey, 48*(6), 997–1017.

MGMA (Myanmar Garment Manufacturers Association). (2015). *Myanmar's Garment Sector: Opportunities & Challenges in 2015*. Yangon: MGMA.

Morris, M., & Staritz, C. (2014). Industrialization Trajectories in Madagascar's Export Apparel Industry: Ownership, Embeddedness, Markets, and Upgrading. *World Development, 56*(C), 243–257.

Pickles, J., Plank, L., Staritz, C., & Glasmeier, A. (2015). Trade Policy and Regionalisms in Global Clothing Production Networks. *Cambridge Journal of Regions, Economy and Society, 8*, 381–402.

Rossi, A. (2013). Does Economic Upgrading Lead to Social Upgrading in Global Production Networks? Evidence from Morocco. *World Development, 46*, 223–233.

Soans, A., & Abe, M. (2015). *Myanmar Business Survey. Data Analysis and Policy Implications*. Bangkok: UNESCAP.

Sturgeon, T. J. (2001). How Do We Define Value Chains and Production Networks? *IDS Bulletin, 32*(3), 9–18.

Taglioni, D., & Winkler, D. (2016). *Making Global Value Chains Work for Development*. Washington, DC: World Bank.

Turnell, S. (2014). Banking and Financial Regulation and Reform in Myanmar. *Journal of Southeast Asian Economies, 31*(2), 225–240.

UNCTAD. (2013). *Global Value Chains and Development. Investment and Value Added Trade in the Global Economy*. Geneva: UNCTAD.

UNESCAP. (2015). *Asia-Pacific Trade and Investment Report 2015: Supporting Participation in Value Chains*. Bangkok: UNESCAP.

WTO. (2014). *Trade Policy Review Myanmar*. Geneva: WTO.

Zhu, S., & Pickles, J. (2014). Bring In, Go Up, Go West, Go Out: Upgrading, Regionalisation and Delocalisation in China's Apparel Production Networks. *Journal of Contemporary Asia, 44*(1), 36–63.

7

NTMs in Textile and Apparel Industry in Myanmar: Analysis of Impacts of Trade Barriers

Khin Thida Nyein and Zin Zin Naing

1 Introduction

The UNCTAD (2013) defines non-tariff measures (NTMs) as policy measures other than tariffs that can potentially have an adverse effect on international trade in goods, changing quantities traded, or prices or both. NTMs cover a wide variety of policy tools including sanitary and phytosanitary (SPS) measures, technical barriers to trade (TBTs), quotas, import and export licences, export restrictions, customs surcharges, and anti-dumping and safeguard measures. With increasing trade liberalization and tariff reduction or elimination, the relative importance of trade

K.T. Nyein
Department of Economics, Monywa University of Economics, Monywa, Myanmar

Z.Z. Naing (✉)
Department of Applied Economics, Yangon University of Economics (YUE), Yangon, Myanmar

P. De, A. Raychaudhuri (eds.), *Myanmar's Integration with the World*,
DOI 10.1007/978-981-10-5134-0_7

barriers arising from NTMs has increased in recent decades. Though the majority of NTMs are WTO-consistent and designed to protect the well-being of consumers or the environment in the importing country rather than protecting domestic producers, in practice, they may impose undue or disproportionate burdens on some foreign producers or products, or be disguised restrictions on trade.[1]

In spite of the growing importance of NTMs in regulating trade, the exact impact on trade flows is not very well understood in Myanmar. Myanmar is at the very beginning stage of listing NTMs applied in the country, and there has been no systematic collection of the official regulations which could be understood as NTMs. It is, therefore, urgent to study the topic in order to develop a better understanding, improve transparency of existing NTMs and its incidence as a useful starting point for subsequent efforts. If as a result of the study, some of the barriers are removed or measures are found to improve firms' compliance with legitimate measures, the study will contribute to enhancing export capacity and the quality of domestic regulatory governance.

The motivation for selecting the apparel sector as a case study arises from the sector's importance for employment and inclusive growth in Myanmar. Since Myanmar economy changed from a centrally planned economic system to a market-oriented one in late 1988, the government has been undertaking many efforts to create a favourable investment climate, aiming at generating more employment opportunities, developing human resources, and facilitating the economic growth of the country. The government allowed the private sector to start businesses in various sectors. Accordingly, the apparel industry achieved growth throughout the 1990s. It contributed a considerable share to Myanmar's total export earnings before economic sanctions were imposed by the EU and the United States in 2003. While apparel is not the major driving force for the country's exports, its importance comes from the fact that it is a major source of employment, especially for the women. Policy measures that would enhance and create new trade opportunities would also contribute to the larger employment opportunities and indirectly positively influence labour market conditions, gender equality and inclusive growth prospects.

Rest part of the chapter is organized as follows. Section 2 does a quick review on non-tariff measures in Myanmar. An overview of the Myanmar apparel sector is then presented in Sect. 3. Section 4 analyses the impact of

NTMs on the apparel sector based on field survey data. Conclusions are drawn in Sect. 5.

2 A Quick Review on Non-tariff Measures in Myanmar

The study of NTMs requires knowledge about how legislation proceeds in a particular country. The National Trade Portal has been launched as the official repository of information on NTMs on 26 May 2016. Ministries are designated authorities for issuing regulations in Myanmar, and the cabinet rarely issues regulations. Regulations refer to the legislative instruments which contain the details of the non-tariff measures.

Sources of information for laws and regulations can be categorized as three distinct sources, which are supposed to collect NTM data, official gazette, the office of the Attorney-General and websites from ministries. Official gazette is the most common source for up-to-date information on regulations issued at any given point in time. The database of the office of the Attorney-General[2] provides almost all laws, cabinet orders, cabinet and ministerial ordinances and should be the most comprehensive source of NTM-related regulations, but not all information is available online. Most of the regulations found on its webpage are in local language. Translated versions of relevant legal instruments are generally not available. The Ministry of Commerce is the focal ministry in NTM data development.[3] Its website keeps up-to-date data about trade-related regulations and provides information in English. The Ministry of Commerce also publishes a weekly "Commerce Journal" and a monthly "Trade News" booklet that provide trade-related information to the public and private sector.

The review on NTMs is to be complemented by a survey on manufacturers and exporters from the apparel sector. It should be supportive especially for importing textile raw materials where direct exporting from Myanmar to the end-user country occurs. However, Myanmar apparel exports have typically taken the form of cutting-making-packaging, also known as CMP business model, in which producers and exporters simply make a contract with overseas apparel buyers. CMP-base garment firms are provided with everything required to produce clothing by contractors, and they can only charge for making clothes, and, for the economy as whole, they create employment opportunities. In this scenario, non-tariff measures to be checked under this study are essentially the inspection requirements, processing history, pre-shipment inspection and other formalities and licensing procedure while quotas no longer exist in apparel exporting.

As far as customs process simplification is concerned, automatic licensing has been well-functioning, the electronic payment system has started working but with very limited coverage due to the lack of adequate necessary infrastructure. Implementation of electronic certificate of origin has not been operational yet. As regards regulatory transparency, customs laws, rules, regulations and procedure are accessible to the public at the website of the Customs Department.[4] Information regarding customs procedure is accessible online, but instant access is available only at the website of the Customs Department for agents of export/import business, not for the general public, as it is password protected. Changes of the laws and regulations governing customs clearance procedures cannot be accessed online in a timely manner. The implementation of e-customs is targeted to cover all key seaports and airports by 2020.

Significant change in customs procedures involves relatively less number of documents to be presented for import or export shipments. In general, there are only four or five documents such as licence, commercial invoice, packing lists, bill of landing and sale contracts if traded commodities require no licence. Depending on the product concerned, some specific documents are required. For example, the FDA approvals for foodstuffs and pharmaceutical products and the permission from the Archaeological Department for some culture-related export items are required. In comparison, it required at least 6 to more than 10 documents in Myanmar, depending on the specific import/export items.

For the shipments of textile materials, before the launching of an electronic customs clearance system, called Myanmar Automatic Cargo Clearance System (MACCS) in November 2016, it essentially needed to present 5 or 6 documents such as licence, commercial invoice, packing lists, bill of landing, certificate of origin and sale contracts for non-licenced items. The number of required documents for shipments of textile materials is the same. Customs clearance time usually takes two days for containerized cargos of imports and one day for containerized cargos for export, and it was targeted to be reduced to 30 minutes. Under valuation and incorrect classification, the efficiency of the working of the customs process was severely impaired. With the introduction of MACCS in the Yangon area including international ports and airport international cargo terminal, customs valuation and classification appear to be more accurate but customs clearance time is still the same or even longer due to inefficiency in operating the system. Recently, this operational inefficiency has hit many CMP-based apparel exporters in Myanmar.

3 Overview of the Apparel Sector

The apparel firms were doing very well and were recognized as promising segment in the industrial development throughout the 1990s. Their contribution in total exports of Myanmar went up from 2.5 per cent in 1990 to 39.5 per cent in 2000.[5]

Since 2003, when Myanmar lost the US market due to sanctions, the Asian region, especially Japan and Korea, became the main destinations for Myanmar apparel exports. While apparel is no longer responsible for the growth or stagnation of export-earnings of the economy, it remains an important source of employment and is expected to be a driving force for the growth of the manufacturing sector.

The Union of Myanmar Foreign Investment Law was enacted on 2 November 2012 and attempts have been made to enhance the country's investment climate. In addition, after the reinstatement of the generalized system of preferences by the EU in 2013, Myanmar apparel exports are on track to reoccupy its share in traditional markets (see Fig. 7.1 and Table 7.1).

Myanmar is a net exporter of apparel and clothing accessories (HS 61 and HS 62). As far as world demand for apparel and clothing (HS 61 and HS 62) made in Myanmar is concerned, during 2011 and 2015, world import of apparel and clothing accessories (HS 61) increased by 3 per cent, and apparel and clothing accessories, not knitted or crocheted,

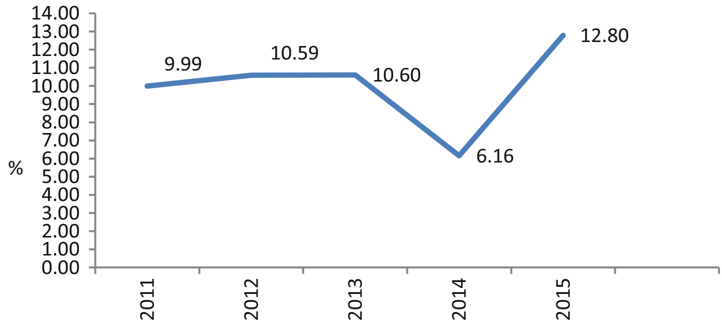


Fig. 7.1 Share of apparel and clothing to total export (%) (Sources: ITC based on UN COMTRADE)

Table 7.1 Share of apparel exports to total exports

	US$ million	% Share in total export
2011	846	9.99
2012	908	10.59
2013	1158	10.60
2014	1488	6.16
2015	1681	12.80

Sources: ITC calculations based on UN COMTRADE statistics

(HS 62) increased by 2 per cent annually. In spite of very small contribution of Myanmar apparel and clothing to the world market, its share has increased in the last few years. Myanmar's exports of products in HS 61 increased by 59.22 per cent and that of products in HS 62 increased by 13.73 per cent annually during 2011–2015.[6] According to the Myanmar Garment Manufacturers Association (MGMA), 38 per cent of Myanmar's apparel exports went to Japan in 2013, followed by South Korea at 31 per cent. Most of Myanmar apparel factories manufacture for the Korean and Japanese markets. Now, Myanmar garment manufacturers look to Europe as both a market and a source of investment, with the country's plan to make garments a key sector of Myanmar's manufacturing economy.

The profile of the Myanmar apparel sector can be seen in the registered data obtained from International Trade Centre (ITC). However,

Table 7.2 Registered private clothing firms by location as of 2012–2013

Sr.No.	Region	No. of firms located in industrial zone	No. of firms outside industrial zone
1	Kachin	–	11
2	Kayah	–	2
3	Kayin	3	10
4	Chin	–	–
5	Sagaing	71	63
6	Taninthari	–	–
7	Bago (East)	–	9
8	Bago (West)	–	34
9	Magwe	9	86
10	Mandalay	157	965
11	Mon	1	2
12	Rakhine		–
13	Yangon	335	88
14	Shan	1	2
15	Ayeyarwaddy	1	–
16	Nay Pyi Taw	–	1

Source: CSO

statistical discrepancy in UN COMTRADE and data from the Central Statistical Organization of Myanmar can definitely exist (see Table 7.2).

There were 1851 clothing firms registered in Myanmar in 2013. The category of "clothing" covers all firms making apparels, ranging from firms using individual-used sewing machines to the production of ready-made clothing, such as girls' gowns, short-pants and long-pants for local use as well as for exports. According to the MGMA, the registered number of firms is obviously lower than the actual number in operation. The MGMA estimates that there are about 300 firms manufacturing and exporting apparel in Myanmar. All apparel-exporting firms concentrate in the Yangon division and operate on the basis of the CMP business model. The CMP system is a form of production on consignment in which the main raw materials for making apparels are provided and imported by overseas buyers, then cut, sewn and packed in the domestic factories, and all of the finished apparel products are then exported. Despite the overall paucity of the data, the concentration of clothing firms can still be traced from the data. Most apparel firms concentrate in Mandalay, and Yangon ranks second in the textile industry due a large number of garment factories operating under CMP arrangements.

Private garment firms are mainly concentrated in the Yangon division, and most of them operate as CMP firms, contracting with the overseas buyer, while apparels from Mandalay firms tend to focus chiefly on sales in local markets. Most of large-sized firms producing apparels only are located in the Yangon division, whereas the other firms are spread all over the country.

4 NTMs in Apparels Sector and Its Impact: An Empirical Study

NTM compliance can have both positive and negative effects on cross-border trade. By complying with efficiently implemented foreign technical regulations, it is possible to increase market penetration. However, NTMs can have negative effects especially if their administration and implementation lead to procedural delays such as infrastructure bottlenecks; inefficiency or obstructions, abnormally high fees, taxes and charges; arbitrary or inconsistent application of measures; and non-transparency leading to excessive burdens. UNCTAD classifies these as procedural obstacles referring to issues related to the process of application of an NTM, but rather its actual implementation. For the trade liberalization, NTMs that act as unnecessary trade barriers along with the procedural obstacles related to their implementation have to be addressed.[7]

4.1 Working of Exporting Apparels

As already mentioned, apparel manufacturing for export purpose has been operated on a CMP consignment process, in which overseas buyers provide all materials for making apparels to apparel-making factories located in Myanmar at free of charge. Overseas buyers are not the end-customers of Myanmar apparel. They are just a third party to engage Myanmar apparel factories to a particular overseas market. Myanmar factories can only have the processing charge from the third-party overseas buyers. With the CMP consignment process, Myanmar apparel firms do not need to make foreign exchange settlement, which was the most difficult problem for imports under the adverse business environment of Myanmar in the past, but the problem is still present and is associated with weak financial capabilities and poor financial intermediaries of Myanmar economy.

As for export–import procedure, in general there are a number of documents being demanded to proceed with import or export shipments, such as licence, commercial invoice, customs import–export declaration, packing lists, bill of lading, certificate of origin, sale contracts and some specific documents acquired for particular items. In total, it requires from 6 to more than 10 documents, depending on corresponding import/export items. Since these documents are still assumed as basic requirements and the number of documents to be submitted to the Customs Department remains the same. Customs clearance time, which usually takes two days for containerized cargos of imports and one day for containerized cargos for export, is considered reasonable as it took much longer time to take to get a cargo out of the warehouse until few years ago. Undervaluation and incorrect classification are considered as the customs bottleneck in exporting apparels as well as in importing textile raw materials.

There are some CMP apparel companies, especially in the past, which entered into the apparel sector for their own purpose of importing non-textile materials together with textile materials for apparels. It was because of difficulties in obtaining export/import licences in the past. Those who have obtained approval as a CMP business from the Myanmar Investment Commission (MIC) are allowed to import any raw materials and intermediate goods to use in the process of clothes making and can export finished products. Garment or textile can be imported or exported without renewal of import–export licence. However, they need to follow all necessary regulations under the Customs Department and the requirement of importing countries. They also need to follow the rules and regulations which are under Directorate of Investment and Company Administration (DICA). At the time of the establishment of garment factory, they need to present their business plan in detail, including the list of products they will import and export, the quantity of their finished product to be sold in the domestic market and how many of them will they export. In addition, if they are registered as apparel-exporting company, then they must be operating on the CMP consignment process. In addition, there is interesting use of the term "f.o.b" in the textile manufacturing sector, which is different from that in the Customs Department. Exporting value-added garment directly to the end-user country is termed as "f.o.b" in Myanmar textile manufacturing, whereas all apparel-manufacturing firms are CMP-based and necessarily do trade with third-country buyers or intermediate buyers to enter into the market of end-user countries.

4.2 Profile of the Survey

As the research aims at the recent status of practice of NTMs in Myanmar in the context of export diversification in the apparel sector, it is necessary to examine the nutshell of the apparel sector in Myanmar and its bottlenecks in engaging international market. Information regarding the burdensome NTMs in the apparel sector was collected from interviews with key informants from public authorities, the MGMA as well as a survey on 12 apparel firms located in Yangon during November 2014 which was replicated during the survey in 2016. Surveys were carried out through the key questions on customs procedures, rules and regulations and how to go about complying NTMs as well as the suggestions from private apparel firms to promote exports of their final products.

Manufacturers of apparels under the survey are supposedly exporters of their final products, that is, apparels, as well as importers of raw materials. They export products falling under HS 61 and 62, and their destination is mainly Korea. Raw materials are mainly from China with few imported from Korea. According to MGMA statistics, 38 per cent of Myanmar's apparel exports went to Japan in 2013, followed by South Korea at 31 per cent. Most of Myanmar apparel factories manufacture for the Korean and Japanese markets. Now Myanmar garment makers look to Europe as both a market and a source of investment, with garments being a key part of the country's plans to become a manufacturing economy. Recently, around 20 per cent of Myanmar's garment exports were destined for the EU, a proportion that is likely to grow.

As firms are manufacturing on the CMP system, they do not make any decision related to their production process and one cannot observe their production behaviour such as the way they response to price changes in both outputs and inputs. These decisions are made by their trading partners on a contract basis. The domestic manufacturers simply follow the orders according to the contract made with buyers. Domestic manufacturers cannot experience rules, regulations and measures exercised in overseas markets, but it does not mean that rules and regulations practised in a particular overseas market cannot affect the CMP firms at least in direct way. In fact, they bear less risk at the expense of forgone profitability from the direct trade in overseas markets. It should be noted that their direction of exports are Japan, Korea, and Europe for both kinds of firms: firms with domestic ownership, and firms with 100 per cent foreign-ownership, while direction of the majority of import of raw materials is China, except one firm importing raw materials from Korean firm established in Vietnam (see Table 7.3).

So far, Myanmar apparel-exporting firms are supposed to be CMP firms, and presented themselves as CMP firms but they know that exporting directly to the end-user market, or, in other words, doing “f.o.b”, can be more profitable for them, but on the other hand, they are aware of the difficulties they are facing.

Since Myanmar garment factories are still importing all raw materials they need for final product, that is, apparels, and just making value-added garment, by all means Myanmar garment factories can be categorized as CMP. But in the case of 100 per cent foreign-owned garment factories located in Myanmar, many of them have their mother company outside Myanmar and, from there they import textile and other materials to their sister companies to make the apparels as final products which are then exported back to their mother units. In this sense, most of 100 per cent foreign-owned garment companies located in Myanmar are said to be CMP-based in their operation in Myanmar, but they are doing “f.o.b” for their mother company. The usage of the word “f.o.b” in the Myanmar apparel sector is quite different from its usage in customs terminology, free on board. The term “f.o.b” in the apparel sector means making and exporting the value-added final product, that is, the apparel, with the own investment of the respective company. It may be said that “f.o.b” is a

Table 7.3 Profile of firms under survey

Firm	Number of employee	Foreign partner ownership (%)	Partner country if company is foreign ownership	Source country for import and %		Source country for export and %		Items traded (HS code)
1	950	100	Japan	Japan	20	Japan	100	HS 62
				China	70			
				Indonesia	10			
2	1500	100	Korea	China	90	Korea	100	HS 62
				Korea	10			
3	250	0	0%	China	90	Japan, Korea	85	HS 62; HS 61
				ASEAN, Korea, Japan	10	Europe	10	
						US	5	
4	1200	0	0%	China	85	Korea	100	HS 62
				Korea	15			
5	350	0	0%	China	100	Korea	100	HS 62
6	420	0	0%	China	85	Korea	100	HS 62
				Korea	15			
7	320	0	0%	Korea	100	Germany	80	HS 61
						Korea	20	
8	500	0	0%	Korea source produced in Vietnam	100	Korea	60	HS 62
						China/ Taiwan	40	
9	250	0	0%	China	90	Korea	100	HS 62
				Korea	10			
10	300	0	0%	China	90	Korea	100	HS 62
				Korea	10			
11	250	0	0%	China	90	Korea	100	HS 62
				Korea	10			
12	500	0	0%	China	90	Korea	100	HS 62
				Korea	10			

dream for Myanmar garment companies which are currently operating on a CMP basis. Currently, Myanmar garment companies do not directly contact with the final buyers of the destination exporting country. Instead, Myanmar garment companies make contract with, accept the order for and export to the third country buyers. The third country buyers are the source of investment for Myanmar garment companies and factories, while Myanmar companies are providing the land for factories and labour and generate value-added to imported textile materials provided by the third country buyers. From the third country buyers, Myanmar garments are being exported to the final destination country. In this regard, the Myanmar apparel sector has been depending on the third country buyers to enter the world market. Regarding the trade barriers, garment exporters are not subject to the commercial tax. The CMP base garment companies enjoy such privileges as duty-free importation. Some years ago, under the economic sanction from the EU and the United States, there was misuse of the duty-free importation enjoyed by import companies that led to the strict inspections and created long delays at customs clearance. The steps and measures exercised in customs procedure in response to such misuses become one of the sources of non-tariff measures in the Myanmar apparel sector.

As mentioned, the raw materials are provided by the buyers who make the contract with the Myanmar company. The number of items used in making apparels usually ranges from 18–20 to more than 100 depending upon the design given by the buyer. Sometimes, the Customs Department observes the mismatch or difference of the imported materials and itemized list presented to the Customs Department. This creates complicated customs procedure and, again, delays, resulting in more transaction cost at customs clearance. Help from the MGMA officially solved such problems.

4.3 NTMs Faced by Apparel Firms

The non-tariff measures faced by Myanmar manufacturing exporters of apparel and clothing found in this study are listed in Table 7.4. Measures are categorized according to chapters of UNCTAD NTM classification 2012, but not coded by its sub-chapters.

Table 7.4 Non-tariff measures observed in the survey

Measures	Measures	Description[a]	Direction of export
Conformity assessment related to TBT		Standard for the Flammability of Clothing Textiles	
Labelling, marking and packaging requirements		Trade Regulation Rule on Care Labelling of Textile Wearing Apparel and Certain Piece Goods Based on comments received in response to its Advance Notice of Proposed Rulemaking (ANPR), the Federal Trade Commission proposes to amend its trade regulation rule on Care Labelling of Textile Wearing Apparel and Certain Piece Goods as Amended (Rule) to: Allow garment manufacturers and marketers to include instructions for professional wet cleaning on labels; permit the use of ASTM Standard	
Conformity assessment related to TBT	TBT	D5489–07, Standard Guide for Care Symbols for Care Instructions on Textile Products, or ISO 3758:2005(E), Textiles—Care labelling code using symbols, in lieu of terms; clarify what can constitute a reasonable basis for care instructions; and update the definition of dry clean. In addition, the Commission seeks comment on several other issues	USA
		Statement of Policy on Enforcement Discretion Regarding General Conformity Certificates for Adult Wearing Apparel Exempt from Testing. The Consumer Product Safety Commission (CPSC) has approved a Statement of Policy regarding the CPSC's enforcement of the requirement for a general conformity assessment certificate (GCC) with respect to adult wearing apparel that is exempt from testing under the CPSC's clothing flammability standard.	

Inspection requirement	The safety management system of 'Textile products for infant': Modifying self-regulatory safety confirmation to safety/quality labelling Specifying the safety criteria as below: Defining the legal age of infants Regulating the hazardous substances Deleting chlorinated phenols Specifying the safety requirement for drawstrings. Safety criteria for industrial products subject to self-regulatory safety confirmation for infants.	Korea
Processing history	The processing of textile products usually has to add various kinds of dyes, auxiliaries and finishing agents, and the agents may contain harmful chemicals. When these chemicals in the textiles accumulate to a certain amount, they will cause harmful effects to the skin, and even the human health. With a view to protecting the health and safety of babies, the Bureau of Standards, Metrology and Inspection (BSMI), after having consulted with interested parties, intends to regulate babies' garments and clothing accessories. The presence of free formaldehyde, azo colorants and other hazardous chemical substances resulted from the processing of textile products, which usually involves the use of various kinds of dyes, auxiliaries and finishing agents, has been a great concern expressed by the public over the past years. As these hazardous substances are considered to be carcino-genic or toxic to human, in response to the requests of the public, the BSMI intends to regulate the safety of textile	Taiwan

(*continued*)

Table 7.4 (continued)

Measures	Measures	Description[a]	Direction of export
		products possibly with direct contact to skin to protect the health of consumers. The proposed measure also specifies monitor inspection as the conformity assessment procedure for ensuring compliance of textile products with safety requirements.	
Pre-shipment inspection	C	In order to protect consumer rights and interests, BSMI will implement an inspection regime for children's raincoats. No matter where children's raincoats are domestically produced or imported from abroad, it must be in compliance with the inspection requirement before they are released from the production premises or the customs.	
Licensing for economic reasons	E	Imports of textile products are subject to a discretionary license.	All destination countries
Quantitative restrictions (prohibition)		Prohibition of imports of the products constituting such act of infringement of the patent right; of the said utility model right; of the design right; of the trademark right; of the copyright and neighbouring rights; of the plant breeders' right; of the layout-design exploitation right.	Japan

[a]Measure descriptions are observed from the WTO, Integrated Trade Intelligence Portal (I-TIP) for each exporting countries of Myanmar apparels

Source: WTO (2016) and Survey (2016)

Table 7.5 Cost of implications of the selected NTM

Measures	How easy or difficult is it for you to adopt your products to the regulations applied?	Cost of compliance: Processing time for certificates, permits or licences	Cost of compliance: Official fees that must be paid/ in terms of delay
Conformity assessment related to TBT	Feasible and less difficult	Moderate	Moderate
Labelling, marking and packaging requirements	Not difficult to comply with	Moderate	Moderate
Inspection requirement	Feasible and less difficult	Moderate	Moderate
Processing history	Feasible and less difficult	Moderate	Moderate
Pre-shipment inspection	Feasible but difficult	Moderate	Moderate
Licensing procedure	Not difficult to comply with	Moderate	Moderate
Prohibition	Not applicable	Not applicable	Not applicable

Source: Author's own

According to the survey, Myanmar apparel-manufacturing exporters commonly encountered NTMs such as technical barriers to trade (TBT), pre-shipment inspection and licensing for economic reasons from their trading partners from Korea, Japan and Taiwan but they did not respond about the quantitative restrictions such as prohibition measures imposed by Japan. China is at the initiative stage of exercising TBT. Most common NTM faced by the exporters is licensing.

Cost of implications of the selected NTM is presented in Table 7.5. The impacts of non-tariff measures faced by Myanmar manufacturing exporters of apparel and clothing drawn from this study are compiled in Table 7.6.

Firms are positive about existing measures related to pre-shipment inspection, licensing and other formalities. They experience the relatively smooth functioning in making contract with buyers, exporting their final products, that is, apparels, and importing textile raw materials. In fact,

Table 7.6 Impact of the selected NTM on output and price

Impact	Conformity assessment related to TBT	Labelling, marking and packaging requirements	Inspection requirement	Processing history	Pre-shipment inspection	Licensing procedure	Prohibition
Effect of measures on your output Marginal increase Significant increase Marginal decrease Significant decrease Stopped importing/exporting Others, specify please No effect	Marginal increase	Marginal increase	No effect	No effect	Marginal decrease	No effect	No effect
Effect of measures on your production cost Marginal increase	No change	No change	No change	No change	No change	Marginal decrease	No change

Significant increase							
Marginal decrease							
Significant decrease							
No change							
Effect of measures on your prices	No change	No change	No change	No change	No change	No change	No change
Marginal increase							
Significant increase							
Marginal decrease							
Significant decrease							
No change							

Source: Author's own

they had experienced a very long delay in shipments and complicated formalities, especially for firms doing apparels manufacturing before and during the period of economic sanction. For the business development, firms doing apparel manufacturing are aware of their lack of experience in direct trade in overseas markets. They all stress the weakness in understanding and adopting measures currently practised in the world markets. They also focus on their lack of adequate knowledge about fund-raising when Myanmar economy gains more and realistic opportunities to enter the world market. They also expect to join the world market by exporting in terms of "f.o.b."

5 Conclusion

Myanmar apparel manufacturers should achieve impressive productivity growth and product upgrading. These can happen mainly through connecting with international markets where technology transfer from foreign buyers, particularly Japanese, is the key. When labour cost tends to be increasing, the only way to accommodate this and still be competitive is through increased productivity. Apparel manufacturing is highly labour-intensive, and substitutability between labour and capital is very limited. In such a case, intangible knowledge and skills become essential for productivity growth. Even though wage increases have been rapid in Myanmar, they are still among the lowest in the region on the one hand, and on the other hand, productivity in the apparel sector is relatively low. There is room to reach its full potential. With the removal of excessive bureaucratic steps and irrational import–export restrictions, Myanmar apparel firms can reduce direct costs and major determinants to competitiveness. With the favourable FDI condition given by new Foreign Investment Law, ownership structure can change. For many years, a considerable number of apparel manufacturers were represented by Myanmar nationals, making the operation to be controlled by a foreign entity.

Notes

1. See, Staiger (2012).
2. Refer, www.oag.gov.mm/en/
3. Refer, www.commerce.gov.mm and www.myanmartradenet.com.mm
4. Refer, www.myanmarcustoms.gov.mm/en/
5. See, Kudo (2013).
6. Refer, ITC (2016).
7. See, UNCTAD (2015, 2016).

References

ITC. (2016). *Trade Performance of Myanmar*. Geneva: International Trade Centre (ITC). Available at http://www.intracen.org/country/Myanmar/General-Trade-Performance

Kudo, T. (2013). *Myanmar's Apparel Industry in the New International Environment: Prospects and Challenges* (IDE Discussion Paper No. 430). Japan: Institute of Developing Economies (IDE)-Jetro.

Staiger, R. R. (2012). *Non-tariff Measures and the WTO* (WTO Staff Working Paper Series No. 2012–01). Geneva: World Trade Organisation (WTO).

Survey. (2016). *NTM Survey in Myanmar*. Yangon: Yangon University of Economics.

UNCTAD. (2013). *Non-tariff Measures to Trade: Economic and Policy Issues for Developing Countries*. Geneva: United Nations Conference on Trade and Development (UNCTAD).

UNCTAD. (2015). *International Classification of Non-tariff Measures: 2012 Version*. Geneva: United Nations Conference on Trade and Development (UNCTAD).

UNCTAD. (2016). *Guidelines to Collect Data on Official Non-tariff Measures: January 2016 Version*. Geneva: United Nations Conference on Trade and Development (UNCTAD).

WTO. (2016). *Integrated Trade Intelligence Portal (I-TIP)*. Geneva: World Trade Organisation (WTO). Available at https://www.wto.org/english/res_e/statis_e/itip_e.htm

8

Myanmar Technical and Vocational Education Training System and Policy Reform

Cho Tin Tun Kirkpatrick

1 Introduction

The government of the Republic of the Union of Myanmar, the people, academia, officials from other countries, many international non-governmental organizations (INGOs), and non-governmental organizations (NGOs) such as the UN, UNESCO, and the ILO have addressed the importance of Technical Vocational Education and Training (TVET) in Myanmar in creating skilled labour that corresponds to the current trend in economic growth. Government officials have agreed that Myanmar's education has been moving in the right direction, but there have been some impediments to the implementation of policies, rules, and regulations. All have agreed that improvements are still needed in the implementation of policies for the TVET system to be sustainable. During an interview in 2015, TVET specialist Robyn Jackson at UNESCO Myanmar agreed that the pressing issue for the expansion of

C.T.T. Kirkpatrick (✉)
Nova Southeastern University, Fort Lauderdale, FL, USA

P. De, A. Raychaudhuri (eds.), *Myanmar's Integration with the World*,
DOI 10.1007/978-981-10-5134-0_8

TVET in the country is the lack of coordinated response to and regulation of skills development. There is no overarching policy or clear direction for TVET, and the current legislation is either very outdated or covers only part of TVET, as in the Employment and Skills Development (ESD) Law. Establishing a policy and legislation framework is urgently needed, as are the supporting governance, coordination, and information systems.

Many policy reforms have been under way since the previous government, U Thein Sein's administration (2012–2016), came into power. Specifically in the education sector, modifications and implementations of rules and regulations affecting the Myanmar economy in the direction of attaining ASEAN Economic Community (AEC) goals have been placed into effect. Beginning with a Comprehensive Education Sector Review (CESR) in 2012, the National Education Law 2014 was established. The Technical and Vocational Education Council for the implementation and enforcement of policy framework, TVET Task Force for quality assurance (QA), National Skills Standard Authority (NSSA), National Skill Development Authority (NSDA), and National Qualifications Framework (NQF) are a few additional authorities established under the reform to support the Myanmar TVET system. CESR and the National Education Law 2014 are noteworthy because they are the foundation of TVET reform and the draft law.

Rest of the chapter is written as follows. Section 2 carries a comprehensive review of the education sector. Section 3 discusses the TVET and human resource development (HRD; HDI). Section 4 analyses the TVET. Section 5 presents the policy recommendations, whereas conclusions are briefed in Sect. 6.

2 Comprehensive Education Sector Review

CESR, established in 2012 with three project phases, has a vision to develop an education system that promotes a learning society capable of facing the challenges of the knowledge age and that helps to build a modern developed nation through education. Establishment of CESR in 2012 is followed by the formation of Education Promotion Implementation Committee (EPIC) in 2013 by President U Thein Sein. Working together, the aim of CESR is to develop recommendations for reform of the education system where EPIC is to draft policies for the implementation of educational reform, with a key focus to develop an overarching framework for education—the National Education Law. Initiated in 2014, implementation of Myanmar education reform will continue with a five-year realization timeline (2015–2020).

The review is to help ensure that there is a full and comprehensive understanding of the current status of education in Myanmar, regarding access and quality across the sub-sectors, as well as current strengths and gaps in policy, capacity, management systems, financing, and partnership (CESR 2014). Phase 1 of CESR, Rapid Assessment (Volume 1), addressed these concerns and system-wide policy issues for education sector reform. This phase also provides a foundational analysis for the second phase of CESR, the In-Depth Analysis. Phase 2 begins with an analysis of educational system and good practices in Myanmar and other countries. Issues like the role of education in peace building, increasing education access for all groups in society, enhancing quality education, and relevance of curriculum are addressed. The key feature in phase 2 of CESR is the recommendation for improving management, planning, and monitoring specific to the TVET system. Phase 2 (2012–2014) will support phase 3 of CESR, the implementation of priority reforms, and the assessment of realistic policy options to form the basis of a cost-effective strategic education sector plan. Project plan for phase 3 will take a '2+5' format with a two-year plan from 2014 to 2016, followed by a five-year plan from 2016 to 2021 to fit the government planning cycles. These, in turn, have the potential to address the challenges and greatly accelerate progress towards the realization of Myanmar's education and socio-economic goals (CESR 2014). The Multi-Donor Education Fund (MDEF) has been established to accelerate CESR progress towards achieving the Millennium Development Goals on basic education in Myanmar. Phase 1 development partners contributing to MDEF are ADB, Aus Aid, Denmark, DFID (UKAid), the European Union, GIZ, JICA, Norwegian Embassy, UNESCO, UNICEF, and the World Bank.

2.1 The National Education Law

The Myanmar TVET system has been identified as supply driven, developed without consultation and partnership with industry partners. In order to compete in the growing ASEAN economic market, Myanmar is in need of linking its TVET system with local and regional employment needs. The National Education Law (2014, Parliamentary Law No. 41) was created under the administration of U. Thein Sein in September 2014 with a transition period of five years. Aspects of law related to the TVET system are noted below:

- By definition, technical and vocational education falls under formal education (Chapter 1. (j). National Education Law).
- In the implementation of a system of national education, the government will use (a) formal education, (b) non-formal education, and (c) personal education and make connections between them (Chapter 5.11. System of National Education).
- TVET has been divided into the following (Chapter 5.21. System of National Education):

    (a) Basic-level technical and vocational education that can be attended by those who have completed primary school.
    (b) Middle-level technical and vocational education that can be attended by those who have completed middle school.
    (c) Diploma-level technical and vocational education that can be attended by those who have completed high school.
    (d) Non-formal education and vocational education for improving ability regardless of educational level, gender, or age, offered in schools opened by government or private organizations that meet the criterion.

- Qualification requirements for TVET teachers will be spelled out in separate education by-laws (Chapter 9.51. Teachers).
- MoE and other relevant ministries shall work in improving teachers' qualifications and to provide them international experience (Chapter 9.52. Teachers).

- (a) At every level of education there shall be a programme of QA. (b) In the assessment of educational quality and standards, there shall be a programme of internal quality assessment and external quality assessment.
  (c) The Commission shall establish the standards and methods of evaluation in order to ensure quality (Chapter 10.54. Quality Assessment and Quality Assurance).

The CESR consents that TVET institutions in Myanmar are deficient. According to CESR, the three main concerns in TVET have been (i) access, (ii) quality and relevance, and (iii) management. The coordination between skills development and the changing job market; relevant curriculum; inadequate infrastructure; recruitment, training, and retention of quality vocational teachers; QA; entry criteria for TVET training; and confidence in the qualification are also affecting the success of the Myanmar TVET system and should be addressed in policymaking. The main emphasis in the TVET reform in Myanmar essentially needs to be on the development of policies to produce skilled labour that is competent with AEC. Thus, after in-depth literature review and content analysis, the discussion section of this study provides an overview of the TVET draft law and provides options for further improvement of the Myanmar TVET system.

3 Technical and Vocational Education Training and Human Resource Development

Technical and Vocational Education Training (VET) has been globally accepted to improve HRD, especially in developing countries. As the economy of ASEAN countries continues to flourish and grow stronger, development focused on human resources rather than depleting natural resources is recommended to maintain a sustainable economy. At the Conference on Development Policy Options with special reference to Education and Health in Myanmar 2012, Vijay Nambiar, Under-Secretary-General and Special Advisor to the UN Secretary-General, stated that sustainability is politically feasible, economically beneficial, socially viable, and environmentally necessary.

Myanmar is ranked 148 out of 188 countries and territories on the Human Development Index (HDI) in 2014. This represents a value of 0.536 (UNDP, Human Development Report 2015). According to the same report, the country had an HDI value of 0.334 in 1980; since then, Myanmar has been maintaining an average annual increase at about 1.40 per cent. This trend symbolizes a fast-growing economy where HRD, which provides multiplier effect in stimulating the economy, is necessary.

The Myanmar TVET system began in the colonial period with an intention of closing the skilled labour gap by training skilled workers for specific labour market. The training system was successful and well acknowledged by the local labour market for about two to three decades (Tin Htoo Naing 2016). However, due to political transformation over a long period, the TVET system of Myanmar was forgotten until the recent policy reformation. The vision and mission of the Ministry of Education of Myanmar is to promote a 'learning society capable of facing the challenges of the knowledge age' and helping to build 'a modern developed nation through education'. As the country transforms its economy into industrialized economy, a supply-driven TVET system becomes necessary.

TVET in the Myanmar education system is in many different forms including the government, NGOs, INGOs, private institutions, and developmental agencies at both bilateral and multilateral levels. The system has already experienced several changes through different Myanmar governments. Previously, the Ministry of Science and Technology (MoST), now part of the Ministry of Education (Science and Technology), was the main regulatory body of TVET. The Ministry of Labor, Immigration, and Population, formerly known as the Ministry of Labor, Employment, Social Security (MoLESS), has also been a significant part of the vocational education system through ESD Law enacted in late 2013.

UNESCO recognized that quality technical and vocational training plays an important role in tackling youth unemployment. According to the 2014 Myanmar Housing and Population Census, young people represent 28 per cent of total population.[1] Myanmar has a constant youth unemployment rate with 9.4 per cent in 1991 and 9.5 per cent in 2014 (World Bank Data 2014, ILO). This unemployment rate is considered high compared to a few ASEAN countries that share similar geographic location and economic growth: 6.3 per cent for Vietnam in 2014, 3.9 per cent for Thailand, 3.4 per cent for Laos (Laos PDR), and the lowest rate of 0.9 per cent for Cambodia.

UNESCO-UNEVOC has recognized that young people lack basic foundational skills, resulting in difficulty in finding a decent job or becoming self-employed. In OECD countries, unemployment among young people, who have not completed secondary school, is nearly twice as high as among those with tertiary degrees (Scarpetta and Sonnet 2012). A mismatch in skills affecting the unemployment rate especially for the youth has been observed in many developing countries by organizations such as UNESCO and the ILO. A smooth transition from education-to-work has been an ultimate goal in closing this employment gap.

As a result of changes in the Myanmar education system over the past few decades, the country is in a unique position transitioning its youth from education-to-work. Myanmar youth who are educated within international standards are overly educated and qualified for local employment. This population typically migrates overseas for further education or employment, creating a brain drain situation. Meanwhile, the underqualified youth remain skill-less and add to increasing youth unemployment rates.

UNESCO plays an active role in providing advice and technical assistance to the Myanmar government. The organization is a coordinating point for TVET aid, engaging with other government agencies and prospective, current donors, development partners, and, most importantly, the private sector. The PepsiCo, UNESCO, and the Myanmar Ministry of Education signed a public–private vocational training partnership in 2014. It is the first public–private partnership (PPP) for TVET in Myanmar. The programme offers industry-responsive vocational training courses targeted to enhance youth employability. The programme has successfully launched a second phase in August 2015 aiming to provide industry-focused programmes to improve the skill-sets of graduates

Table 8.1 Youth unemployment rate (percentage of total labour force aged 15–24) in the EU, Latin America, and ASEAN Countries (modelled ILO estimate)

Region	Countries	Youth unemployment rate in 1991	Youth unemployment rate in 2014
EU Countries	**Germany**	**5.5**	**7.6**
	Austria	3.7	9.2
	Netherlands	11.1	11.1
	Czech Republic	4.8	16.7
	United Kingdom	14	16.7
	EU Area	18.2	27.6
	France	19.2	23.9
	Poland	25.2	24
	Slovak Rep.	19.8	31.1
	Spain	29.8	57.9
Latin America	**United States**	**5.5**	**7.6**
	Brazil	14.2	15.2
	Mexico	5.3	9.9
	Chile	17.9	16.4
	Argentina	12.2	21.3
	Colombia	23.1	18.9
	Venezuela, RB	17.5	17.1
	Costa Rica	11.6	19.2
	Honduras	7.8	6.9
	World	13	14
	Brunei Darussalam	12.3	11.1
ASEAN	**Vietnam**	**5**	**6.3**
	Thailand	6.7	3.9
	Indonesia	17.6	21.8
	Singapore	7.3	9.6
	The Philippines	17.3	16.4
	Malaysia	9.1	6.7
	Laos (Lao PDR)	4.8	3.4
	Myanmar	**9.4**	**9.5**
	Cambodia	1.2	0.9
	Brunei Darussalam	12.3	11.1

Source: World Bank Data, International Labor Organization, Key Indicators of the Labor Market database

entering the local workforce. Further, the Strengthening Business Skills for Youth Employment in Myanmar programme is another initiative to bridge the youth unemployment gap through TVET. Table 8.1 presents youth unemployment rate in three regions of the world.

4 Technical Vocational Education Training

Three education models have been analysed to offer TVET policy options to the Myanmar government (Milio et al. 2014; Ministry of Education (MoE) 2017; Ministry of Education (MoE) – Draft Law 2016). The German model also known as the dual apprenticeship has been selected due to its success. The US model was chosen because of its linkage between secondary and post-secondary vocational programmes for better transition from school to careers. Another reason to choose the US model is that the strategic goals for vocational education in fiscal year (FY) 2011–2014 focus on lifelong learning opportunities for youth and adults with access, quality, and completion of TVET education as the most important factors. Lastly, the Vietnam model has been selected due to its similarities with Myanmar with a belief that analysis of the Vietnam TVET system will allow Myanmar to position its reform in the right direction. Other TVET models such as Thailand, Cambodia, and Laos LDR were considered but not chosen.

4.1 The German Model

The Vocational Education Training (VET) is a fundamental part of education and training system incorporated into German economy. It is well known as a 'dual system' because training takes place both in public training schools and in the partnership organizations and businesses. The strong partnership with social partners such as the Federal Government, Federal States, industry employers, and Chamber of Commerce/German Confederation of Skilled Craft has provided major success. This demand-driven system has been recognized domestically and internationally due to its proven success. According to data from the Federal Statistical Office 2013, the workforce in Germany by Level of Professional Education (2012, in percentage of total workforce) indicates that the majority of the country's workforce has received high qualifications through the dual VET system.[2] The in-house training provided by the German companies transforms apprentices into customized specialists at low net costs (German Trade & Investment 2014). The German Federal Ministry of Education and Research outlines VET regulatory framework as follows:

The Federal Government acts as a recognition body for trainings, sets requirements for training and examinations, and sets training regulations. The Federal State, which issues curricula for part-time vocational schools, is also responsible for financing teaching staff and supervision of chamber activities. Under the industry, employers are responsible for creating and updating training occupations, nominating experts for training regulations, and negotiating provision in collective agreements such as remuneration. Lastly, the Chamber of Industry and Commerce/German Confederation of Skilled Crafts advises stakeholders in training, supervises training in the company, verifies the aptitude of companies and training instructors, registers training contracts, and administers examinations (Germany Trade & Invest 2014). Funding is provided through the Federal State. Figure 8.1 indicates workings of dual VET system in Germany.

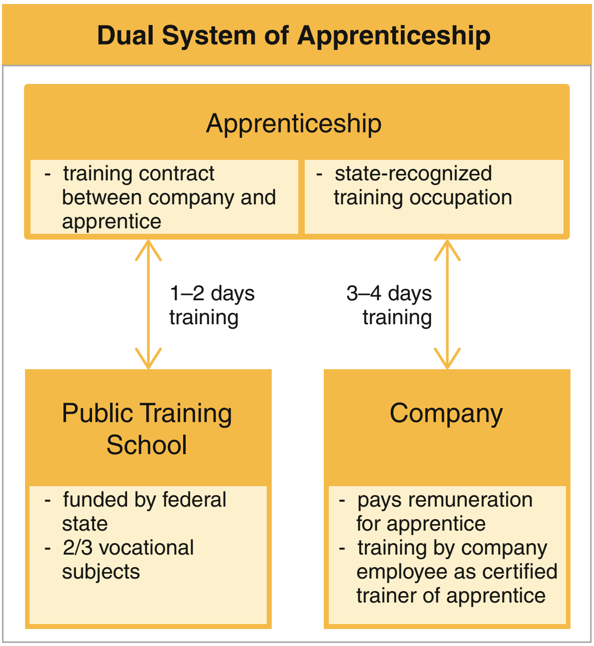


Fig. 8.1 Dual system of apprenticeship (Source: Germany Trade & Invest, DIHK, Federal Ministry of Education and Research, IAB, Federal Statistical Office 2013)

4.2 The US Model

TVET is commonly recognized as Career Technical Education (CTE) in the United States. The federal TVET mission is to promote education about work, for work, or education through work (UNESCO-UNEVOC World TVET Database USA 2014). Access, quality, and completion have been the strategic goals as in Strategic Plan FY 2011–2014.[3]

Each of the 50 states in the country is individually responsible for customization of CTE through student learning and creation of a demand-driven system. Administered by the Federal Department of Labor, the Office of Apprenticeship and the Job Corporations govern government-supported skill training outside the education system. Funding is handed at all three levels of government: (i) Federal, (ii) State, and (iii) Local. Office of Vocational and Adult Education is a unit under the US Department of Education that is responsible for implementation of federal TVET legislation.

TVET teachers in the United States hold at least a bachelor's degree in the subject area with some industrial experience or professional certification to further support their teaching credentials and career. According to the Bureau of Labor Statistics' Occupational Outlook Handbook for Career and Technical Education Teachers, some competencies required for TVET teachers include communication skills, creativity, instructional skills, organizational skills, and patience.

The United States does not have an NQF. However, QA for the American CTE programmes is at the federal, state, national, and regional level. Accrediting agencies, professional and academic disciplinary associations also have influence in assessing the quality of CTE programmes. TVET system in the United States takes place as formal, non-formal, and informal systems. Figure 8.2 provides an overview.

The formal TVET system is associated with the National Career Cluster and has an enrolment of 12.5 million with most students in the programme over 18 years of age, who have completed grade 12 or K12 (World TVET Database, United States of America 2014). American high school graduates are given the choice of entering into a technical or vocational institution, two-year community or junior college for an

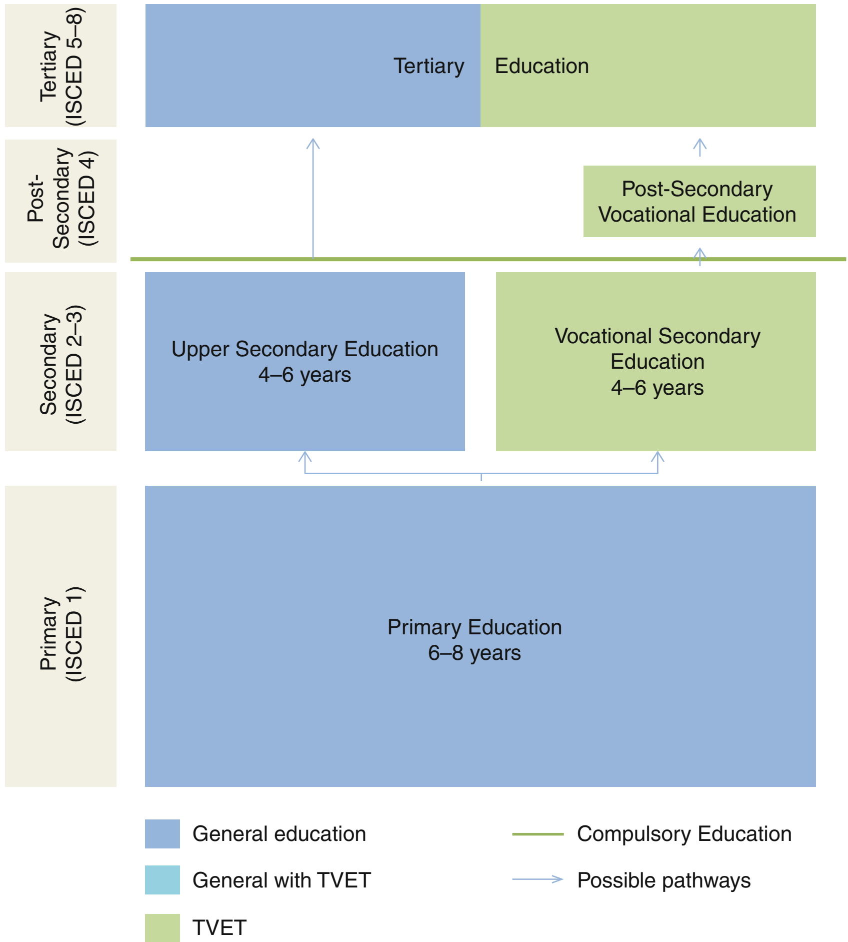


Fig. 8.2 Overview of US CTE (Source: UNESCO-UNEVOC (2014). Scheme compiled by UNESCO-UNEVOC from U.S. Department of Education (2011))

associate degree, or four-year college or university for a baccalaureate degree. The associate degree programme is typically for two years, and is transferrable and serves as a foundation for the two more years of baccalaureate degree. Others are in the form of (i) Tech-Prep, which applies vocational and technical courses; (ii) Career Pathways (CPs), which prepares students for several different occupations; (iii) federal programmes such as The Job Corps that targets the at-risk youth; and (iv) The Job Accommodation Network, which targets youth with disabilities.

The non-formal and informal TVET systems are Apprenticeship Programmes. This business-based system targets candidates with industrial experience and is typically offered as an employer-owned or employer-operated facilities or trade schools. The community and technical colleges are the major part of the Apprenticeship Programmes. The American Talent Development, formerly known as the American Society for Training and Development, is another organization developing the knowledge and skills of employees and the workforce in a competitive labour market.

4.3 The Vietnam Model

Vietnam's TVET system has two parts, public and private system. There are multiple agencies administering the system with various organizations taking ownership of the public training institutions.[4] The central ministries and organizations, central government, local government, and the State manage vocational trainings at the college level, intermediate level, and elementary level. The dual structure for TVET has institutions under the Ministry of Labor-Invalids and Social Affairs (MOLISA) and the Ministry of Education and Training (MOET). Under the MOLISA, elementary vocational training is delivered partly through vocational training centres, intermediate through vocational secondary schools, and higher via vocational colleges. Short-term vocational training, technical secondary schools, and technical (professional) colleges function under MOET (Asian Development Bank 2014). The four levels under these two organizations are (i) bachelor's degree, (ii) college level, (iii) secondary level, and (iv) elementary level. Further under these two organizations, the Vietnam TVET system is divided into formal and non-formal training (short- and long-term). The main difference between technical secondary and vocational secondary schools is in structure of curriculum; the first offers 40 per cent practice and 60 per cent theory, while the latter offers 70 per cent practice and 30 per cent theory. Further, graduates from technical secondary school are able to enrol for colleges and universities, whereas vocational secondary school students cannot. Figure 8.3

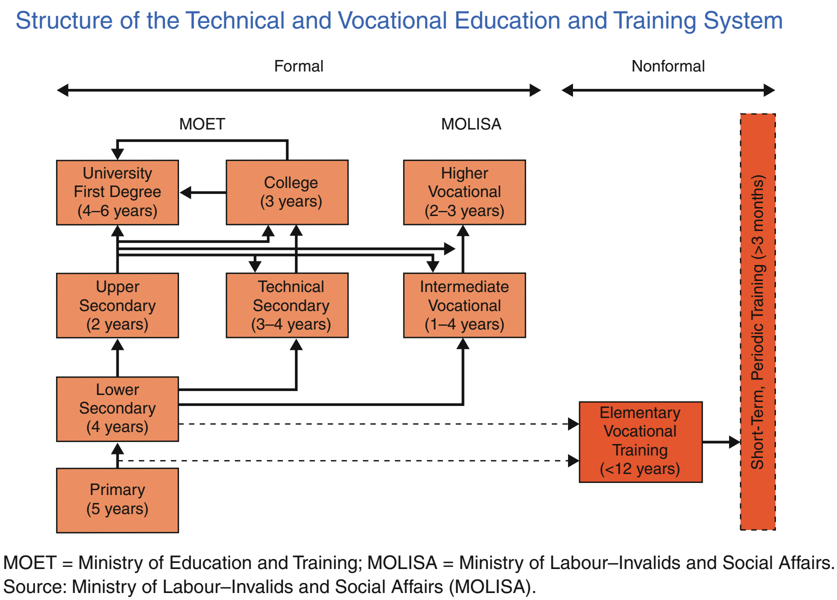


Fig. 8.3 Structure of TVET in Vietnam (Source: Asian Development Bank (ADB), Manila (ADB 2014))

represents the structure of TVET in Vietnam (World TVET Database – Country Profile: Vietnam 2014).

The Vietnam TVET system has a multilevel, multi-track training system that offers flexibility. Lower-level training is provided by higher-level institutions; college, secondary, and elementary-level trainings are provided by universities; intermediate-level vocational training and frequently, elementary trainings are provided by colleges; and more elementary-level courses are offered by vocational secondary schools. Specialization of skills is also provided by many institutes in sectors such as agriculture (forestry, fisheries, and horticulture), transport, construction, and industry. Training period varies from 3 to 12 months in the elementary and two to four years in the secondary colleges.

Private TVET system has been established in Vietnam since the late 1990s, which gained more popularity in the recent years. Rules and regulations for private training centres are flexible with a degree of control. In order to maintain quality standards in the TVET system, this sector follows an identical registration and screening process as well as curricula framework. Each institution determines its own tuition fees. There is also no requirement for a set number or percentage of scholarships for needy students. The Vietnam government is in favour of growth in this sector. According to the draft TVET Strategy 2020, private training provision is expected to increase from 20 per cent of enrolees in technical secondary schools to 40 per cent by 2020 (ADB 2014).

Public institutions and training centres receive funding and infrastructure through the government, and individual private investors sustain the private system. The government has increased funding of education and training by 20 per cent, 6.4 per cent of GDP in 2011, which is in accordance with other middle-income countries (ADB 2014). As per the Vocational Training Law, educators teaching theory at the intermediate or college level require a bachelor's degree and instructors in practical subject must have at least a college diploma, or be an artisan in the subject area. According to the General Directorate of Vocational Training (GDVT), in 2011, 21 per cent of TVET teachers specialized in theory, 33 per cent in practical subjects, and 46 per cent in both with a trend shifting towards 50–50.

QA and system accreditation is under internal and external assessment. A number of different systems from Australia, the Republic of Korea, the United Kingdom, and Germany are being implemented to enhance the Vietnam government's efforts in implementation and policy reformation. Additionally, there is Vocational and Technical Project by ADB, the Nordic Development Fund, the French Development Agency, and Japan International Corporation Agency (JICA). There is no national examination for assessment and certification for TVET at this period; however, GDVT is introducing a National Occupational Testing. The National Skills Standards and Certification promotes quality and relevance of the country's TVET system.

4.4 The Myanmar Model

TVET mission of Myanmar aligns with the nation's goals towards the development of nation-building knowledge and the training of technicians, skilled workers, and proficient individuals with practical knowledge so that they can contribute to state and nation-building endeavours (UNESCO-UNEVOC World TVET Database, Myanmar 2014). Since 1998 education reforms, Myanmar TVET strategies have been focused on socio-economic development: decentralization of ministries, promoting lifelong learning, skills development for employability, and creation of a credit system. In a way, the Myanmar TVET system is similar to that of Vietnam's and the US model (see Fig. 8.4).

The Myanmar TVET system comprises formal and non-formal or informal systems. The formal education system has been under reformation in the direction to meet international standards. The length of basic education system has been increased to five years of primary education and six years of secondary schooling. Bridging the gap between the worlds of school and work has been the primary focus. It aims to reduce unemployment rates by creating skilled labour.

Vocational subjects and trainings are offered through vocational schools, technical high schools, or agricultural high schools. Trade schools are shorter with flexible evening schedules to accommodate working individuals. Post-secondary TVET courses are offered in the field of mechanics and electronics through the Ministry of Industry. Completion of the programme allows students to complete a Basic Education High School Examination that permits further studies into Government Technical Institutes (GTIs), State Agricultural Institutes, or Commercial Schools. In developing skilled labour, graduates of secondary schools are encouraged to enrol in a technical college or university. These institutions offer an associate degree under the GTI after two years, a bachelor of technology (B.Tech) after four years, and a bachelor of engineering after five years.

The non-formal or informal TVET system in Myanmar is underdeveloped and underdocumented. Programmes sponsored by NGOs are targeted to sub-population groups in developing specific skills for employment. The Myanmar Educational Research Bureau has been in charge of the sector although a reform has been under way.

Under the different political systems and policy regimes, especially at the present, the Myanmar government has been in favour of promoting many different TVET institutions and training centres. The structure of the Myanmar TVET system is centralized in management and financing,

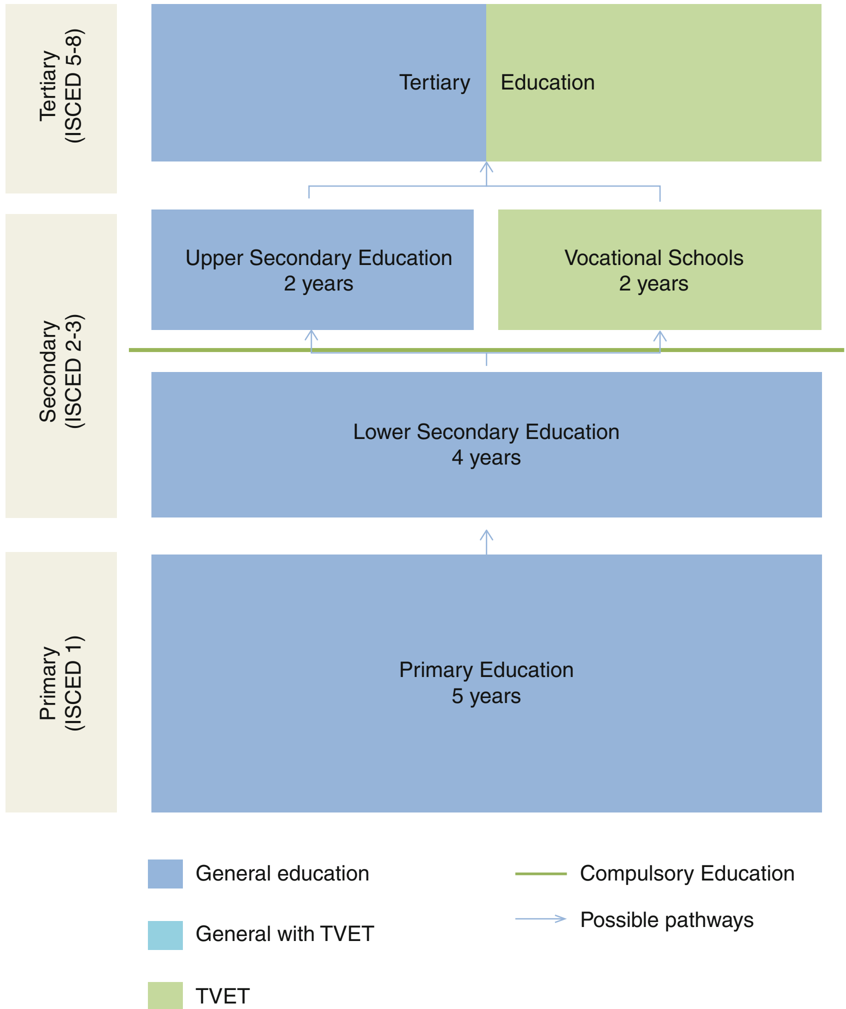


Fig. 8.4 Myanmar's TVET (Source: UNESCO-UNEVOC-TVET database, Myanmar. Scheme compiled by UNESCO-UNEVOC from UNESCO-IBE (2011))

but appeared to have a decentralized structure at the same time. Budget for TVET institutions comes almost exclusively from their respective ministries, and no delegation of authority to the state or region level is practised (DWT for East and South-East Asia and the Pacific 2014). The current funding for education in Myanmar has been inherited from the previous government under U Thein Sein's administration (March 2011–March 2016). During that period, state spending on education had observed a positive shift from 0.7 per cent of GDP in FY 2011–2012 to 2.1 per cent in FY 2013–2014. This spending is still below the 3.6 ASEAN average. The state allocated education budget from the previous government will be in effect until school year 2016–2017. Quick budget solutions such as increasing short-term spending in education have been considered by the National League for Democracy.

TVET sponsored by NGOs, INGOs, and developmental agencies at both the bilateral and multilateral levels is funded by UNESCO, the Japan International Cooperation Agency, the Australian Aid Agency, the British Council, and the United Kingdom Department for International Department. Clearly, the private education sector is funded by investors and sustained through high tuition fees. Individual investors provide capital, land, salary for teaching staff, and other resources including classroom expenditures. Myanmar has seen growth in private institutions beginning 2012. PPP in vocational education has been highly encouraged to produce skilled labour force to complement Myanmar's economic growth.

5 Policy Recommendations

Myanmar is currently facing several challenges in the TVET sector reformation. Some of these are:

(i) Access: Majority of Myanmar population that is about 70 per cent of the population lives in the rural areas with no access to any educational facilities. This complex nature of geographic, which spreads over 33 townships and diverse population that uses more than 100 languages, is difficult to reach to meet the goals of Education for All (EFA). Additionally, some discrimination against ethnic minorities exists in the education system limiting access. With a history of community-based schools getting closed by the government, minorities are forced to go to state-run schools that do not teach in native tongue hindering access to education and thereby increasing dropout rates. Under TVET, entry criteria for selection to enter formal education are rigid. Requirements such as high examination results and appropriate age prevent most Myanmar youth from gaining access to TVET training.

(ii) Relevance and Quality: TVET system in Myanmar has been determined as demand driven instead of supply focused. Lack of coordination between skills development and the job market has left many youth in the country unemployed. Since training is not relevant to the skills needed of the community or region, lifelong learning and sustainable TVET education system does not exist. Therefore, there is no quality in the Myanmar TVET system.
Pedagogy of teachers complicates this problem. Many teachers for TVET are not well trained in subject area with little or no industrial experience and skills. Additionally, there is still a shortage of teachers for the Myanmar TVET system.

(iii) Management: Myanmar has a fragmented TVET system. It is complex with many ministries taking responsibilities for different fields, which lack central body for control. MoST was mainly responsible for activities of TVET; however, as of early 2016, this ministry has been placed under MoE. With the changes in the Myanmar government, execution of policies is a major concern. Existence of overarching policies is quite limited. There have been major delays in implementation of rules during the period where no time should be wasted, especially in TVET to produce skilful labour for closing the education-to-employment gap.

(iv) Infrastructure and equipment: The challenge on infrastructure and equipment of TVET system is rather forthright. There are no up-to-date training facilities; equipment available is out of order or not sufficient; up-to-date technology to stay competitive for on-the-job-training is unavailable; and there is inadequate school infrastructure (overcrowding of facilities).

(v) Other factors: Myanmar learning culture represents a rote learning system. Traditionally, students memorize materials provided by classroom teachers in order to pass standardized exams. Basic education has been considered valuable with the view that vocational schooling is less worthy. There has been lack of trust on vocational certifications with a view of institutions being 'certification factories'. Non-existence of nationally recognized or regulated set of qualifications for TVET makes it harder to obtain high enrolment. Students' attitudes are not engaged in learning where high dropout rates exist in the Government Technical High Schools, Government Technical College, and GTI.

Under the new government in July 2016, a 14-chapter draft policy for the Myanmar TVET system was prepared to provide proper guidance. This draft policy option tries to solve challenges faced by the TVET system.

5.1 Access

Chapter 3 of the draft TVET policy states the basic law and regulations with the promise of EFA and the right to education. The responsibility of curriculum development has been assigned to individual regions in order for it to be relevant and demand driven. Transfer system within technical and vocational learning is encouraged along with establishment of more TVET institutions and training centres.

5.2 Relevance and Quality

Chapter 2 of the draft TVET policy states the goals where one is to have curriculum development by region to suit the needs of labour market. Chapter 3 reinstates the support for lifelong learning experience, skills development, and international education standards in vocational education and training. Chapter 8 focuses on curriculum and offers for instructions to be up-to-date with the industry trends. It aims to create experts in industry who possess creativity and critical thinking. Addressing specifically to teacher quality and responsibilities, chapter 9 of the draft states basic qualification needed to become a teacher. The law also requires continuing education in order to maintain expertise in the subject area.

5.3 Management

The management of TVET is under MoE (Science and Technology) with other ministries taking charge as appropriate. MoE functions as the central body in the implementation and execution of policies. Chapter 4 provides regulations and guidance for formation of new, resignation of existing TVET institutions and training centres. The responsibility of QA standards for the development of education and training centres and the certification of training programmes has solely been put on 'an appropriate ministry in charge'. Chapter 5 designates formations of council, duties, and responsibilities with the specifics of support in research, enforcement of rules for QA, and disbursement of funds through appropriate bodies.

5.4 Infrastructure and Equipment

The need for an up-to-date equipment as well as adequate infrastructure to provide quality TVET system has been recognized. To this date, Myanmar still lacks proper system and planning.

5.5 Other Factors

The interchangeable system encouraged under the draft policy of TVET system may offer more prestige to TVET education. Additionally, the fact that the draft policy of TVET system has strict regulations in forming new institutions, inspection of existing ones, and clearer rules on fines when requirements are not met has hopes that the certificate factory situation will become non-existent.

5.6 Further Suggestions

Policies implemented for the Myanmar TVET system should be specific. Beginning with the authority responsible for TVET, it should venture into involvement of the private sector and budget planning. Since the draft policy is to be the new TVET policy, it should offer more support. Additional studies may be needed to further examine and evaluate the best policies for Myanmar.

6 Conclusion

This analysis is mainly focused on the TVET system of Myanmar, policy reform, challenges, and further improvements that could be made. As a latecomer in the system, countries with better TVET structures such as Germany, the United States, and Vietnam can be taken as an example to ensure success during reform. The government of Myanmar has been heading in the right direction with implementation and creation of policies. Many policies, such as CESR in 2012 and National Education Law of 2014, have been the foundation of Myanmar TVET system reform. The draft TVET policy implemented in 2016 is the right direction and it must be put in effect immediately. The draft policy will attend to many challenges such as access, relevance and quality, management, infrastructure and equipment, and other factors. Lastly, additional studies have been suggested to further examine and evaluate the best TVET policies for Myanmar.

Notes

1. Young people include adolescents (aged 10–19) and youth (aged 15–24). See more at: http://myanmar.unfpa.org/topics/young-people-3#sthash.8Ji6LCrU.dpuf
2. About 54 per cent of Germany workers are skilled craftsmen (apprentices from dual education); University graduates and unskilled comprised 18 per cent; and graduates from vocational colleges and technicians (master craftsmen) comprised 10 per cent of the total workforce in 2012.
3. (i) Access: improve the affordability of and access to college and workforce training; (ii) Quality: foster institutional quality, accountability, and transparency to ensure that post-secondary education credentials represent effective preparation for students to excel in a global society and a changing

economy; (iii) Completion: increase degree and certificate completion and job replacement rates in high-need and high-skilled areas (UNESCO-UNEVOC, World TVET Database USA 2014).

4. (i) MOLISA; (ii) MOET; (iii) various line ministries, including Industry and Trade; Agricultural and Rural Development, Transport; Construction; Defense; Health; Culture; Sports and Tourism; (iv) Vietnam Labor Federation; (v) Vietnam Women's Union; (vi) Cooperatives Alliance; (vii) State-owned enterprises; and (viii) Provincial, city, and district governments (Asian Development Bank 2014).

References

Asian Development Bank (ADB). (2014). *Improving Lives Throughout Asia and the Pacific*. Annual Report. Retrieved from https://www.adb.org/sites/default/files/institutional-document/158032/adb-annual-report-2014.pdf. Accessed 16 Jan 2017.

Comprehensive Education Sector Review (CESR). (2014). http://www.cesrmm.org/index.php/en/. Accessed 16 Jan 2017.

Federal Ministry of Education and Research, IAB, Federal Statistical Office. (2013). *Vocational training "Made in Germany" Germany's dual system of Vocational Education and Training (VET) (2014). Germany trade and invest.* https://www.gtai.de/GTAI/Content/EN/Invest/_SharedDocs/Downloads/GTAI/BLG/blg–most-wanted–dualvocational-training-in-germany-pdf.pdf?v=4. Accessed 16 Jan 2017.

Germany Trade & Invest. (2014). *Vocational Training "Made in Germany": Germany's Dual System of Vocational Education and Training (VET)*. https://www.gtai.de/GTAI/Content/EN/Invest/_SharedDocs/Downloads/GTAI/BLG/blg--most-wanted--dual-vocational-training-in-germany-pdf.pdf?v=4. Accessed 16 Jan 2017.

Human Development Reports. (2015). *United Nations Development Program*. http://hdr.undp.org/en/countries/profiles/MMR. Accessed 16 Jan 2017.

Milio, S., Garnizova, E., & Shkreli, A. (2014). *Assessment Study of Technical and Vocational Education and Training (TVET) in Myanmar*. DWT for East and South-East Asia and the Pacific. Bangkok: ILO.

Ministry of Education (MoE). (2017). http://www.moe.gov.mm/en/. Accessed 16 Jan 2017.

Ministry of Education (MoE) – Draft Law. (2016). http://www.moe.gov.mm/en/?q=draftlaw. Accessed 16 Jan 2017.

Naing, T. H. (2016). *Strengthening TVET School-Industry Relation*. Yangon: Center for Economy, Environment and Society – CEES Myanmar.

PepsiCo, UNESCO and the Myanmar Ministry of Education Pioneer Public-Private Vocational Training Partnership in Myanmar. (2014). http://www.pepsico.com/live/pressrelease/pepsico-unesco-and-the-myanmar-ministry-of-education-pioneer-public-private-vocational-training-partnership-in-myanmar. Accessed 16 Jan 2017.

Scarpetta, S., & Sonnet, A. (2012). Investing in Skills to Foster Youth Employability – What Are the Key Policy Challenges? *Intereconomics* 2012. doi: 10.1007/s10272-012-0402-2. Retrieved from https://www.oecd.org/els/emp/49567835.pdf. Accessed 16 Jan 2017.

UNESCO-IBE. (2011). *World Data on Education VII Ed. 2010/2011*. Geneva: UNESCO IBE.

UNESCO-UNEVOC. (2014). *World TVET Database*. Bonn.

U.S. Department of Education. (2011). *Digest of Education Statistics*. Washington, DC: National Center for Education Statistics.

World Bank. (2014). *Youth Unemployment Rate*. Washington, DC. http://data.worldbank.org/indicator/SL.UEM.1524.ZS Accessed 30 Dec 2016.

World TVET Database – Country Profile: Vietnam. (2014). http://www.unevoc.unesco.org/go.php?q=World+TVET+Database&ct=USA. Accessed 16 Jan 2017.

World TVET Database – Myanmar. (2014). http://www.unevoc.unesco.org/wtdb/worldtvetdatabase_mmr_en.pdf

World TVET Database – USA. (2014). http://www.unevoc.unesco.org/go.php?q=World+TVET+Database&ct=USA. Accessed 16 Jan 2017.

9

Regional Integration and Myanmar: Current Status and Prospects

Prabir De

1 Introduction

Myanmar has a unique spatial location, surrounded by two large countries of the world, namely, China and India. Since 2011, Myanmar has embarked on a path of political and economic reforms, paving the way for unlocking the country's large economic potential. Myanmar could follow Asia's fast growing economies and expand at 7–8 per cent a year, graduate from a Least Developed Country (LDC) status and become a middle-income nation, and triple the per capita income by 2030 if it can surmount substantial development challenges by further implementing across-the-board reforms.[1] Easing the sanctions on investment in Myanmar by the European Union (EU), the United States of America

P. De (✉)
Research and Information System for Developing Countries (RIS), New Delhi, India

ASEAN-India Centre (AIC), New Delhi, India

P. De, A. Raychaudhuri (eds.), *Myanmar's Integration with the World*,
DOI 10.1007/978-981-10-5134-0_9

(USA), and Australia in 2009, as a reaction to the changes in the national legislation on foreign direct investment (FDI), has raised the prospect of foreign investment boom in the country, thereby indicating availability of the financial and technical resources for development of the country's infrastructure. Myanmar's disadvantages are relatively small population size, missing institutions, inadequate trade capacity, insufficient infrastructure, narrow trade basket, and lack of skilled human resources. At present, Myanmar's underdeveloped infrastructure, unavailability of sufficient skilled human resources, and poor connectivity with neighbouring countries seriously limit Myanmar's participation in the regional and global economies. On the other, owing to its strategic position, Myanmar connects Asia's three big markets—the Association of Southeast Asian Nations (ASEAN), China, and India. Improving infrastructure, both national and international, is assumed to be essential for the country's prosperity, continued growth and, most importantly, global integration.[2]

The processes of global integration represent both challenges and opportunities for Myanmar, in so far as the country's growth prospects depend increasingly on external economic environment. In particular, policies of multilateral organizations such as the WTO, the World Bank, and the IMF; UN bodies such as UNESCAP; regional development banks such as the ADB, regional associations or blocs such as ASEAN, SAARC, BIMSTEC, and GMS; and countries such as China, India, Thailand, and Japan have an important bearing on the process of development of Myanmar.

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

2 Myanmar's Trade Partners and Current Engagement in Regional Blocks

2.1 Geographical Patterns of Myanmar's Trade

Restoration of democracy in Myanmar is one of the most important developments witnessed by Asia in the contemporary period. Surrounded by major emerging markets such as China and India, Myanmar has relatively diversified trade partners. Table 9.1 presents distribution of volume of export and import among Myanmar's top 10 trade partners. Among the top 10 trade partners of Myanmar, China and Thailand occupy the top two positions, both in export and in import. India and Japan come next in that order in export, and Singapore and Japan in import. In destination market, Myanmar's export with top 10 partners was 92 per cent in 2012–15 vis-à-vis 86.54 per cent in 2010–12. China is Myanmar's major import source. Myanmar's import from China had doubled in 2013–15, compared to 2010–12 (see Table 9.1(b)). Unlike export, Myanmar's import from top 10 sources has remained static (see Table 9.2).

Next to China, ASEAN is Myanmar's major trade partner. Myanmar's trade with ASEAN has been driven mainly by Myanmar's bilateral trade with Thailand. Barring Thailand, Myanmar's export to rest of the ASEAN countries has been negligible, whereas Myanmar's export to Lao PDR, a neighbour of Myanmar, is not even US$ 1 million per annum. Today, only 30 per cent of Myanmar's export to world has been directed to ASEAN, which was about 47 per cent in 2010. On the other hand, while Myanmar's volume of import from ASEAN has gone up from US$ 4.33 billion in 2010 to US$ 9.15 billion in 2015, relative position of ASEAN as an import source, similar to export, has also declined, rather slowly. What emerges is that ASEAN and China are Myanmar's major trade partners, whereas Japan, India, the EU, and Korea are Myanmar's potential markets, which need to be nurtured, and trade shall be promoted with these countries through effective trade facilitation measures.

Table 9.1 Myanmar's top 10 trade partners

Country	2010–12 Volume (US$ million)	2010–12 Share[a] (%)	2013–15 Volume (US$ million)	2013–15 Share[a] (%)
(a) Export				
China	3579.77	15.53	21,479.23	47.1
Thailand	9125.47	39.59	10,449.11	22.92
India	3389.63	14.71	3491.03	7.66
Japan	1504.34	6.53	2253.83	4.94
EU	602.53	2.61	1421.51	3.12
Korea	736.09	3.19	1430.38	3.14
Malaysia	587.72	2.55	502.45	1.1
Indonesia	151.51	0.66	317.4	0.7
United States	0.03	0	242.36	0.53
Vietnam	270.09	1.17	363.16	0.8
World	23,048.59	100	45,599	100
Share of Top 10 in World, %		86.54		92
(b) Import				
China	15,378.74	37.75	28,722	41.37
Thailand	8794.96	21.59	13,241.12	19.07
Singapore	4080.1	10.02	7808.23	11.25
Japan	2232.6	5.48	3637.56	5.24
India	1400.4	3.44	2640.56	3.8
Malaysia	1791.84	4.4	2495.17	3.59
Korea	2724.22	6.69	2441.24	3.52
Indonesia	1149.76	2.82	1908.99	2.75
EU	690.21	1.69	1901.23	2.74
Vietnam	274.77	0.67	1029.33	1.48
World	40,739.65	100	69,435	100
Share of Top 10 in World, %		94.55		94.8

Source: Calculated based on DOTS, IMF
Notes: [a]Share in total export
[b]Share in import

Table 9.2 Myanmar's trade with ASEAN

Country	2010	2011	2012	2013	2014	2015
	(US$ million)					
(a) Export to ASEAN						
Thailand	2590.27	3172.6	3362.6	3655.42	3560.93	3232.76
Malaysia	207.34	212.82	167.56	180.62	151.69	170.14
Indonesia	28.95	64.8	57.76	66.5	110.98	139.92
Vietnam	93.48	77.09	99.52	112.41	122.53	128.22
Singapore	74.79	78.01	71.74	162.58	144.58	112.61
Philippines	12.5	18.85	27.79	23.06	14.28	19.89
Brunei	0.43	0.49	0.55	0.62	0.59	0.59
Cambodia	0.05	0.12	0.1	0.24	0.25	0.26
ASEAN	3007.81	3624.78	3787.62	4201.45	4105.83	3804.39
World	6451.9	8330.16	8266.53	10,423.4	22,494.5	12,681.1
Share of ASEAN in World, %	46.62	43.51	45.82	40.31	18.25	30
(b) Import from ASEAN						
Thailand	2280.16	3095.57	3419.23	4103.48	4614.95	4522.69
Singapore	1271.89	1333.6	1474.61	2472.59	2637.91	2697.73
Malaysia	402.14	615.6	774.1	784.74	886.3	824.13
Indonesia	312.59	395.42	441.75	612.01	623.6	673.38
Vietnam	54.47	90.71	129.59	250.78	380.45	398.1
Philippines	12.36	15.54	21.05	24.95	20.61	35.93
Cambodia	0	0.09	0.09	0.74	0.78	0.81
Brunei	0.08	0.1	0.11	0.11	0.12	0.13
ASEAN	**4333.69**	**5546.63**	**6260.53**	**8249.4**	**9164.72**	**9152.9**
World	**9947.55**	**13,720.2**	**17,071.9**	**20,488.4**	**24,429.4**	**24,517.2**
Share of ASEAN in World, %	43.57	40.43	36.67	40.26	37.52	37.33

Source: Calculated based on DOTS, IMF

2.2 Myanmar's Current Engagement in Regional Integration Process

The process of regional integration moves forward with formation of free trade area, customs union, common market, and finally economic union (Viner 1950; Balassa 1961). Beginning of economic integration process involves lesser coverage of economic activities. Moving forward all the way from partial scope (e.g. preferential trade agreement) to economic union generates more economic as well as political integration (see Fig. 9.1). Regional Trade Agreement (RTA), formed mainly through an FTA, establishes free trade area gradually. Customs Union, Common Market, and Economic Union follow next.

Proliferation of RTAs has witnessed unprecedented growth in the history of world trade. RTAs have been formed under Article 24 of GATT, or enabling clause or Article V of GATS. As of 31 March 2017, some 647 notifications of RTAs (counting goods, services, and accessions separately) had been received by the WTO, of which 270 RTAs were in force. Following the notification of the RTA between Mongolia and Japan in June 2016, all WTO members now have an RTA in force.[3] Over 50 per cent of world trade being carried through regional/preferential trading routes every year.[4] Myanmar is an original member of the WTO (GATT). Myanmar has granted the most-favoured-nation (MFN) treatment to all its trading partners. According to Myanmar's only *Trade Policy Review*, "Myanmar has bound 18.5 per cent of its tariff lines (all tariff lines under WTO agriculture), with the simple average final bound rate at 87.2 per cent. Myanmar undertook specific commitments under the GATS in tourism and travel-related services, and did not list any exemption to the principle of MFN treatment in its GATS commitment."[5] Merchandise trade in Myanmar has been governed under the Sea Customs Act (1878), the Land Customs Act (1924), the Export Import Law 2012, and the Tariff Law (1992). The acts and laws are administered by the Ministry of Finance and the Ministry of Commerce.

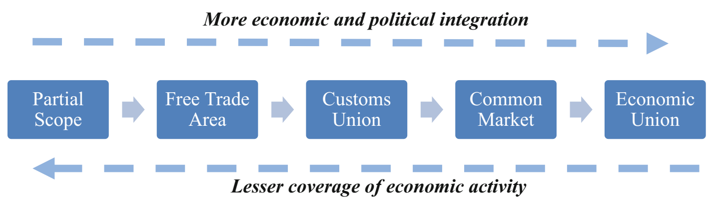


Fig. 9.1 Level of regional integration (Source: Author's own)

Since multilateral trading negotiations have been moving slowly, Myanmar officials consider that the regional trading system can bring a wide range of economic opportunities for Myanmar as well as precious resources and technology for the development of the country's trading infrastructure.[6] As a result, Myanmar has an active participation in ASEAN and ASEAN's FTAs with third countries (see Table 9.3). Myanmar is part of ongoing negotiation of BIMSTEC and RCEP. In parallel, Myanmar has received GSP (the EU and Norway) and GSTP (developing countries) benefits in recent years. Myanmar is also a member of SASEC and GMS, both were already made operational and driven by the ADB. Myanmar is a member of BCIM regional cooperation, which is still moving at Track II level. Myanmar has shown interests to join BBIN and SAARC.

2.2.1 ASEAN

Myanmar became an ASEAN member in 1997 and was its chair in 2014. ASEAN has been planning to realize an ASEAN Economic Community (AEC) by 2025. ASEAN aims to establish a single market and production base in the ASEAN region, with freer flow of goods, services, skilled labour, and capital. ASEAN currently has component agreements on goods (ATIGA), services (AFAS), and investment (ACIA).[7] Under the

Table 9.3 Myanmar's participation in regional blocks

RTAs		
List of RTAs in force	Negotiations on-going	Non-RTAs
ASEAN—Australia—New Zealand	BIMSTEC	BCIM
ASEAN—China	RCEP	SASEC
ASEAN—India		GMS
ASEAN—Japan		MGC
ASEAN—Korea, Republic of		BBIN[a]
ASEAN Free Trade Area (AFTA)		SAARC[a]
Global System of Trade Preferences among Developing Countries (GSTP)		

Source: Author's own
Note: [a]Proposed

ATIGA, ASEAN members are bound to apply a tariff rate of 0–5 per cent for goods originating within ASEAN, with flexibility granted to LDCs, including Myanmar. Noted in Myanmar's *Trade Policy Review*, Myanmar's average tariff under the ATIGA was 0.6 per cent in 2012.[8] The basic principle for granting origin status to a product is 40 per cent regional/local-content as Rules of Origin (RoO). Besides, Myanmar has introduced several trade facilitation measures, opened a Trade Portal, and ratified the WTO Trade Facilitation Agreement (TFA).

2.2.2 ASEAN RTAs

As an ASEAN member, Myanmar participates in ASEAN's preferential agreements with Australia and New Zealand, China, India, Japan, and Korea (see Table 9.4). Being a member of ASEAN, Myanmar, together with the other ASEAN members, is negotiating the Regional Comprehensive Economic Partnership (RCEP) with ASEAN FTA partners such as Australia, China, India, Japan, Korea, and New Zealand, which is likely to be concluded by 2017–18. The framework is to cover trade in goods, trade in services, investment, and economic and technical cooperation, competition, intellectual property, dispute settlement, and other issues.

2.2.3 BIMSTEC

The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) is a forum to facilitate and promote trade, investment, and technical cooperation among countries around the Bay of Bengal such as Bangladesh, Bhutan, India, Nepal, Sri Lanka, Myanmar, and Thailand. Myanmar joined the BIMSTEC on 22 December 1997. It has 14 broad sectors for cooperation. In 2004, BIMSTEC agreed to establish a BIMSTEC Free Trade Area and signed the Framework Agreement in goods, services, and investment. Article 3 of the Agreement provides that goods, except those included in the Negative List, will be subject to tariff reduction or elimination according to different time frames. Myanmar had tariff reductions and eliminations for its fast track products before June 2011, and the tariffs on its normal track products are to be

Table 9.4 Myanmar in RTAs

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

(*continued*)

Table 9.4 (continued)

ASEAN—India	
Type	Free Trade Agreement
Date of entry into force	1 January 2010 for Brunei Darussalam, Myanmar, and Vietnam
Transition for full implementation for Myanmar	2018–21
Coverage	Goods
WTO consideration status	Factual presentation not distributed
Myanmar's merchandise trade with India (2011–12)	3.6% of total imports; 11.4% of total exports
WTO document series	WT/COMTD/N/35, 23 August 2010
ASEAN—Japan	
Title	Agreement on Comprehensive Economic Partnership among Japan and Member States of ASEAN
Type	Free Trade Agreement
Date of entry into force	1 December 2008 (Singapore, Japan, Vietnam, the Lao PDR, and Myanmar)
Transition for full implementation for Myanmar	2026
Coverage	Goods
WTO consideration status	Factual presentation not distributed
Myanmar's merchandise trade with Japan (2011–12)	5.6% of total imports; 3.5% of total exports
WTO document series	WT/REG277/N1, 14 December 2009 and WT/REG277/N2, 27 July 2011
ASEAN—Korea	
Title	Agreement on Trade in Goods (under the 2005 Framework Agreement on Comprehensive Economic Cooperation among the Governments of the Republic of Korea and ASEAN)
Type	Free Trade Agreement & Economic Integration Agreement
Date of signature/entry into force	Goods: August 2006–January 2010 Services: November 2008–May 2009
Transition for full implementation for Myanmar	2018
Coverage	Goods and services
WTO consideration status	Factual presentation not distributed
Myanmar's merchandise trade with Korea (2011–12)	5% of total imports; 2.4% of total exports

(*continued*)

Table 9.4 (continued)

ASEAN—Korea	
WTO document series	WT/REG287/N/1; WT/COMTD/N/33; S/C/N/559; S/C/N/560, 8 July 2010. S/C/N/559/Add.1; S/C/N/560, Add.1, 3 May 2011

Source: Myanmar (2014)

reduced or eliminated before June 2017. The trade negotiation has been ongoing. Myanmar is central to BIMSTEC integration process. BIMSTEC has received renewed thrust in recent years, particularly from India, and aims to strengthen the economic integration through connectivity projects. BIMSTEC's potential in enhancing trade among member countries lies in geographical contiguity and common coastal link with the Bay of Bengal and the eastern coast of the Indian Ocean.[9]

2.2.4 GSTP

Global System of Trade Preferences (GSTP) among developing countries is a preferential trade agreement, which aims to increase trade among developing countries. Myanmar signed the GSTP in 1988, which entered into force on 19 April 1989.[10] Myanmar has received GSTP preferences from almost all the developing countries such as China and India.

2.2.5 GSP

Generalized System of Preferences (GSP) is a preferential tariff system among a group of countries which are also members of the WTO. Normally, preferences are extended to LDCs by developed countries and/or middle-to-high-income countries. Myanmar is a beneficiary of a number of GSP schemes, including those accorded by Australia, Belarus, Japan, New Zealand, the Russian Federation, Switzerland, and Turkey. The EU reinstated GSP treatment for Myanmar in July 2013, granting retrospective benefits to Myanmar's exports from June 2012. Norway reinstated GSP treatment in January 2012.

2.2.6 GMS

The Greater Mekong Sub-region (GMS) programme, driven by the Asian Development Bank (ADB), is one of the important subregional cooperation programmes in Asia. In 1992, Myanmar, together with Cambodia, Lao PDR, Thailand, Vietnam, and Yunnan Province of China,[11] launched the GMS programme to enhance economic linkages across their borders.[12] The GMS programme covers nine priority sectors including ambitious GMS economic corridor projects. Myanmar falls on the GMS East–West Economic Corridor.

2.2.7 Other Arrangements

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

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

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

Myanmar has shown interests to join BBIN and SAARC. To enhance bilateral trade with neighbouring countries, Myanmar has signed MoUs on establishing bilateral joint trade commissions with Bangladesh, India, Thailand, and Vietnam. Myanmar has 14 main border trade points with four neighbouring countries. Myanmar has signed border trade agreements with China, India, Bangladesh, Thailand, and Lao PDR, of which border trade with China and Thailand is very active.

3 Trends in Foreign Direct Investment Inflows

Foreign Direct Investment (FDI) is considered to be an important source for achieving greater and faster economic growth. The role of FDI in economic activities is more important since the multinational enterprises engage in various activities, including trade, in the FDI-recipient economies. Myanmar has been receiving an increasing amount of FDI in recent years, particularly 2010 onwards.[13] FDI inflow to the country increased from less than US$ 1 billion in 2010 to over US$ 4 billion in 2015 (see Fig. 9.2). The sharp rise in FDI inflow started in 2010 when Myanmar introduced the new FDI policy and new law to facilitate FDI in the country. Surge in FDI is an important development in Myanmar economy, indicating higher level of economic engagement with the world. Today, FDI inflows contribute to over 6.5 per cent to the country's GDP, which was even less than 2 per cent half a decade back (see Fig. 9.3).[14]

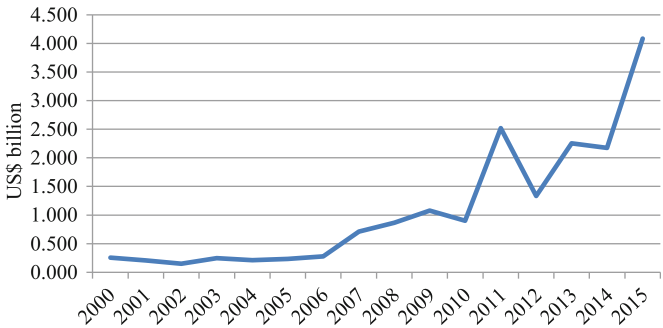


Fig. 9.2 Foreign direct investment, net inflows (BoP, current US$) (Source: World Development Indicators (WDI), the World Bank)

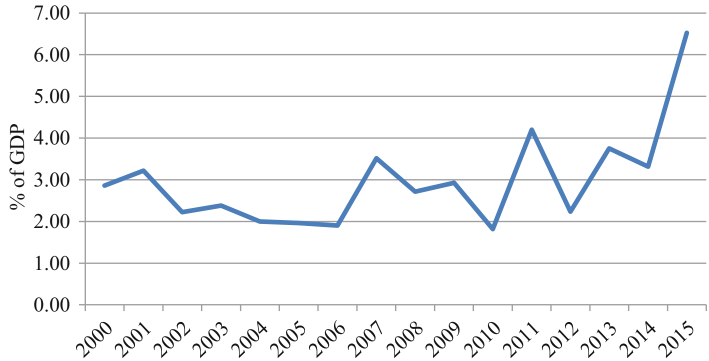


Fig. 9.3 Foreign direct investment, net inflows (% of GDP) (Source: World Development Indicators (WDI), the World Bank)

China has been the major investor in Myanmar, followed by Japan and Singapore. Table 9.5 illustrates the trends in FDI inflows to Myanmar and shares in Myanmar's total FDI inflow. The trend indicates that countries are cautious in investing in Myanmar in recent months due to change in certain policies and the uncertainties in the Myanmar Investment Commission (MIC).[15] As a result, FDI inflow, according to the *Directorate of Investment and Company Administration (DICA) Statistics*, to Myanmar has declined in 2016–17. As Myanmar starts taking reforms and strengthens the country's legal system, FDI inflow is likely to go up.[16]

The total amount of FDI from 1988 to 2016 has reached about US$ 65 billion, consisting mainly of manufacturing enterprises, with oil and gas companies bringing in one-third of total investment. However, 2010 was the turning point in Myanmar's FDI flow. Table 9.6 illustrates distribution of FDI flows during the period from 2010–11 to 2016–17. During the period from 2010–11 to 2016–17, the cumulative stock of FDI inflow was US$ 51.18 billion, wherein power, oil and gas, and transport and communication are the country's top three major sectors, which together have attracted over 75 per cent of total FDI inflows to the country. Next is the manufacturing sector, which has attracted US$ 5.78 billion FDI in the same period. Hotel and tourism, real estate, and mining are the most promising sectors in Myanmar; each of which has attracted over US$ 1 billion FDI during the period from 2010–11 to 2016–17.

Table 9.5 Trends in top 10 country-wise FDI inflows

Year	China	India	Japan	Malaysia	Korea	Singapore	Thailand	UK	Vietnam	Hong Kong	Total
	(US$ million)										
2010–11	8269.23	[a]	7.14	76.75	2676.4	226.17	2146	799	[a]	5798.28	19,998.97
2011–12	4345.73	73	4.32	51.86	25.57	[a]	[a]	99.83	18.15	[a]	4644.46
2012–13	231.77	11.5	54.06	4.32	37.94	418.23	1.3	232.7	329.39	84.84	1419.47
2013–14	56.16	26.04	55.71	616.11	81.21	2300.12	529.07	156.86	142	107.1	4107.06
2014–15	511.42	208.89	85.74	6.72	299.59	4297.19	165.68	850.76	175.4	625.56	8010.53
2015–16	3323.85	224.22	219.79	257.22	128.09	4246.88	236.17	75.31	4.68	224.67	9481.28
2016–17	447.4	[a]	51.07	10.18	25.8	2626.72	106.28	7.43	2.2	187.6	3521.52

	Share in total FDI inflow										
Year	China	India	Japan	Malaysia	Korea	Singapore	Thailand	UK	Vietnam	Hong Kong	Total (9)
	(%)										
2010–11	41.35	0	0.04	0.38	13.38	1.13	10.73	4	0	28.99	100
2011–12	21.73	0.37	0.02	0.26	0.13	0	0	0.5	0.09	0	23.09
2012–13	1.16	0.06	0.27	0.02	0.19	2.09	0.01	1.16	1.65	0.42	7.03
2013–14	0.28	0.13	0.28	3.08	0.41	11.5	2.65	0.78	0.71	0.54	20.35
2014–15	2.56	1.04	0.43	0.03	1.5	21.49	0.83	4.25	0.88	3.13	36.14
2015–16	16.62	1.12	1.1	1.29	0.64	21.24	1.18	0.38	0.02	1.12	44.71
2016–17	2.24	0	0.26	0.05	0.13	13.13	0.53	0.04	0.01	0.94	17.32

Source: Directorate of Investment and Company Administration, available at http://www.dica.gov.mm/en/data-and-statistics
Note: [a]Zero or negligible FDI inflow

Table 9.6 Distribution of FDI flows, 2010–11 to 2016–17 (US$ million)

Sector	2010–11	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17[a]	Total (2010–11 to 2016–17)	Share[b] (2010–11 to 2016–17) (%)
Agriculture	138.75		9.65	20.27	39.67	7.18		215.52	0.42
Livestock and fisheries			5.6	96.02	26.86	8.25	86.69	223.42	0.44
Mining	1396.08	19.9	15.33	32.73	6.26	28.92		1499.22	2.93
Manufacturing	66.32	32.25	400.72	1826.98	1502.01	1065	883.14	5776.42	11.29
Power	8218.52	4343.98	364.2	46.51	40.11	360.1	605.67	13,979.09	27.31
Oil and gas	10,179.3	247.7	309.2		3220.31	4817.79		18,774.29	36.68
Construction									
Transport and communication		0.63		1190.23	1679.3	1931	1628.87	6430.04	12.56
Hotel and tourism			300	435.21	357.95	288.4	97.23	1478.78	2.89
Real estate				440.57	780.75	728.68	165	2115	4.13
Industrial estate						10		10	0.02
Other services			14.77	18.53	357.32	235.96	54.92	681.51	1.33
Total	**19,998.97**	**4644.46**	**1419.47**	**4107.06**	**8010.53**	**9481.28**	**3521.52**	**51,183.28**	100

Source: Directorate of Investment and Company Administration (DICA).
Note: [a]Till December 2016
[b]Share in total FDI flows during the period 2010–11 to 2016–17. An empty cell means no FDI

FDI inflows in an increasing order in Myanmar's infrastructure sector may generate higher growth in the medium to long run. Although FDI flow depends largely on country-specific factors, Myanmar at the present does not show an optimistic scenario in FDI inflow which can generate higher growth. For example, the physical infrastructure sector (constriction plus transport and communication plus industrial estates) has received only US$ 6.5 billion FDI, out of a total US$ 51.18 billion during the period 2009–10 to 2016–17. Apparently, the bulk of the FDI went into export-seeking sectors in Myanmar. For example, the oil and gas and power sectors have attracted over 60 per cent of FDI stock in Myanmar, where most of oil and gas actually have been exported to China and Thailand. Infrastructure development is crucial for Myanmar's trade and growth. Channelizing FDI into the infrastructure sector would pave the way for higher trade and growth in the country.

3.1 Current Developments in FDI Policy

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

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

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

Myanmar's legal framework has to be consistent with international standards, which has been again revolving on continuous basis. Some important laws such as the Foreign Investment Law, the Myanmar Companies Act, and the IP regulations are still in the pipeline. To facilitate and sustain the FDI trends, Myanmar has to revise the Companies Act on an urgent basis. Myanmar does not allow foreign companies in having stakes in existing domestic businesses, but the revision in the Companies Act is expected to allow foreign ownership in some companies. The government is considering setting the upper limit of foreign stakes at 35 per cent.[17] The government may allow foreign investors to trade on the Yangon Stock Exchange (YSE).

3.2 BIAs and DTAs

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

Table 9.7 BIAs and DTAAs

Bilateral Investment Agreement (BIA)		
Country/region	Date of signature	Date of entry into force
Philippines	17.02.1998	11.09.1998
Vietnam	15.02.2000	–
China	12.12.2001	21.05.2002
Lao PDR	05.05.2003	–
Thailand	14.03.2008	–
India	24.06.2008	08.02.2009
Kuwait	06.08.2008	–

Double-Taxation Avoidance Agreement (DTAA)	
Country/region	Date of entry into force
United Kingdom	1/10/1948
Vietnam	1/4/2004
Republic of Korea	1/4/2004
Malaysia	1/4/2009
India	1/4/2009
Singapore	1/4/2010
Lao PDR	1/4/2011
Thailand	1/4/2012

Source: Myanmar (2014)
Note: –, Not yet in force

Philippines, China, Lao PDR, Vietnam, Thailand, and India. Myanmar has concluded several BIAs and DTAAs till 2016 (see Table 9.7).

4 Conclusions and Policy Implications

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

Launching AEC in 2015 and the GSP and GSTP benefits have improved the investor sentiments on Myanmar. There is a huge scope for Myanmar to take part in value-added trade with the neighbouring countries. The potential sectors of investment would be transportation, energy, information and communication technology, agriculture, horticulture, climate protection, tourism, and manufacturing such as automobiles, capital goods and electronics and electrical products, and services industries such as shipping, education, and tourism.

The investment environment in Myanmar continues to improve, undoubtedly. However, the current flow is rather skewed towards export-seeking sectors rather than infrastructure. Nevertheless, FDI can be an important source of valuable technology and know-how. Several companies are now planning to expand their presence in Myanmar. Several SEZs and industrial zones are under development in the country. A supportive FDI environment is, therefore, needed for development of physical infrastructure and global (or regional) value chains in the country. In view of Myanmar's ongoing efforts to modernize its legal framework, it seems very likely that this trend will continue going forward. The outlook for foreign investors seeking to expand into Myanmar is therefore promising.

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

Myanmar offers high trade and investment opportunities. Myanmar may consider promoting trade in its respective regions and also with other regions through harmonization of non-tariff measures, trade and investment facilitation measures, etc. Besides, Myanmar should focus on strengthening trade and economic relations with emerging markets of the world such as BRICS. Investment facilitation should be taken up upfront, which would help building the needed infrastructure. It shall focus on strengthening physical and digital connectivity with the countries in ASEAN and the Bay of Bengal.

Myanmar is vulnerable to natural disaster. Natural disaster covers a wide range of events such as earthquakes, floods, landslides, cyclones, tsunamis, and heat waves. In 2004, tsunami in the Indian Ocean devastated several countries in the region including Myanmar, and cyclone Nargis in 2008 had devastated Myanmar. Disasters particularly affect the poorest and most marginalized people, widening social inequalities and harming economic growth. Therefore, ignoring the disaster risk and allowing the risk to accumulate would have an undermining effect on its own future potential for social and economic development in Myanmar. Greater regional cooperation will help Myanmar to gain precious resources for disaster management.

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

Myanmar has the potential to become another dynamic growth centre of Asia if it builds a strong pool of skilled human resources, besides developing a stronger and improved connectivity with the neighbouring countries. Strengthening the human resources would speed up its growth process. Myanmar has some of Asia's pioneering institutions and universities. However, to support the country's participation in international and regional forums, policy research, capacity building, and training are prerequisites. At the same time, skills and technology sharing in Myanmar would promote trade and economic development. If co-manufacturing has to take place in Myanmar, Myanmar needs to match the skill as an essential requirement.

For Myanmar to grow fast in regional integration front, it has to first strengthen national integration. Myanmar is highly heterogeneous and diversified in terms of ethnicity and culture. Harnessing the diversity would help Myanmar to build a stronger partnership with the neighbours. Aid may not necessarily build Myanmar. Myanmar has to build its own economy through its own resources. Further expansion of trade and FDI is necessary to promote economic growth in Myanmar.

Notes

1. Asian Development Bank (ADB 2012a).
2. Infrastructure and growth are positively associated. Refer, for example, Straub and Terada-Hagiwara (2010).
3. According to the WTO, available at https://www.wto.org/english/tratop_e/region_e/region_e.htm
4. Ibid.
5. Refer, Myanmar's Trade Policy Review submitted to the WTO dated 12 May 2014. Refer, for example, Myanmar (2014).
6. Based on author's own discussion with Mr. Yan Naing Tun, Director General, Myanmar Ministry of Commerce at Yangon on 9 May 2016. Refer, De (2016).
7. There are also ASEAN framework agreements on the facilitation of goods in transit (AFAGIT), and the Facilitation of Inter-State Transport (AFAFIST), among others.

8. Refer, Myanmar (2014).
9. According to one estimate, once full FTA is in effect in 2017, the intra-regional trade would be scaled up to US$ 47–59 billion annually.
10. See, WTO's RTA database, available at www.wto.org
11. Guangxi Zhuang Autonomous Region of China joined the GMS programme in 2004.
12. Refer, ADB (2012b).
13. Foreign direct investment refers to direct investment equity flows in the reporting economy. It is the sum of equity capital, reinvestment of earnings, and other capital. Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. Ownership of 10 per cent or more of the ordinary shares of voting stock is the criterion for determining the existence of a direct investment relationship (World Bank 2017).
14. In comparison, FDI contribution to GDP in India, China, and Thailand has been an average 2 in 2014 and 2015 (World Bank 2017).
15. Refer, https://www.ft.com/content/f7bda5bc-e150-11e6-8405-9e5580d6e5fb
16. Refer, the recent commentary of Oxford Business Group, available at https://www.oxfordbusinessgroup.com/overview/letter-legal-overview-climate-foreign-investment
17. Author's own discussion with bank executives in Yangon in December 2016.

References

ADB. (2012a). *Myanmar in Transition Opportunities and Challenges*. Manila: Asian Development Bank (ADB).

ADB. (2012b). *GMS Strategy and Future Directions*. Manila: Asian Development Bank (ADB). Available at https://www.adb.org/countries/gms/strategy

Ballassa, B. (1961). *The Theory of Economic Integration*. New York: Greenwood Press.

De, P. (2016, May 9–11). *Myanmar in Regional and Subregional Initiatives*. Paper Presented at the Fifth Training Workshop on "Regional Cooperation and Integration in Myanmar", Organised by Research and Information System for Developing Countries (RIS), New Delhi, held at Yangon.

Myanmar. (2014). *Trade Policy Review* (Document No. WT/TPR/S/293/Rev.1). Geneva: World Trade Organisation (WTO).

Straub, S., & Terada-Hagiwara, A. (2010). *Infrastructure and Growth in Developing Asia* (ADB Economics Working Paper Series No. 231). Manila: Asian Development Bank (ADB).

Viner, J. (1950). *The Customs Union Issue*. New York: Carnegie Endowment for International Peace.

World Bank. (2017). *World Development Indicator (WDI)*. Washington, DC: World Bank.

10

ASEAN Economic Community and Preparedness of Myanmar's Services Sector: Case of Telecommunications Services

Cho Cho Thein and Tha Pye Nyo

1 Introduction

ASEAN aims to establish ASEAN Economic Community (AEC) by 2025. AEC means a single market and production base which will cover free flow of goods, services, investment and skilled labour. ASEAN countries have embarked upon economic reforms and liberalization of trade in services. Services market integration is important to strengthen the value chains, not only in services but also in goods. Therefore, services sector offers a number of beneficial effects on all economies. Among the services, telecommunications service is crucial for almost all other sectors of the economy.

C.C. Thein (✉)
Department of Applied Economics, Yangon University of Economics (YUE), Yangon, Myanmar

T.P. Nyo
Department of Economics, Meiktila University of Economics (MUE), Yangon, Myanmar

P. De, A. Raychaudhuri (eds.), *Myanmar's Integration with the World*,
DOI 10.1007/978-981-10-5134-0_10

Myanmar has moved from central planning regime to a market-oriented economy since 1988. Economic transition in Myanmar has witnessed encouraging development only after March 2011 (Corbett 2008; Fujita et al. 2009; Chessman et al. 2012; Lim and Yamada 2012). Since the commencement of mobile telecommunication in Myanmar, state-owned Myanmar Post and Telecommunication (MPT) had served as the only mobile operator across the whole country till 2013. Therefore, the government has opened up the sector for private sector operators. According to the International Telecommunication Union (ITU) Report, 2011, Myanmar had an internet penetration rate of only 0.98 per cent and just 1.3 million mobile phone subscribers (2.3 per cent of the total population) in 2010. After initiating the telecommunication sector reform in the late 2012, Myanmar's telecom sector has substantially changed. Two foreign operators have started provided services. This has given a boost to the telecom sector in Myanmar, and now, according to the official data,[1] the number of mobile telephone subscribers is about 43 million, with tele-density of 85.9 per cent.

In view of the above, this study is intended to review public policy reforms for state-owned enterprises in Myanmar. This study has been motivated by several studies carried out in past such as Thein (2004), Nordås et al. (2014), Soe Soe Naing (2012). It also aims to compare the services trade liberalization in Myanmar along the AEC Blueprint, and evaluate the current status and the progress of trade in services in Myanmar. In addition, this chapter examines service sector development in Myanmar, with particular reference to the telecommunications sector. Under the AEC, free flow of trade in services is one of the important components of regional integration. AEC aims to remove substantially all restrictions on trade in services. Therefore, this chapter studies preparedness of Myanmar's services sector for AEC. This chapter is based on interviews with representatives from the private as well as public sectors. Interviews were held with key informants and stakeholders of the telecommunication sector, and the information was gathered through questionnaires and focus group discussions.

This research intends to provide important implications to policymakers in Myanmar in the following ways: (i) identify the international services trade liberalization in ASEAN economies along the AEC Blueprint, (ii) highlight current and potential future trends of the trade in services especially in the telecommunications sector and (iii) consider how regulatory policy has shaped the stakeholders of the telecommunications sector and to assess policy areas and measures.

2 AEC and Its Implications for Services Sector

2.1 An Overview of AEC Blueprint

The AEC is a highly valuable yet ambitious policy goal, aiming at a single market and production base that will be a region of equitable development and will be competitive internationally and will be fully integrated into the global economy.[2] The leaders of the 10 ASEAN member states (AMSs) had made a commitment to establish an AEC by 2015 as a realization of the end goal of economic integration as supported in the vision 2020. While the AEC has been set up on a smaller scale, the new target year has been fixed at 2025. AEC will convert ASEAN to a single market and production base making it a more dynamic and competitive region with new mechanisms and measures to strengthen the implementation of its existing economic initiatives; accelerating regional integration in the priority sectors; facilitating movement of business persons, skilled labour and talents; and strengthening the institutional mechanisms of ASEAN.

At the same time, the Initiative for ASEAN Integration (IAI) and other regional initiatives aim to address the development divide and accelerate integration of the developing economies of ASEAN, viz. Cambodia, Lao PDR, Myanmar and Vietnam (CLMV). Other areas of cooperation are also to be included such as human resources development and capacity building, recognition of professional qualifications, closer consultation on macroeconomic and financial policies, trade financing measures, enhanced infrastructure and communications connectivity, development of electronic transactions through e-ASEAN, integrating industries across the region to promote regional sourcing and enhancing private sector involvement for the building of the AEC.

The ASEAN Charter and associated ASEAN Blueprint were endorsed in 2007. The AEC envisages ASEAN as an economic community based on the following key characteristics: (a) a single market and production base, (b) a highly competitive economic region, (c) a region of equitable economic development, and (d) a region fully integrated into the global economy. They are inter-related and mutually reinforcing. Incorporating the required elements of each characteristic in one Blueprint shall ensure the consistency and coherence of these elements as well as their implementation and proper coordination among relevant stakeholders. AEC involves progress in implementation of reform measures. These cover measures related to free flow of goods, free flow of services, free flow of investment, freer flow of capital and “hard and soft” transport and infrastructure development. An AEC “Scorecard” is used by the ASEAN members to assess their progress and identify issues for remedial attention.

The AEC free flow of services includes the removal of restrictions on trade in services. By the end of 2013 restrictions were to be removed from priority sectors such as air transport, e-ASEAN, healthcare, tourism and logistics services. By the end of 2015, all restriction for all services sectors have to be removed substantially. The aim is to gradually allow foreign (ASEAN) equity participation of 70 per cent for all service sectors by 2015. The telecommunications sector is viewed as an enhancing element among various measures for ASEAN countries under AEC Blueprint.

ASEAN economic integration has significantly affected the telecommunications sector of all ASEAN countries. Participation of foreign investors in the telecommunications sector has made the telecommunications market in Southeast Asia more dynamic and competitive than ever before. In 2013, ASEAN Telecommunications and IT Ministers (TELMIN) adopted an action agenda to exploit technological advances in Information and Communications Technology (ICT) to create digital opportunities for ASEAN and to enhance ASEAN’s overall competitiveness. The Telecommunications Senior Officials Meeting (TELSOM) Working Groups are carrying out the key roles to develop, strengthen and enhance the competitiveness of the ICT sector; to provide a mechanism to promote participation from the private or business sector; to promote cooperation between the public and private sectors and to develop ASEAN Information Infrastructure.

AMS have signed a number of agreements and declarations relevant to telecommunications services. Among these are the e-ASEAN Framework Agreement, The Vientiane Action Programme on Telecommunications and IT sector, The ASEAN Sectoral Integration Protocol for e-ASEAN and the Brunei Action Plan "Enhancing ICT Competitiveness: Capacity Building". The ASEAN ICT Master Plan was launched in the 10th ASEAN TELMIN in 2011. The objective is to strengthen the ICT sector in the region and to determine direction in which the sector shall be further developed. The Master Plan laid out a vision towards empowering and transforming ICT by creating an inclusive, vibrant and integrated ASEAN. The ASEAN ICT Master Plan aims to achieve four objectives: (i) make ICT an engine of growth for ASEAN countries, (ii) make ASEAN a global ICT hub, (iii) enhance quality of life of peoples of ASEAN and (iv) enable ICT to contribute to ASEAN integration. It has laid out six factors to achieve the objectives, viz. (i) economic transformation, (ii) people empowerment, (iii) innovation, (iv) infrastructure development, (v) human capital development and (vi) bridging the digital divide.

ASEAN has concluded three packages of services commitments since January 1, 1996. These packages, signed by the ASEAN Economic Ministers (AEMs), provide for details of commitments from each ASEAN country to the others in the following services sectors: air transport, business services, IT services, construction services, financial services, maritime transport services, telecommunication and tourism. These commitments are intended to be beyond the services commitments made by ASEAN countries at the World Trade Organization (WTO) through General Agreement on Trade in Services (GATS).

2.2 Myanmar's Commitment Under AEC and Implementation Status

Being a member of ASEAN, Myanmar has made commitment to facilitate setting up of the AEC and to actively participate and coordinate with other member countries. Recently, there have been many witnesses to a series of positive changes in Myanmar. Under the AEC Blueprint, Myanmar has a mandate to implement a number of policy reforms such as the ASEAN Trade in Goods Agreement (ATIGA), investment liberalization and facilitation as set forth under the ASEAN Comprehensive Investment Agreement (ACIA), services liberalization to comply with the terms of ASEAN Framework Agreement on Services (AFAS), infrastructure development in support of projects such as the ASEAN Highway Network (AHN) and Singapore-Kunming Rail Link (SKRL).

Recognizing the growing importance of trade in services, Myanmar launched efforts to work towards freer flow of trade in services within ASEAN through the signing of AFAS. AFAS is aimed at substantially eliminating restrictions to trade in services among ASEAN countries in order to improve the efficiency and competitiveness of ASEAN services suppliers. Under the AFAS and AEC blueprint, Myanmar has to improve market access and ensure equal national treatment for services suppliers among ASEAN countries in all four modes of services delivery.

AFAS has followed the classification of GATS. The GATS follows liberalization based on a positive list approach. WTO member countries have agreed commitments for improved market access. Commitments include the removal of general barriers to market access. It also offers national treatment to foreigners. To implement the services trade liberalization, ASEAN has opted the ASEAN-X formula, where countries may agree to initiate services trade liberalization when they are ready to liberalize without having to extend liberalization to non-participating countries.

Since services liberalization is another core element to achieve, with a single market and production base as envisaged in the AEC Blueprint the proportion of value added and employment generated from the services sector tends to increase in line with the growth of economy. Therefore, the development of the services sector itself is highly important to the economic development of a country. In addition, the services sector has been gaining importance as a provider of indispensable inputs for the manufacturing sector and others. Telecommunications, finance and logistics services are typical examples of such contributions. As many services sectors involve high fixed costs, it is practical for lagging behind economies, including Myanmar, to utilize services available in the world market. For this purpose, services liberalization is a crucial step, as is the case with trade liberalization serving to promote industrial development (Kulasekera 2011; Than 2007; Thein 2014).

As per the AEC Blueprint all restrictions were to be removed by 2010 in four priority services sectors, namely, air transport, e-ASEAN, healthcare and tourism. Regarding logistics services, the fifth priority service sector, the target year of liberalization was set to 2013. In addition, financial services, which is under the purview of ASEAN Finance Ministers, is regarded as another key services sector.

Several rounds of services trade negotiations were held in the past. In addition, the AEC Blueprint had set the minimum number of new sub-sectors to be included for each round; 10 in 2008, 15 in 2010, 20 in 2012, 20 in 2014 and 7 in 2015, respectively, based on the classification of GATS. Outcomes of the rounds of negotiation are packages of commitments: (i) eliminate all restrictions for modes 1 and 2,[3] except for bona fide regulatory reasons (such as public safety); (ii) allow for other AMS' equity participation of not less than 51 per cent by 2008, and 70 per cent by 2010 for the four priority services sectors, not less than 49 per cent by 2008, 51 per cent by 2010, and 70 per cent by 2013 for logistics services, and not less than 49 per cent by 2008, 51 per cent by 2010, and 70 per cent by 2015 for other services sectors and (iii) progressively remove other mode 3 market access limitations by 2015.[4] According to the observation of ERIA on the countries' commitments for AFAS, Myanmar is an average performer, having the largest degree of commitments in computer and related services (ICT), courier services, social services, hotels and restaurants.[5]

3 Contribution of Service Sector to Myanmar Economy

Remarkable changes in Myanmar's economy have been witnessed after the new government took office in 2011. Instantly, the new government of Myanmar implemented important reforms for the economy. The reforms undertaken in Myanmar in recent times have been obvious and significant progress has been achieved mainly in terms of modernizing the banking and telecommunications systems.

Though Myanmar still depends on the agriculture sector which comprised over 50 per cent of GDP in early 2000s, it gradually decreased to 28 per cent of GDP in 2014–2015. On the other hand, the share of manufacturing sector in GDP has been significantly increasing from 17.51 per cent in 2005–2006 to 34.5 per cent of GDP in 2014–2015.

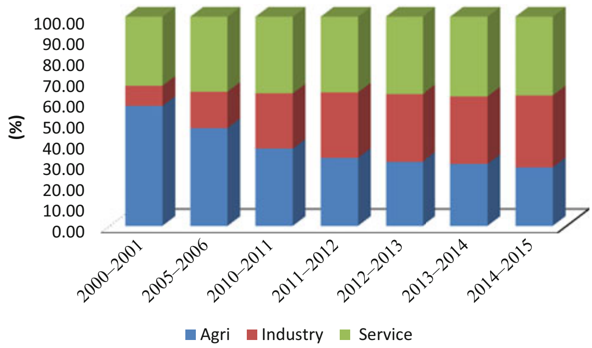
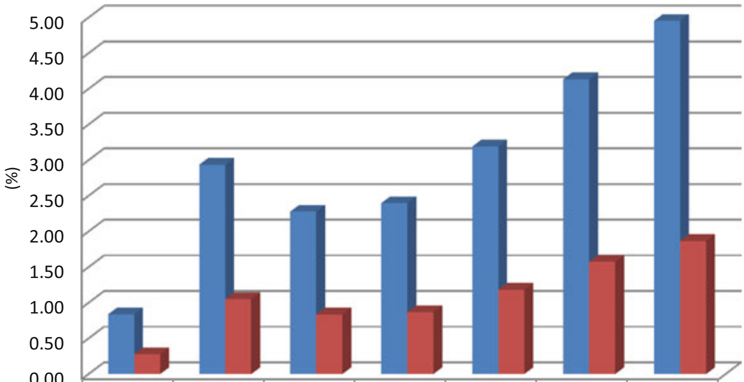


Fig. 10.1 Sectoral share in GDP of Myanmar (%) (Source: Data from Statistical Year Book 2015, Ministry of Planning and Finance)

Share of the service sector has also increased from 35.8 per cent in 2005–2006 to 37.7 per cent of GDP in 2014–2015 (Fig. 10.1). It is mainly due to the liberalization measures in service sector particularly in the banking and telecommunications sectors especially due to the entrance of two giant international mobile operators in mobile telecom market since 2013.

In addition, the approval of the Foreign Investment Law (FIL) in November 2012 has paved the way for attracting foreign investments in various sectors including infrastructure, telecommunications, energy and manufacturing. FIL allows for up to 100 per cent foreign ownership with the exception of special restrictions in sectors such as agriculture, livestock breeding and fisheries. Opening up the telecommunications sector and awarding of telecommunications licenses to two international mobile network operators under the New Telecommunications Law brought significant impact to Myanmar's economic development as well as welfare to the citizens. The contribution of telecommunications sector in GDP and in services sector increased from 0.84 per cent in 2010–2011 to 1.87 per cent in 2014–2015 and 2.28 per cent in 2010–2011 to 4.95 per cent in 2014–2015, respectively. It is apparent that after 2012–2013, the contribution of telecommunications sector in GDP and service has been increasing (Fig. 10.2). Thus, development of the service sector is largely contributed by the growth of the telecommunications sector.



	2000-2001	2005-2006	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
share in Service(%)	0.84	2.94	2.28	2.40	3.19	4.13	4.95
Share in GDP (%)	0.28	1.05	0.84	0.87	1.18	1.58	1.87

Fig. 10.2 Contribution of telecommunications sector in GDP of Myanmar (Source: Data from Statistical Year Book 2015, Ministry of Planning and Finance)

4 Overview of the Liberalization of Telecommunication Sector

4.1 Regulatory Reforms

Telecommunications is one of the fastest growing and lucrative industries globally. Myanmar's telecom sector has unique characteristics for investment opportunities as it demands products and services for a large market. Previously, Myanmar telecommunications sector had monopoly of the state-owned enterprise (Ministry of Communications, Posts and Telegraph, MCPT). As a result there was only one telecom operator in Myanmar—MPT. In order to undertake the various functions, MCPT was organized into two departments: Posts and Telecommunications Department (PTD) and MPT. The regulatory body of MCPT is PTD, which undertakes radio frequency assignment, monitoring, standardization and licensing of telecommunications equipment and international cooperation. MCPT has acted for many years as Myanmar's telecommunication regulator and owns the primary telecommunications operator

MPT. The three main categories of services rendered by MPT are the postal services, telegraph services and telephone services, for both domestic and international communications. Mobile telecommunications in Myanmar commenced in early 1990. MPT has been serving as the sole mobile operator in the country.

The MCPT was renamed as the Ministry of Communications and Information Technology (MCIT) under order No. (83/2012). MCIT is the overseeing authority under which the regulator, the PTD and operators are organized. State-owned MPT is the main telecommunications operator in the country. Yatanarpon Teleport (YTP), a joint venture between local private companies and the government, is primarily an internet service provider (ISP). PTD is Myanmar's Telecom Regulator under the MCIT. Basically, PTD's function as a regulator is to support the Ministry in its policy-making functions and to provide regulatory and legal support to the Ministry.[6] After taking over of the State Power by National League for Democracy (NLD) party in 2016, Ministry was renamed as the Ministry of Transport and Communications (MOCT) and the sector was restructured.

The 1990s saw global pursuance of telecom liberalization and regulatory reforms that were complementary to any technology led reform since the beginning of the century and Myanmar was the exception. The two critical outputs in the telecommunication reform were reduced state intervention in managing their telecommunication sector and competition which is safeguarded by regulation through the creation of a regulator. In most countries, the telecom reform measures have been started due to the following factors[7]:

- revolution in telecommunication technology,
- technological change and urgent need to attract financial investment in this sector, and
- the inefficiency of the monopoly operator which is the main motivation for the reform.

Recognizing the telecom market growth potential, the Government of Myanmar attempts to transform MPT into a *corporate entity* that will be independent of government funding. In addition, private sector participation in telecommunications development is expected to expand and improve services, create incentives for efficiency and reduce the burden on sustained public resources. Privatization in telecommunications can positively affect the economy in the following ways: reduce the cost of production and increase revenue and employment directly and indirectly. The reform of Myanmar's telecommunications sector is an integral part of lifting millions of people out of poverty. Even though Myanmar had previously one of the lowest rates of telecommunications and internet access in the world and the vast majority of people face high costs as well as poor service, Myanmar's mobile market has experienced very strong growth from 2010 to 2016. Penetration has increased from 0.2 per cent in 2010 to 19.3 per cent by 2016.[8] According to the report of BMI research,[9] Myanmar was once the lowest mobile subscribers among CLM in 2013 but it significantly changed in the recent times. The number of mobile subscribers increased dramatically after the two international service providers entered the Myanmar mobile market in the late 2013 (Fig. 10.3). Accordingly, the rate of growth of mobile subscribers in Myanmar is forecasted to have an upward trend.

The government has already taken steps to reform the telecommunications sector and laid down the policy framework for the development of the county's telecommunications, and ICT industry by facilitating competition of both local and international operators in the sector. MCIT has laid down *Telecom policy*[10] to:

- increase the deployment of national telecommunications infrastructure;
- provide a financially viable telecommunications sector conductive to sustainable investment in telecommunications infrastructure;
- improve the efficiency and effectiveness of telecommunications service delivery to end users;
- provide telecommunication services at affordable prices; and
- fulfill universal services obligation to the people of Myanmar.

On lines of the motto of MICT "*Communications for Everyone; Everywhere*" the government is striving for communication sector development and adopted the following policy framework in 2012[11]:

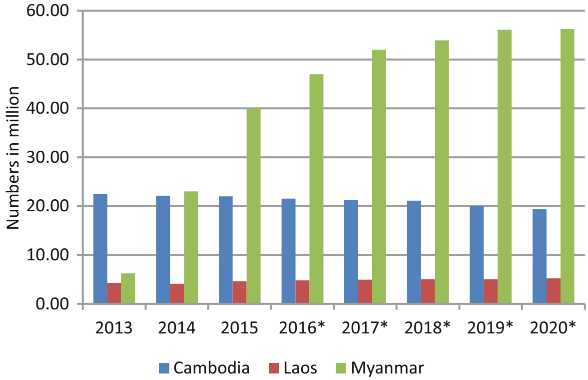


Fig. 10.3 Trends in mobile phone in CLM (* Forecast) (Source: Cambodia-Laos-and-Myanmar Telecommunications Report)

(i) Amending, drafting or enacting the laws and statutes which are currently practiced with regard to Posts, Telegraphs and Telecommunications in conformity with the current age and system.
(ii) Allowing the local and foreign companies to invest in the forms of Public–Private–Partnership (PPP) for the processes of building infrastructure of Posts, Telegraphs and Telecommunications, and the production of communication equipment as well as allowing participation by private sector and investment in the communication service providing processes.
(iii) Looking for the ways of getting international investments to make the communication service industry come up to the standard of international norms as the one which has more choice to users and promote competitions.
(iv) Facilitating competition of both local and international operators in the sector by inviting tender to award two nationwide telecommunications service licenses.
(v) Installing mobile phones in conformity with international standards by lowering price by steps for users and to provide rural people access to mobile phone.
(vi) Improving the service quality of domestic and foreign postal services by: (a) using ICT, (b) utilizing modern equipment,

(c) cooperating with private sector for domestic postal services and
(d) founding public–private joint venture companies.

(vii) Improvising opportunities of investments fairly and equally for local investors as well as foreign investors in the communication equipment production sector.
(viii) Providing telegraph services to complement ICT as a reserve communication system for the under developed regions.
(ix) Advancing the Telecommunication and Postal Training Centre to train and produce skilled personnel.
(x) Implementing the e-Government system beginning from Mandalay Region for the government units in regional and district levels to connect among themselves as well as with the Union Government Offices.

In addition to the policies adopted, there are also objections for communication sector development in Myanmar. The short run objectives are as follows:

(i) To increase the overall tele-density of the country from 10 per cent in 2012–2013 to 70–75 per cent in 2015–2016 and to make available for people to choose their telecommunications services and providers and use freely communication and internet services.
(ii) To make the telecommunications services available not only for urban areas but also for rural areas and to increase the mobile phone density to 75–80 per cent and internet penetration by 50 per cent by 2015–2016.

The processes and plans currently being implemented in communication sector of Myanmar are as follows:

(i) In 2012–2013, the installation of GSM/UMTS mobile telephones was extended with the investment contributions by domestic private businessmen. In 2012–2013, there was bidding for consultancy firms to help organize a planned telecom bidding process for choosing two separate operators which may have to compete with MPT and YTP.

(ii) Transformation of YTP, which has both state and private sharing of 51 per cent and 49 per cent, respectively.

(iii) In 2013–2014, GSM/UMTS mobile telephone installations were implemented with the foreign aid and loans, and by getting the world's best technologies.

(iv) The two new operators which are awarded mobile phone service licenses are allowing operation of their services by competition in accordance with laws and statutes.

(v) For implementing the e-Government system beginning from Mandalay Region, the equipment and materials are purchased and the budget for those is to be submitted annually. The pre-training is also undertaken.

Myanmar government undertook major changes in telecommunications sector in 2012 and 2013. The government liberalized the market and took the decision very fast. The initial round of reforms were issuing of a series of new telecom operating licenses, and allowing multinationals to form joint ventures with the government to build infrastructure and to offer services. In October 2013, the Telecommunications Law was approved. Being part of legal reforms, the government enacted the following laws and rules[12]:

- Telecommunications Law in 2013
- Electronic Transaction Law (2004) was modified in 2014
- Licensing Rules in 2015
- Interconnection and Access Rules in 2015
- Competition Rules in 2015
- Numbering Rules in 2015
- Spectrum Rules in 2016

PTD is also known as a regulator for telecom and posts sector. Since April 2015, the MCIT has embarked on a process to develop a Telecommunications Master Plan for Myanmar. In order to do so, the Ministry has taken into confidence various stakeholders such as the industry, the regulator, ICT-focused agencies, civil society organizations and the general public. This Master Plan is the first telecommunication policy statement for Myanmar. The Master Plan Framework has been used as a guiding post by the Ministry to pinpoint the key areas and sectors of intervention. The Master Plan, therefore, has a key objective to create a national broadband infrastructure asset. The Ministry sees this as an opportunity to provide easy access to the internet for the majority of people as well as integrate different types of network and services.

4.2 Evolution of Telecom Services

Mobile telecommunication was introduced in 1993 in Myanmar. The sole operator for mobile services was MPT. Though MPT chose the cellular mobile phone system (Analogue APMS 800) for the mobile telecommunication at first, other mobile network systems such as GSM, CDMA and WCDMA were also introduced to mobile communication network, respectively. Accordingly, GSM (900 MHz) was launched in 2002 and CDMA networks (800 MHz and 450 MHz) launched, respectively, in 1999 and 2008, and 3G (WCDMA 2100 MHz) was also introduced in 2008. The types of systems launched in Myanmar are listed in Table 10.1.

In the early period, the SIM card or the first time charge for a mobile phone was 500,000 MMK, which was about US$ 4000 at that time.[13] As it was very high, only a handful of people could have access to mobile phone in the country. In 1996, the digital AMPS cellular system was introduced. Then the SIM card or mobile phone initial charge was increased to 1,500,000 MMK. But, as the mobile phones were distributed in small quantity, only some elites and privileged people could have access to mobile phones. The price of mobile SIM cards from outside sources was between 4 and 5 million MMK, which was much more expensive than original prices. As a result, ordinary people were frustrated and fed up with the situation of mobile phone as the price was sky high; ordinary people could not even dream of owning one. Meanwhile, mobile telecommunication in neighbouring countries was far better than in

Table 10.1 Types of mobile telephones in Myanmar (2013–2014)

Sr. no.	Name	MHz	Digits
1	GSM		7 digits
2	GSM		8 digits
3	GSM		9 digits
4	CDMA	800 MHz	7 digits
5	CDMA	800 MHz	8 digits
6	WCDMA	2100 MHz	7 digits
7	WCDMA	2100 MHz	9 digits
8	WLL		
9	CDMA	450 MHz	7 digits
10	CDMA	450 MHz	8 digits
11	CDMA mobile telephone (restricted)		
12	CDMA fixed telephone	800 MHz	

Source: Myanmar Telephone Directory 2014

Myanmar and in those countries mobile phones were widely used among the ordinary people. Mobile phone was indeed an important communication tool for the people in those countries and it became part of daily life. In 2013, MPT reduced SIM card's cost to 1500 Kyat (about over US$ 1) for easier access to mobile telecommunication services to all people.

The government also opened internal telecommunication market to international mobile operators with the aim of enhancing mobile telecommunication access in Myanmar. The government later awarded mobile operator licenses to two international mobile operators: Telenor from Norway and Ooredoo from Qatar. Two local mobile operators, MPT and Yatanarpon Teleport, were awarded the licenses as well. After being awarded the mobile operator licenses, Telenor and Ooredoo have been implementing their respective work to catch up with the schedule. Both operators have committed to connecting 90 per cent of Myanmar within the next five years. They have been building their own mobile infrastructure needed for covering territory across Myanmar. It can be expected that mobile telecommunication in Myanmar will have "leap-frogging" development in the near future and people can have the chance to experience the standardized mobile service which was just a dream in the past.

In line with the telecom reform process, MPT was encouraged to restructure and to be corporatized by partnering with international mobile operators to compete with the two fully foreign owned mobile operators. As well, outdated mobile infrastructure of MPT certainly needed to be upgraded so that it can provide better services with comparatively low cost. By doing so, MPT can have effective competitiveness with the two license-winning international mobile operators. MPT had discussions with many potential mobile operators, and on July 16, 2014, MPT signed an agreement with Japanese KDDI-SUMITOMO group to form a partnership to serve as a mobile operator in the upcoming mobile phone market. By partnering with MPT, they can take part actively in the mobile phone market in Myanmar.

According to the official data, the number of auto telephone lines was about 5.6 million in 2014. The mobile base is 5.44 million subscribers or 10.3 per cent penetration. About 3.62 million or 67 per cent of mobile subscribers were using GSM, 0.74 million or 14 per cent were using WCDMA, 1.1 million or 20 per cent were using CDMA (mobile) in 2012[14] (Fig. 10.4).

Regarding the telephone subscribers and penetration, one finds a contrasting picture. The fixed line telephony has lost its penetration from 1 per cent in 2013 to 0.96 per cent in 2016.[15] On the other hand, Myanmar's mobile market has experienced very strong growth from 7 per cent in 2013 to 85 per cent by 2016, among a consumer base of 46 million subscribers. Among the three mobile service operators, MPT is dominant having 44 per cent of market share, Telenor is the second (38 per cent) and Ooredoo captures 18 per cent of market share (Fig. 10.5). Further strong growth is also predicted over the next five years to 2021. By 2018, the market is expected to reach mobile penetration of over 90 per cent.

One of the most important milestones for telecom industry in 2016 is 4G services. Ooredoo has introduced 4G in June, Telenor in July and MPT in November 2016—over 1 per cent of mobile users are using 4G at the moment while 64 per cent uses internet. Out of those 64 per cent, 90 per cent uses Facebook and Viber. The fourth operator has also been chosen in 2016—Viettel—owned by the army of Vietnam. Viettel is going to partner with local companies such as Star High Company and Myanmar National Telecom Holding Public Limited.

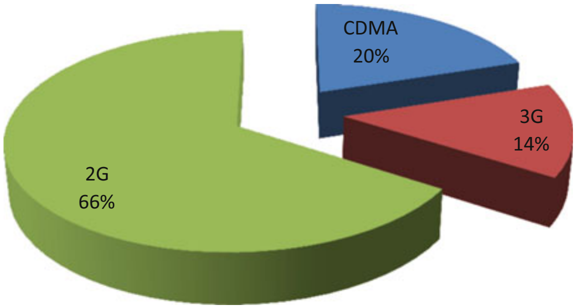


Fig. 10.4 Mobile connections in Myanmar, 2013 (Source: MPT)

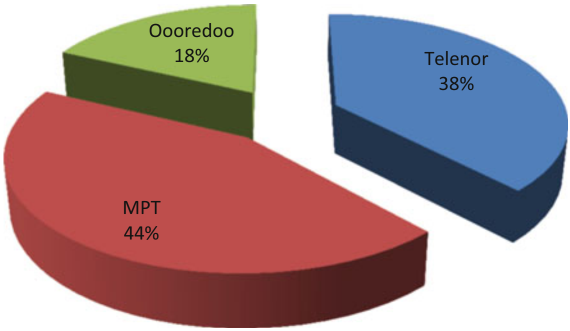


Fig. 10.5 Mobile operators market share in Myanmar (Source: PTD Operator Report 2016)

One of the fastest growing segments in the mobile telecom sector is mobile broadband, which is largely demand driven. Penetration statistics shows that it has shot up from 15 per cent in 2014 to 26 per cent in 2015 and further to 35 per cent in 2016. Strong growth is predicted over the next five years, however, at a slower rate. At the same time, international internet bandwidth has grown from 43,400 Mb/s in 2015 to 53,000 Mb/s in 2016. Since April 2016, Vietnamese group Viettel plans to serve 95 per cent of population by investing US$ 1.5 billion through its 3G network within three years. It has on its anvil introduction of 1800 MHz LTE services if the government decides to sell additional spectrum.

Yangon and Mandalay have the highest number of mobile subscribers in the country (Fig. 10.6).[16] These are the two largest urban centres in the

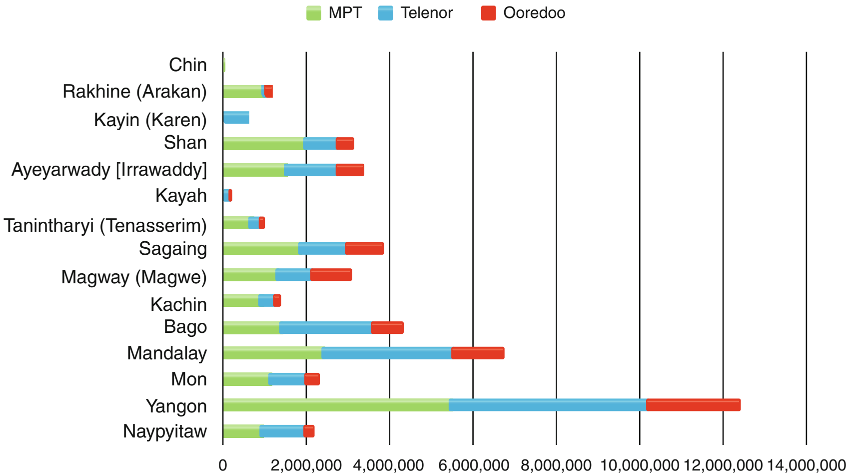


Fig. 10.6 Total mobile subscribers by state and region (Source: PTD, Operator Reports 2016, July)

country. According to government statistics (website www.mcit.gov.mm, accessed on December 12, 2016), the regions along the Yangon–Mandalay axis have between 200 and 350 thousand subscribers (Nay Pyi Taw, Sagaing, Bago (East), Magwe, Ayarwaddy). However, penetration rates are much higher in urban centres: 30.2 per cent in Nay Pyi Taw, 25.3 per cent in Yangon and 11.7 per cent in Mandalay.[17] Compared to neighbouring countries, Myanmar's mobile penetration is low. The penetration rate was 70 per cent in Cambodia, 87 per cent in Lao PDR and over 100 per cent in Thailand in 2011. After the 2013 mobile communication sector reform, there has been increase in Myanmar's ICT sector. The mobile penetration rate has rapidly increased due to the affordable prices of SIM cards and usage rates hiked the number of subscribers to high limits.

The telecom infrastructure in Myanmar can be seen in the Table 10.2. For MPT, although they controlled 100 per cent of mobile market in the past, with its outdated mobile infrastructure, lack of customer oriented service and lack of strong financial investment make it uneasy to compete with new mobile operators in the upcoming mobile phone market. Forming business partnerships with potential foreign investors is inevitable for MPT to continue playing an active role in future mobile phone market.

Table 10.2 Telecommunication infrastructure in Myanmar

		2013–2014	2014–2015
Fixed phone		8,299,791	18,405,814
Mobile	MPT	15,451,130	35,678,488
	Ooredoo	–	3,329,000
	Telenor	–	6,400,000
International telephone channel		9797	–
VSAT		13	13
MPT satellite terminal		2453	–

Source: Central Statistics Yearbook (2015)

4.2.1 Internet Services

Consequent upon introduction of internet technology in 2000, MPT not only sold e-mail accounts but became an ISP. In 2000, Bagan Cyber Tech (later Myanmar Teleport, My Tel), a semi-government business enterprise emerged as a second ISP. In January 2002, Myanmar ICT Park saw light of the day. Chronologically, in 2004, Advance communication project was launched followed by ADSL in 2005, Electronic transit switch in 2006, GMS project in 2007, National gateway in 2008 and WCDMA in 2009.

In early 2011, prepaid cards[18] system was introduced by some mobile producers. There are two main ISPs: the government-owned MPT and the public-private joint venture YTP. In December 2007, the government opened the Yatanarpon Cyber City, where YTP is based.[19] In October 2010, ISP networks were divided into the state-owned MPT ISP and a newly-created Ministry of Defense (MoD) ISP. Under the new arrangement, the YTP (serving civilian users) and a newly-established Naypyitaw ISP (serving most government ministries) connect to the international internet via MPT.

The government has claimed that the implementation of the first ICT plan for 2005–2010 has raised Myanmar's tele-density from 1 per cent in 2005 to 5.4 per cent in 2011, according to media reports.[20] According to government statistics, 5.4 million of Myanmar's 60 million population had a mobile phone subscription at the end of 2012, giving the country a mobile penetration of 9 per cent. According to official figures released in mid-2012, Myanmar had 857 Base Transceiver Stations (BTS) for

Table 10.3 Internet users and extension of bandwidth

Year	No. of internet lines	Internet users	Bandwidth (Gbps)
2011–2012	7743	38,715	3.92
2012–2013	8184	66,445	3.72
2013–2014	858,247	930,913	13.33
2014–2015 (Sept)	3,593,581	3,703,327	32.32

Source: MCIT

1,654,667 local GSM mobile users, 188 BTSs for 225,617 local WCDMA mobile users, 366 BTSs for 633,569 local CDMA-450 mobile users and 193 BTSs for 341,687 CDMA-800 mobile users. Huawei who has built 40 per cent of the towers and ZTE who has built 60 per cent towers in Myanmar, which amounts to 1500 across the country, said they have built the towers mostly in Yangon, Mandalay and Naypyitaw.

Since June 2013, MPT has reduced its internet service charges dramatically. Still, internet connection was very slow and almost all organizations which used internet had to install internet service from two different ISPs at the same time. Up till now, the maximum internet coverage for the whole country is 27 GB and the government is now inviting tenders from international companies to expand 20 GB more internet coverage to main backbone of Myanmar. As can be seen in Table 10.3, the number of internet users dramatically increased by 96 times but the bandwidth could be extended only by 8 times during these periods.

The pricing situation of mobile service is varied among mobile service operators (Table 10.4). The charges of MPT, previously the only operator, are the highest. Telenor charges less than both Ooredoo and MPT. Telenor charges 25 MMK per minute for any net calls. Telenor charges 6 MMK per 1 MB usage of internet, while Ooredoo charges 25 MMK per 1 MB of internet usage. According to the current charge plan, Telenor's charges are the cheapest among current three mobile operators. Hence, Telenor can certainly attract more customers because of its competitive charges. Currently, MPT is initiating a new plan, Swe Thahar Plan, to be able to compete with other service operators. Under the plan, MPT just charges 35 MMK per minute for any net call. But MPT charges were still higher than any other resulting from its monopoly power until 2014. The competition in Myanmar's telecom industry is on the rise, in line with the

Table 10.4 Pricing schemes of three mobile service operators in Myanmar until 2017

Mobile operators	Air-time charge	Internet charge*
MPT	**50** MMK per min **25** MMK/SMS	GSM **25**→2 MMK per min, WCDMA/CDMA **4**→2 MMK per min
MPT (Swe Thahar Plan)	**(35)**→23 MMK per min **(15)**→10 MMK/SMS	**15**→6 MMK per 1 MB
Ooredoo	**35**→20 MMK per min **15** MMK/SMS	**10**→5 MMK per 1 MB
Telenor	**25**→20 MMK per min 15 MMK/SMS	**6**→5 MMK per 1 MB

Source: MOPC

*Additional 5 per cent commercial tax applicable. According to the Union Tax Law 2016, the mobile phone users have to pay the 5 percent commercial tax which is collected by telecom operators on behalf of the government. The law was enforced on 1st June 2016

liberalization process and legal reform measure in late 2015. The user charges have relatively decreased and the service providers have upgraded the mobile services to penetrate the mobile market. Competitive pricing plan can be seen in Table 10.4. The bold numbers in the table are the old charges.

Out of the four mobile operators which were awarded mobile operator licenses, Yatanarpon Teleport is less active about its plan for the mobile phone service. They only announced that they have been having discussions with the potential international operators for the partnership. Yatanarpon Teleport used to serve as ISP in Myanmar.

The current approach to network deployment is mainly through tower company model allowing faster deployment cycles to meet the aggressive targets and to achieve cost efficiencies by sharing passive network infrastructure with other mobile operators. The incumbent government operators, MPT and YTP, in line with their current rollout programmes are looking at bringing foreign investments to catch up with the two private operators. However, with the directive from MCIT to reduce duplication of site rollouts, they would be considering co-locating some of their sites with other operators on the existing sites built up by the tower companies.

Currently, there are four tower companies operating in Myanmar, namely, Apollo Towers, Irrawaddy Green Towers (IGT), Myanmar

Table 10.5 Industry structure and MNO-tower co-engagements

	Apollo	IGT	MTC	PAT	MPT/YTP
MPT					√
Ooredoo			√	√	
Telenor	√	√			
YTP					√

Source: IFC, Green Power for Mobile Market Analysis-Myanmar (2014)

Tower Company (MTC) and Pan Asia Towers (PAT). Telenor is engaged with Apollo and IGT for their initial rollout programmes while Ooredoo is engaging MTC and PAT for the initial network rollouts. The current industry structure and the engagement by rollout programmes are presented in Table 10.5. The ownership of tower and power assets varies with the deployment model adopted by the operators.

5 Preparedness of Telecommunications Sector Under AEC Blueprint in Myanmar

This chapter has emphasized the restriction on entry for Commercial Presence (mode 3). According to questionnaires and face-to-face discussion, there are no restrictions on domestic firms as well as foreign firms for suppliers who own most or all of the transmission capacity used. Foreign facilities-based telecom service suppliers need to be registered legal entities in Myanmar.

For leased lines and private networks, companies need to get appropriate licenses to operate private networks of leased lines as well as of own facilities as per the applicants' requirement. Interconnection between private mobile networks is permitted if they use public switching networks on commercial terms. Conditions applicable under the telecoms law and rules also apply. There are restrictions on cross-border service trade via mode 1, that is through cross-border supply of domestic facility-based services. Conditions applicable under the telecoms law and rules also apply. However, there are no routing restrictions.

In addition, there are no restrictions on ownership of both facilities-based and non-facilities-services. General licenses are required for the provision of each service. Providers can ask for as many separate licenses as they need for each state/province. There is also no restriction on any licenses granting exclusive rights. Foreign-owned telecommunication service suppliers are not distinguished from the domestic suppliers. Once the licenses have been issued, they are free to sell or dispose as they like.

Interconnection agreements among fixed line service providers depend on agreements arrived between private players. The same applies to interconnection between fixed and mobile telephony subject to overall monitoring by the regulatory agency. For regulation of network interconnection between ISPs, the agreements are determined by private negotiation between parties. Only interconnection with dominant license is regulated, unless a request for intervention by regulator has been filed, or it necessitates the regulator to intervene for reason of competition. Reciprocal pricing rule is applied between fixed line service providers and between mobile carriers, but unbundling rule is applied between mobile and fixed line carriers. All other dimensions of interconnection agreements must be transparent. Reference agreements are publicly available. Market forces must be allowed to determine the pricing of calls. The licensee must file proposed tariff, and unless required by competition rule or for consumer protection, the regulator will not intervene. As per practice followed elsewhere, the fixed line providers may charge an access fee for the mobile providers. For universal services, subsidies could be provided to the operators from universal service funds or state budget.

MPT, a state-owned enterprise, is the only operator of domestic fixed line and fully occupies the domestic market. International fixed line is also dominated by MPT. In mobile voice telephone services, there are four operators, namely, MPT, Telenor Myanmar, Ooredoo Myanmar and Second Myanmar. Telenor and Ooredoo were just licensed and commercial launch started in 2014. Both are foreign-owned. Second Myanmar is just processing license, with commercial launch in 4th quarter of 2014. The ownership pattern is 10 per cent for government, 50 per cent or less for domestic private and maximum 45 per cent for a foreign-owned firm. All of the service providers are offering packages only through the government operated switching networks.

6 Identifications of Opportunities and Challenges of Telecommunication

With these important and interesting developments, mobile telecommunication in Myanmar is changing drastically. Development in mobile telecommunication in Myanmar means that it will leapfrog over old landlines and slow services to lower cost and high-quality connectivity options in the future. But the development in mobile telecommunication must go together with regulatory reforms in telecommunication. The development in countries characterized by political uncertainty may certainly offer support to people to enhance the basic networks of cooperation. We must not, however, forget that more connectivity also has the potential to expose people to new threats of surveillance and control, in which mobile phone operators may play a role.

Easier access to mobile telecommunication will result in access to information, which has the potential to enhance the transparency of the government in Myanmar. It will result in raising the living standards of ordinary people in Myanmar and also pave the way for all round economic development in Myanmar by linking small and medium business enterprises to new opportunities as well as by connecting people to each other. People can have access to online information which can change the way of life. By having more access to online information, people can experience digital freedom which will be very important. As people are exposed more to online information, social privacy of everyone becomes an important issue to be considered thoroughly. Development in mobile telecommunication should be followed by mobile regulation laws which will guarantee freedom of expression and the right of people to protect their social privacy. There should be a regulatory framework which will ensure the freedom of people using the mobile network. Regarding implementation of the regulatory reform process, the government set up a public debate on new regulatory laws, with the intention of ensuring free and open telecom market in Myanmar. The new regulatory law has been drafted and promulgated for public debate. After consultation with the public, national and international mobile operators, civil society organizations and other related partners, telecom regulatory laws have been enacted.

This will be the first step in ensuring the social privacy of the public and safeguarding against cybercrime in Myanmar where political uncertainty still exists.

For the business sector, Myanmar's small and medium business enterprises can acquire new opportunities by using a better mobile network. They can obtain information concerning their businesses and more importantly; they can expand their businesses by mobile phone as well as advertise their products and business. They can reach their targeted customers through mobile network. Development in SME will again result in overall economic development of whole Myanmar. Mobile banking will also enhance the economic development as there will be easier money transactions using mobile phone networks. Moreover, as mobile phone operators pledge to cover 90 per cent of Myanmar within next few years, Myanmar will have increased telephone density in the future. In other neighbouring countries, it is evident that increased telephone density results in increase in country's GDP. Myanmar will avail this benefit if the telecom sector reform processes continue as planned. The stunning result from this development will be inevitable in the near future.

Even though, there are benefits from the development in mobile telecommunication, there are also negative social impacts on people. Due to the IT media, the religious based tensions occurred across the country. As a result, the country faced political instability. These inappropriate things should be curbed by the newly enacted telecom regulatory law. Thus, Myanmar needs not only development in mobile telecommunication but also effective telecom regulatory law which will guarantee the social privacy and security of the people. Freedom of expression should go hand in hand with the development in mobile telecommunication. Mobile phone operators in Myanmar will be accountable for these two responsibilities. They also have the opportunity to demonstrate social responsibility. Telenor has been active in the region; including India, Bangladesh, Malaysia and Thailand; Telenor announced they will play an active role in showing social responsibility. Ooredoo also announced that it will focus on social responsibility with its mobile business in Myanmar. The common agenda of these operators, therefore, must involve civil society organizations in the whole process.

Even though there are noticeable developments in telecom sector reform, there are still some prominent challenges which are simply hindering the prospects of development of mobile telecommunication. These challenges can be described as geographical, political and infrastructural challenges. Concerning the geographical challenge, there is one prominent fact that setting up the mobile telecommunication network in the remote areas and areas which are under the control of the ethnic armed groups is a major challenge for the new mobile phone operators. As there are fewer subscribers covering the initial investment of mobile telecommunication network, it is not certain that the return of investment will cover the investment for the respective areas. As a result, more time will surely be needed to cover these areas and the people there need to wait longer for easy access to mobile telecommunications. Most of the people living in areas such as border areas are also using the mobile system from the respective neighbouring countries, rather than own mobile system as those systems are more easily accessible. It is an undeniable fact that the mobile operators need to upgrade their service to attract these subscribers in border areas.

Economic and political stability is the basic necessity to ensure the expansion of future investment of all mobile operators. Now Ooredoo has pledged to invest up to US$ 15 billion but its initial investment might not have exceeded US$ 1 billion till now. Telenor has revealed that they have invested over US$ 1 billion so far. For the KDDI-Sumitomo group, even though they have pledged to invest US$ 2 billion, their initial investment is less than US$ 1 billion till now. It is an inevitable fact that all mobile operators are reluctant to expand their investment to maximum level and they are candidly using the wait and watch method for further investment. As the economy and politics of a country are very much inter-related, political stability is the most fundamental reassurance for the expansion of further investment by the all mobile operators in Myanmar.

Regarding the infrastructural challenge, the most prominent challenge is the lack of adequate mobile telecommunication towers to cover an efficient network. Except for MPT, which is acquiring more mobile towers than any other mobile operators, other operators are witnessing the challenge of setting up mobile towers to cover their network and service. Both Telenor and Ooredoo are now encountering the difficulties in setting up mobile towers as local people are not in favour of having mobile towers in their neighbourhood. The people assume that there might be radiation hazard if there are mobile towers set up near their neighbourhood. And there have been rejections from the local people almost everywhere. This problem should be solved by making people aware about the mobile towers and reassuring them that radiation hazard will be minimal and nowadays mobile telecommunication is a basic part of the everyday lifestyle. Explaining that the benefits of the change are much more than the harmful effects could facilitate the process. This problem can also be solved by acquiring contracts with local leasing companies for mobile towers. As these local companies are more accessible to local people, letting the local companies deal with the people may be a better option for both mobile operators and sub-contracting local companies.

So far, there are not adequate mobile towers for all mobile operators, and mobile service reliability in Myanmar is relatively still low. Though MPT has widespread mobile towers across the whole country, its infrastructure, apparently, is outdated and cannot provide efficient service. For other operators, they also cannot still provide efficient connectivity in spite of their advanced technology because of lack of adequate mobile towers.

For remote areas, which are far from the main network coverage, choosing the satellite system for mobile telecommunication is a better option. As satellite system can cover the remote areas, it is more effective to cover those areas without setting up adequate mobile towers. Infrastructural investment is a basic part of the mobile telecommunication system and it can dictate the profit margin of the whole investment. Thus, effective investment plans are basically needed for the mobile operators in Myanmar.

Another point to consider here is that the role of Myanmar Economic Holdings Limited (MEC) is still in question. MEC's SIM cards were widely introduced to the public when President Thein Sein initiated distribution of affordable SIM cards. As MPT could not provide adequate SIM cards at that time, creating a vacuum, MEC's SIM cards were used. Some question that MEC is also serving as a mobile operator as it has its own network. Actually, it can be said that, MEC is serving as one part of the mobile network under the umbrella of MPT. Later, it might be merged to form a single mobile operator.

Briefly, in order to realize the full potential of Myanmar's telecommunications sector, large-scale investments from private sector and a favourable operating environment are crucial. From the analytical point of view, it is found that several distinctive characteristics of the telecommunication sector in Myanmar are lack of telecommunication infrastructure, strong regulation and instability of the micro economy. Moreover, it is identified that there is a convergent idea about expanding the telecommunication services including building of infrastructure but the major obstacle seems to be the existence of many outmoded telecom systems. Some strategies that would expedite the development are a fast rise in the demand for mobile services and corresponding supply side incentives through investment on the part of the government.

7 Conclusions

According to the latest census, Myanmar has approximately 53.7 million people, showing a promising market for mobile telecommunication. As there are now four different mobile operators serving the population, there will be subscribers who will use more than one mobile network, just like in Thailand and Vietnam, which have more than 100 per cent coverage of mobile phone subscribers. Hence, all mobile operators should brace up for providing more effective and attractive services so that they can attain more subscribers. All mobile operators should consider investing in other business sectors relating mobile services, such as producing own brand of mobile handsets for the subscribers. By investing in mobile phone related services, they can set up factories producing own handsets and accessories. This will definitely generate more job creations and will be a major catalyst for accelerating the growth of the economy of Myanmar.

Regarding the telecom sector reform process in Myanmar, there have been many dramatic changes in mobile telecommunication market. Opening internal mobile phone market to international mobile phone operators is the first stepping stone for Myanmar's telecom sector. It will not only lay the strong foundation but also pave the way for more development in the near future. With the reform process, ordinary people of Myanmar can have the access to better quality mobile connectivity. They will also have the chance to own a mobile phone at an affordable price which was only a dream for them in the past. For the first time in Myanmar, they can choose the mobile service they prefer, which provides better quality at lower charges. Mobile telecommunication becomes a reality for the people and this development will benefit the people, raising their living standards. As mobile operators will provide other services relating to mobile telecommunication, the lives of people will become easier. With effective telecom regulatory laws, mobile phone operators will continue providing services to the people. They will also be accountable for social responsibility. Development in mobile telecommunication will result in overall economic development of Myanmar. For the very first time in history, mobile telecommunication in Myanmar will attain the brighter future which will surely benefit people of Myanmar.

Notes

1. Sourced from Posts and Telecommunication Department: Monthly operator Reports 2016.
2. Refer, www.eria.org for Mid-term Review of the Implementation of AEC Blueprint. Refer, ERIA (2014).
3. Trade in services is conducted in four modes, namely cross-border supply of service (mode 1), consumption abroad (mode 2), commercial presence (mode 3), and presence of a natural person (mode 4).
4. Refer, Umezaki (2012).
5. Refer, Ishido (2011).
6. Refer, http://www.mcpt.gov.mm
7. Refer, Melody (1997).
8. Refer, http://www.internetworldstats.com/stats3.htm
9. Refer, BMI Research Report "Cambodia-Laos-and-Myanmar-Telecommunications Report" (www.bmiresearch.com).
10. Refer, Ministry of Communication and Information Technology, Myanmar.

11. Refer, Region Planning Office, Myanmar.
12. Noted at Posts and Telecommunication Department, Myanmar.
13. Sourced from Ministry of Communication and Information Technology, Myanmar.
14. Estimated penetration level based on a population estimate of 53 million (MCPT—www.mcpt.gov.mm).
15. Refer, PTD report.
16. Refer, MCPT—www.mcpt.gov.mm
17. Refer, Country Report of MCIT.
18. "CDMA 450 MHz Not Allowed Internet Uses," [in Burmese] Popular Journal, accessed January 8, 2012, available at: http://popularmyanmar.com/mpaper/archives/32811
19. Ye Kaung Myint Maung, "Nation's First Cyber City Takes Shape," *The Myanmar Times*, December 24–30, 2007, available at: http://mmtimes.com/no398/n001.htm
20. Refer, Flower New Journal, July 24, 2011.

References

BMI Research Report. (2014). *Cambodia-Laos-and-Myanmar Telecommunications Report.* Available at www.bmiresearch.com

Central Statistical Organization. (2015). *Central statistical yearbook 2015*. Nay Pyi Taw: Ministry of Planning and Finance.

Chessman, N., Skidmore, M., & Wilson, T. (2012). *Myanmar's Transition: Openings, Obstacles and Opportunities*. Singapore: ISEAS.

Corbett, J. (2008). *Services Trade Liberalization in the ASEAN Economic Community and Beyond*. Canberra: Australian National University and the Productivity Commission of Australia Research Council.

ERIA. (2014). *Mid-term Review of the Implementation of AEC Blueprint.* Available at www.eria.org

Fujita, K., Mieno, F., & Okamoto, I. (2009). *The Economic Transition in Myanmar After 1988: Market Economy Versus State Control*. Singapore: NUS Press.

IFC. (2014). *Green Power for Mobile Market Analysis-Myanmar*. Washington, DC: International Finance Corporation.

Ishido, H. (2011). *Liberalization of Trade in Services Under ASEAN+n: A Mapping Exercise* (ERIA Discussion Paper Series, No.ERIA-DP-2011-02). Jakarta: ERIA.

Kulasekera, L. (2011). *Restructuring State-Owned Enterprises Through Privatization.* Jakarta: Centre for South-South Technical Cooperation.

Lim, H., & Yamada, Y. (2012). *Economic Reforms in Myanmar: Pathways and Prospects.* BRC Research Report No.10, Bangkok.

Melody, W. H. (1997). Policy Objectives and Models of Regulation. In W. H. Melody (Ed.), *Telecom Reform, Principles, Policies and Regulatory Practices*. Denmark: Schultz DocuCenter.

Nordås, H. K., Grosso, M. G., Gonzales, F., Lejárraga, I., Lesher, M., Miroudot, S., Ueno, A., & Rouzet, D. (2014). *Services Trade Restrictiveness Index (STRI): Telecommunication Services* (OECD Trade Policy Papers, No. 172). Paris: OECD Publishing. doi: 10.1787/5jxt4nk5j7xp-en

Soe Soe Naing, M. (2012). *Post and Telecommunication Development in Myanmar.* Unpublished Master Thesis Submitted to Institute of Economics, Yangon.

Than, T. M. M. (2007). *State Dominance in Myanmar: The Political Economy of Industrialization*. Singapore: ISEAS.

Thein, M. (2004). *Economic Development of Myanmar*. Singapore: ISEAS.

Thein, C. C. (2014). *State-Owned Enterprises Reform in Myanmar.* Paper Presented at 1st KF-KRI International Symposium for Comparative Public Policy Research, Yangon.

Umezaki, S. (2012). Building the ASEAN Economic Community: Challenges and Opportunities for Myanmar. In H. Lim & Y. Yamada (Eds.), *Economic Reforms in Myanmar: Pathways and Prospects*, *BRC Research Report No.10*. Bangkok: Bangkok Research Center, IDE-JETRO.

Index

Note: Page number followed by "n" denote endnotes.

P. De, A. Raychaudhuri (eds.), *Myanmar's Integration with the World*,
DOI 10.1007/978-981-10-5134-0