ผลอันสืบเนื่องมาจากการลงทุนทางตรงจากต่างประเทศและการค้าระหว่างประเทศ ต่อการพัฒนาเศรษฐกิจของประเทศเมียนมาร์

นางสาว ยี ยี เซียน

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

วิทยานิพนธ์นี้เป็นส่วนหนึ่งของการศึกษาตามหลักสูตรปริญญาศิลปศาสตรมหาบัณฑิต
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THE CONTRIBUTION OF DIRECT FOREIGN INVESTMENT AND INTERNATIONAL TRADE ON ECONOMIC DEVELOPMENT IN MYANMAR

Miss Yee Yee Sein

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

A Thesis Submitted in Partial Fulfillment of the Requirements
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นางสาว ยี ยี เซียน:ผลอันสืบเนื่องมาจากการลงทุนทางตรงจากต่างประเทศและการค้าระหว่างประเทศต่อการพัฒนาเศรษฐกิจของประเทศเมียนมาร์. (THE CONTRIBUTION OF DIRECT FOREIGN INVESTMENT AND INTERNATIONAL TRADE ON ECONOMIC DEVELOPMENT IN MYANMAR) อ. ที่ปรึกษา :รองศาสตราจารย์ ดร.พุทธกาล รัชธร, 143หน้า.

ประเทศเมียนมาร์อยู่ในระบอบสังคมนิยมระหว่างปี 1962 ถึงปี 1988 ซึ่งในระหว่างนั้นประเทศเมียนมาร์ไม่ค่อยได้ร่วมมือทางเศรษฐกิจกับประเทศอื่นในภูมิภาคเท่าใดนัก ประเทศเมียนมาร์เคยได้รับการกล่าวขานว่าเป็นประเทศที่มั่งคั่งที่สุดในเอเชียตะวันออกเฉียงใต้ แต่ในปี 1984 ประเทศเมียนมาร์ตกต่ำถึงขีดสุด ในช่วงปลายของทศวรรษที่ 1980 ประเทศมีสภาพผลผลิตตกต่ำ รวมทั้งประสบกับการที่รัฐวิสาหกิจไม่มีประสิทธิภาพพอเพียง แรงงานมีความชำนาญน้อย พร้อมทั้งมีการขาดแคลนปัจจัยทุนและเทคโนโลยี จากการที่มีวิกฤตการณ์ทางเศรษฐกิจอย่างรุนแรงและความไม่สงบภายในประเทศ คณะผู้บริหาร State Law and Order Restoration Conncil หรือที่เรียกย่อว่า SLORC ได้เข้ายึดอำนาจรัฐและเริ่มแผนการเศรษฐกิจแนวใหม่ คณะผู้บริหาร SLORC ได้ใช้นโยบายหลายประการที่ตรงกันข้ามกับนโยบายสมัยสังคมนิยม และทำการปฏิรูปนโยบายทางเศรษฐกิจให้เป็นสมัยใหม่ รวมทั้งตรากฎหมายวางระเบียบ วิธีการปฏิบัติ และปรับโรงสร้างองค์กรของรัฐ เพื่อที่จะใช้ระบบตลาดเพื่อขับเคลื่อนระบบเศรษฐกิจที่ชะงักงัน

วิทยานิพนธ์เรื่องนี้ทำการศึกษาบทบาทของนโยบายการค้าในการเสริมสร้างให้การลงทุนทางตรงจากต่างประเทศส่งผลต่อการเจริญเติบโตทางเศรษฐกิจในประเทศผู้รับการลงทุนโดยเฉพาะกรณีของประเทศวิธีการวิจัยครอบคลุมถึงการสร้างสมการความเจริญเติบโตซึ่งใช้ประเมินผลกระทบของการลงทุนทางตรงจากต่างประเทศที่ส่งผลกระทบถึงความเจริญเติบโตทางเศรษฐกิจโดยการใช้เศรษฐกิจระบบเปิด การศึกษานี้ใช้ข้อมูลในระหว่างปี 1980 ถึง ปี 2004 ผลการศึกษาสนับสนุนข้อสมมุติฐานของ Bhagawati ที่ว่า เมื่อให้ปัจจัยอย่างอื่นคงที่ผลกระทบของการลงทุนภายใต้นโยบายการส่งสริมการส่งออกจะมีขนาดใหญ่กว่าผลกระทบภายใต้นโยบายการผลิตเพื่อทดแทนการนำเข้า

ดังนั้น ข้อเสนอแนะทางนโยบายซึ่งได้มาจากการวิจัยนี้จึงเป็นสิ่งที่มีความสำคัญ กล่าวคือเพื่อที่จะให้ประเทศเมียนมาร์ได้รับผลประโยชน์จากการเจริญเติบโตอันเนื่องมาจากการลงทุนทางตรงจากต่างประเทศ ประเทศเมียนมาร์ควรจะยึดนโยบายการค้าเสรีของตน และเพื่อที่จะให้ประเทศเมียนมาร์ได้รับผลประโยชน์จากการถ่ายทอดเทคโนโลยีและผลกระทบอื่นๆ ประเทศควรจะมีการชักชวนการลงทุนพร้อมไปกับการใช้ระบบเศรษฐกิจแบบเปิด ภายใต้สภาพวะการปิดกั้นทางการค้า การลงทุนทางตรงจากต่างประเทศจะไม่สามารถเป็นตัวเร่งให้เกิดความเจริญเติบโตทางเศรษฐกิจในระยะยาวในกรณีของประเทศเมียนมาร์แสดงให้เห็นว่าผลกระทบของการลงทุนทางตรงจากต่างประเทศ และการที่ประเทศอยู่ในเศรษฐกิจระบบเปิดจะส่งผลกระทบทางบวกต่อการเจริญเติบโตทางเศรษฐกิจได้

สาขาวิชาเศรษฐศาสตร์และการเงินระหว่างประเทศ ลายมือชื่อนิสิต..

ปีการศึกษา 2549 ลายมือชื่ออาจารย์ที่ปรึกษา..................................

4885991829 MAJOR: INTERNATIONAL ECONOMICS AND FINANCE
KEY WORDS: ECONOMIC INTEGRATION/ GROWTH/ FDI/ TRADE OPENNESS

YEE YEE SEIN: THE CONTRIBUTION OF DIRECT FOREIGN INVESTMENT AND INTERNATIONAL TRADE ON ECONOMIC DEVELOPMENT IN MYANMAR. THESIS ADVISOR: ASSOC. PROF. BUDDHAGARN RUTCHATORN, Ph.D. 143 pp.

From 1962 to 1988, Myanmar had a socialist economy. Myanmar was slow to take up the issues of regional economic cooperation. Once considered one of the wealthiest South-East Asian countries, Myanmar's economic problems hit rock bottom in 1987. By the late 1980s, the Myanmar economy lowed down was due to the low productivity and inefficiency of state-owned enterprises, low levels of skill, and a shortage of capital and technology. In response to the severe economic crisis and domestic unrest, the State Law and Order Restoration Council (SLORC) took the reins of government in 1988 and embarked on a new course for the economy. SLORC reversed many of the socialist era policies and implemented several economic reforms, including new laws, regulations, operating methods, and reorganization of government agencies in an effort to utilize market principles to jumpstart the sluggish economy.

This paper examines the role of trade policy regimes in conditioning the impact of foreign direct investment (FDI) on growth performance in investment receiving (host) countries through a case study of Myanmar. The methodology involves estimating a growth equation, which provides for capturing the impact of FDI interactively with economic openness on economic growth, using data for the period 1980-2004. The results support the 'Bhagwati' hypothesis that, other things being equal, the growth impact of FDI tends to be greater under an export promotion (EP) trade regime compared to an import-substitution (IS) regime.

Therefore, policy implications we can draw from our empirical results seem to be important. For Myanmar to benefit from the growth-enhancing effects of foreign direct investment, it should continue to liberalize its trade transaction. For Myanmar to benefit from technology transfer and spillover effects, FDI should be encouraged and it should be accompanied with trade openness. In an environment of trade restrictions, FDI inflows cannot be a catalyst for long run economic growth. The positive interactive impact of FDI and trade openness on economic growth would probably hold in Myanmar.

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

Field of Study: International Economics and Finance Student's signature..............
Academic year 2006 Advisor's signature ....

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Any errors or omissions appear in this paper, I take all responsibility.

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

TABLE OF CONTENTS

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

LIST OF FIGURES

Page

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Foreign direct investment the developing country, FDI is an important vehicle of transferring modern technology and innovation from developed to developing countries. FDI also stimulates domestic investment and facilitates improvements in human capital and institutions in the host countries. The role of FDI has been widely important as a growth-enhancing factor and FDI allows investment host countries to achieve investments levels beyond their own domestic saving in developing countries. However, there is strong evidence that for some countries FDI can even unfavorably affect the growth process and the growth enhancing effect from FDI seems to vary from country to country. In other words, the growth - enhancing effect of FDI is not automatic but depends on various country specific factors.

International trade is also recognized to be an instrument of economic development. Trade facilitates more efficient production of goods and services by shifting production to countries that have comparative advantage in producing them. The role of foreign direct investment (FDI) in the growth process has for long been a topic of intense discuss. Such that the relation between trade liberalization and economic growth in developing countries has become a most importance topic of debate among development economists. Although this discuss has provided heavy close into the relationship FDI and growth there is very little empirical analysis of the topic, because of the lack of an abstract design and a succinct testable hypothesis.

Some other studies find little empirical evidence to support a link between trade liberalization and economic growth. Even though past studies show that FDI and trade have a positive impact an economic growth, the size of such impact may very across countries depending on the level of human capital, domestic investment, infrastructure, macroeconomics stability, and trade policies. The literatures continue to debate the role of FDI and trade in economic and institutional developments in fostering FDI and Trade.

Recent development in growth theory, style endogenous growth theory, provides such a conceptual framework for analyzing the impact of FDI on growth. While the relationship between exports and growth, grounded in endogenous growth theory, has been the subject of a number of the interrelation between trade policy, FDI and growth is yet to be analyzed. Such an analysis is timely in view of the newfound attention for FDI on the part of most developing countries.

The nature of the trade policy regime is one such the importance factor in host countries. Bhagwati (1973) has explored to explain how the restrictiveness (openness) of the trade policy conditions the gains from FDI to host countries. A key hypothesis arising from this literature that is the Bhagwati hypothesis is that gains from FDI are likely to be even negative under an import substitution[1] (IS) regime compared to a policy regime geared to export promotion[2] (EP) regime. Assume that the volume and efficacy of inward FDI will vary according to whether a country is following the export promoting (EP) of the import substituting (IS) strategy. Specifically, the EP strategy as one which equates the average effective exchange rate on exports to the average effective exchange rate on imports. Thus defined, an EP strategy is trade neutral or bias free. In contrast, the IS strategy is one where the effective exchange rate on imports exceeds the effective exchange rate on exports and is biased in favor of import substitution activities[3].

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[1] A strategy for economic development that replaces imports with domestic production. It may be motivated by the infant industry argument, or simply by the desire to mimic the industrial structure of advanced countries.

[2] A strategy for economic development that stresses expanding exports, often through policies to assist them such as export subsidies. The rationale is to exploit a country's comparative advantage, especially in the common circumstance where an over-valued currency would otherwise create bias against exports.

[3] The effective exchange rate on exports (EER_I) and the effective exchange rate on imports (EER_M) are defined as follows:

$$EER_I = n\,(1+s) \text{ and } EER_M = n(1+t),$$

where n= the nominal exchange rate, t = average tariff rate on imports, s = average rate of subsidies on exports. It should be noted that t should include all policy instruments, including tariffs and quotas, which bias policy incentives in favour of imports and s should include all incentives which favour export oriented activities.

Given all other factors influencing FDI flows and their efficacy, an EP strategy is likely to both attract a higher volume of FDI and promote more efficient utilization of that than is an IS strategy. The important characteristic of the EP strategy being its neutrality, the EP trade regime does not provide reproduction and transitory incentives to FDI. The major incentive for FDI that the regime provides is simply the combination of cheaper cost and the EP orientation. In contract, the IS regime is entirely policy driven. The magnitude of IS – induced FDI would not be as large as EP oriented FDI simply because it would be limited by the character of the host- country market which induces it in the first place. Again, EP induced FDI is likely to be much more efficient in promoting growth simply because it is allowed to operate in a distortion – free environment. The Bhagwati hypothesis as a result has two components: first, that EP countries attract a greater volume of FDI and second that they enjoy greater efficiency (social returns) there from.

Bhagwati (1978) as an extension to his theory of immiserizing growth which is the theory of the effect of trade policy regime on gain from FDI in a given host country. It hypothesizes that FDI inflows coming into a country in the context of a restrictive, IS regime can slow down, rather than promote growth. This is because in an IS regime, FDI as well as domestic investment mostly take place in sectors, mostly characterized by high capital intensity in production where the host developing country does not have comparative advantage. Moreover, FDI becomes an opportunity for foreign companies to maintain their market share and to reap the extra profit, the economic rent, created by the highly protected domestic market. Such a regime also provides incentives for rent seeking[1] and directly unproductive profit seeking (DUPE) activities[2].

On the other hand, the E P regime, which aims to achieve neutrality in incentives, is superior to the IS regime in reaping gains from FDI. Under the EP regime the main

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[1] The using up of real resources in an effort to secure the rights to economic rents that arise from government policies. In international economics, the term usually refers to efforts to obtain quota rents. Term introduced by Krueger 1974.

[2] Activities that have no direct productive purpose (neither increasing consumer utility nor contributing to production of a good or service that would increase utility) and are motivated by the desire to make profit, typically from market distortions created by government policies. Examples are rent seeking and revenue seeking. Term coined by Bhagwati (1982).

incentives for FDI in a given host country are the relatively low labor cost and/or the availability of raw materials. This allows the foreign investors to operate in an environment that is relatively free from distortions. This also leads to the output expansion in internationally competitive and export oriented product lines. Moreover, the production of firms in an EP regime is not limited by the size of the domestic market and has the potential to reap economies of scale through international market penetration.

Bhagwati's hypothesis relating to the efficiency effect of FDI is based in a widespread and detailed analysis of the IS induced inefficiencies. The inefficiencies which such a trade regime imposes on the economy run to a long list; its deep addiction on tariffs and quotas on trade, as the most important instruments of the strategy, establishes widespread distortions in factor and product markets; it promotes the adoption of techniques of production widely at variance with the factor endowments of the economy. In addition, it affords widespread incentives for rent seeking and directly unproductive profit seeking (DUPE) activities; it contributes to growth of income disparities; and it not only promotes misallocation of resources but also encourages X-inefficiency[1]. The immiserisation of growth that might occur as a consequence of protection induced inflows of FDI into an import competing industry has also been extensively analyzed.

The most importance advantage of the EP strategy, with its importance on neutrality of policy as between the import and export sectors of the economy, is that it allows for a free play of market forces and the allocation of resources on the source of comparative advantage. Because of the neutrality of its policy orientation it proposes none of the incentives for rent seeking and DUPE which the IS policy provides .The competition it allows for from both international trade and domestic sources support R & D[2] and investment in human capital. Allocation of resources on the basis of

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[1] The ability of a firm to get maximum output from its inputs. Failure to do so, called X-inefficiency or technical inefficiency may be due to lack of incentives provided by competition. Improvement in X-efficiency is one hypothesized source of gain from trade. Term is due to Leibenstein (1966)

[2] The use of resources for the deliberate discovery of new information and ways of doing things, together with the application of that information in inventing new products or processes.

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comparative advantage and market forces also promotes specialization and scale economies.

The hypothesis concerning the efficiency of FDI in EP relative to IS countries that is significant proposition of new growth theory. However, note that the literature on growth theory falls into three broad groups: the early post- Keynesian growth models which point out the role of saving and investment in promoting growth, the neo-classical models which point out technical progress and the more recent new growth models which emphasized technical progress and the more recent new growth models which emphasized the role of R & D, human capital accumulation and externalities. The affect of new growth theories is with endogenising the growth rate of GDP, which in turn requires the rate of investment to be endogenised; for ultimately it is factor accumulation which accounts for growth.

In addition, there are various kinds of know - how spill- over effects and externalities which supply to growth in the aggregate. At this point investment in knowledge or R & D is assumed to be subject to diminishing returns, but the utilization of such knowledge in production activity results in increasing returns. In addition, while the product which embodies new knowledge can be protected through patents, the knowledge itself which generates the product cannot be thus protected.

New growth theory also emphasizes learning by doing and the in the presence of these growth promoting factors, the input of capital may not also experience diminishing returns. In sum, externalities, human capital and learning by doing form the main springs of endogenous growth theory. Endogenous growth theory in its various formulations provides added persuasive reasons to link R & D, investments in human capital and scale economies to the rate of economic growth.

Many of the growth promoting factors identified by new growth theory can be started and developed to promote growth through FDI. Developing countries, FDI has long been recognized as a major source of technology and know-how. Indeed, it is the facility of FDI to transfer not only production know-how but also managerial skills that distinguishes it from all other forms of investment, including portfolio capital and aid.

Externalities, or spillover effects, have also been recognized as a major benefit increase to host countries from FDI. It is widely recognized that technical progress accounts for a relatively low proportion of the growth experienced by developing countries in general. This is because most of these countries are endowed with a relatively low volume of human capital between the developed and developing countries, the latter are constrained from undertaking investments in R & D which would result in the generation of new knowledge, with its attendant spill-over effects. This in fact is one of the explanations provided for the observed trade patterns between the developed and developing countries with the former exporting skill-intensive goods and the latter exporting less skill- intensive goods. This gap in skills can be linked through FDI.

The knowledge created in developed countries with their relatively high endowments of human capital can be transferred to developing countries through FDI. Admittedly, the knowledge transferred to developing countries is likely to be the preserve of the foreign entity undertaking the investment. However, knowledge and technology could spillover from the foreign firms to the domestic firms through the training of labour and indigenous management and through links between foreign firms and local suppliers of components. In addition, local firms can learn by watching. Moreover, the very presence of foreign owned firms in the economy, with their superior endowments of technology, many compel locally owned firms to invest in learning if only to keep abreast of the competition. In turn, increased competition from locally owned firms through their investments in innovation may compel foreign firms to bring in superior quality technology and know - how. In sum, imported skills enhance the marginal productivity of the capital stock in the host countries and thereby promote growth.

New growth theory provides powerful support for the thesis that FDI could be a strong factor in promoting growth. The exploitation of this potential, however, requires a conductive economic an environment. In the absence of such an environment FDI may be counterproductive; it may thwart rather than promote growth, it may serve to improve the private rate of return to investment by foreign firms while exerting little impact on social rates return in the recipient economy. Because of all the inefficiencies generate, an IS policy is unlikely to provide an economic climate conductive to the efficient operations of foreign firms.

The widespread factor and product market distortions that it introduces may bias investment away from activities in which the country possess a comparative advantage. Investment in activities in which the country does not possess a comparative advantage is more than likely to thwart the generation of human capital, increasing returns to scale and spill-over effect; all of which, according to new growth theory, form the essential factors for economic growth. As stated earlier, the very attendance of foreign firms in the economy may encourage competition and generate investments in learning and human capital formation by both foreign and locally owned firms. However, an IS policy, which restricts competition from both domestic and foreign sources, is unlikely to promote such investments; rather it is likely to promote X- inefficiency.

In this context, the difference between boost the economy from one level of growth to another and generates growth, or change the slope of the production possibilities frontier is significant. Removal of trade barriers in developing countries only produces a one-off level effect without changing the slope of the production possibilities frontier. Even in the traditional Harrod-Domar model of growth, a change in efficiency which permanently reduces the capital – output ratio will, with the savings rate fixed, increase the growth rate of the economy.

Trade liberalization is likely to promote efficiency in more ways than one. It is likely to promote allocative efficiency by reorienting factors of production in favor of sectors in which the economy possesses a comparative advantage in trade. It is likely to promote technological efficiency by allowing for choice of techniques of production which reflects the factor endowments of the economy. It could also promote technological efficiency by eliminating protection induced X – inefficiency. In other words, trade liberalization can facilities neutral technical change of the sort identified. A liberal trade regime as different to a protectionist regime is likely to provide an appropriate environment for learning. New technology and combination of human capital into a distortion ridden economy may neither raise the economy to a higher plane nor alter the slope of the production function. It may, instead, merely serve to reallocate income in favor of the new agents of production.

While the standard growth model predicts that labor and capital inputs are able to explain the economic growth patterns in a given country, there is still a scope to account for the role of other explanatory factors in driving output changes. Such factors may be considered on the basis of further theoretical foundations as well as country-specific characteristics. Among such factors, the recent literature on economic growth has centered on foreign direct investment as a possible growth-enhancing variable. However, while the role of FDI has received some attention in the recent studies, less afford has been done to better understand how FDI and trade liberalization may interact to explain growth. FDI would probably boost economic growth depending on the trade regime adopted in a given country.

Countries with more liberal trade regime would perform better in attracting FDI and using it as a catalyst for economic growth. A liberal trade regime would create an investment climate that is conducive to learning and goes along with the human capital and new technology infused by FDI. Moreover, trade openness also provides access to a larger market and, therefore, is likely to attract FDI. In a context of trade liberalization, FDI would strongly contribute to the transfer of modern technology and innovation from developed to developing countries, and, therefore, would boost trade transactions and foster economic growth.

Given these considerations, the interactive impact of FDI and trade openness on economic growth deserves more attention, especially in the context of Myanmar which has been involved in a wide program of trade liberalization and other structural reforms, and aspires to attracting further FDI. The present paper project is dealing with this issue. The general objective is to analytically and empirically grasp the impact of FDI-trade regime interactions on economic growth in Myanmar.

This paper analyzes the contribution of between Direct Foreign Investment and International Trade on Economic growth in MYANMAR, in the context of new growth theory. An interesting hypothesis proposed by Jagdish Bhagwati, which links trade policy to both the magnitude of FDI individual developing countries are able to attract and its efficacy in promoting growth captures the concentrate of the issue. Bhagwati's hypothesis is wide ranging and its precise enunciation of the link between trade policy, FDI and economic growth makes it extremely testable. It also allows for a test of some of the propositions offered by new growth theory.

1.2 Objectives of the study

According to the background of the research, it is interesting to examine. As have been stated in previous years, Myanmar has been determined to achieve economic stability, with its own resources, in order to fulfill the basic needs of its populace. For that, a series of short-term economic plans have been formulated and implemented which have resulted in significant growth rates for the country in recent years.

Now is the implementation of the last year of the third five – year short-term plan from (2001-2002 to 2005-2006). To reach conclusion and suggest policy advice, a quantitative assessment is needed to ascertain the contribution of foreign direct investment and international trade on economics development in Myanmar.

Thus, the objectives of the study can be presented as follows.

i. To examine the salient features of Foreign Direct Investment FDI, on Myanmar and other bilateral trade agreements and key economic indicators, trade and investment policies of Myanmar.

ii. To analysis the impact of Foreign Direct Investment FDI, on Economic Growth in Myanmar.

iii. To analysis the impact of International Trade on Economic Growth in Myanmar .

1.3 Scope of the Study

The study focuses on investigating the interactive impact of FDI and Trade Openness on Economic Growth: Evidence from Myanmar. Further, this paper examines the role of trade policy regimes in conditioning the impact of foreign direct investment (FDI) on growth performance in investment receiving (host) countries through a case study of Myanmar. The methodology involves estimating a growth equation, which provides for capturing the impact of FDI interactively with economic openness on economic growth, using data for the period 1980-2004. The results support the 'Bhagwati' hypothesis that, other things being equal, the growth impact of FDI tends to be greater under an export promotion (EP) trade regime compared to an import-substitution (IS) regime.

1.4 Chapter Organization

At the outset, chapter two is devoted to undertake a literature review in order to gain understanding about the theoretical framework and empirical research findings. Further, the methodology of the study will be presented to achieve the above-mentioned objectives of the study. The descriptive analysis will be presented in chapter three to provide the background information which the results of the later analysis have to be assessed. This chapter illustrates the trends in trade and investments and trade and investment policies in Myanmar. Further, some salient feature of Myanmar will be presented to get insight into the simulation design. The results are presented and discussed in chapter four. Finally, the conclusions and the policy recommendations will be presented in chapter five that would help the trade and investment policy makers in Myanmar to strengthen the foreign trade regime and FDI-growth nexus and to achieve economic integration.

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CHAPTER II

LITERATURE REVIEW AND METHODOLOGY

2.1 Introduction

This chapter is devoted to undertake the literature review and the methodology of the study. Section 2.2 presents the literature review which illustrates the empirical investigations and theoretical concepts to shed light into the research. . The methodology of the study will be presented in section 2.3 and section 2.4 which presents the overview of the derived by using the production function framework, time series model and the simulation design to analyze the impact of foreign trade regime and FDI-growth nexus: a case study of Myanmar economy.

2.2 Literature Review

The existing literature has often centered on the isolated impact of trade and investment on economic growth. In the recent literature, certain studies have used the endogenous groeth theory framework to explore the interrelationship between trade, FDI and growth. Literature review is undertaken to understand theoretical concepts and empirical investigations to shed light on the research.

Jagrdish Bhagwati (1973,94) , the starting point in this framework is the so-known Bhagwati's hypothesis according to which gains from FDI are likely to be far less or even negative under an import substitution (IS) regime compared to a policy regime geared to export promotion (EP) regime.

Jagrdish Bhagwati's analyzed the case of "immiserizing growth" where growth either due to technical progress or factor accumulation, leads to sufficiently strong deterioration in the terms of trade which imposes a loss of real income outweighing the primary gain in real income due to the growth itself. Johnson (1967) has further shown that the phenomenon of immiserizing growth that reduces social welfare below the initial pre-growth level can also arise in the case of a small country without any monopoly power in trade if technical progress occurs in a tariff-protected import-competing industry, or if the factor in whose use this industry is intensive is augmented. In the Bhagwati case, the welfare impact of growth in an open economy can be reduced because the primary gain from growth might be offset by the secondary loss from a possible deterioration in the terms of trade. This argument can be extended to assert that the secondary loss may even outweigh the primary gain, resulting in immiserizing growth.

Jagrdish Bhagwati's (1958, 1968, 1973) has point out, stringent as the latter condition may appear at first sight, recent analyses have shown that it is feasible under relatively simple assumption. Thus the Rybezgnski proposition states that under a two-commodity ,two-factor model ,where , say , labour and land been the factor , one good is labour-intensive and the other land-intensive, if labour (land) increases in supply , then the output of the land-intensive(labour-intensive) industry must actually contract if the relative commodity prices are maintained constant. The proposition that under factor endowment remaining unchanged, the output of the other industry must actually fall under constant relative commodity prices. It may be of interest to note that under biased progress as well it is possible to establish conditions under which the out put of the non-innovating industry will contract.

In one of the most influential papers in the theory of commercial policy, Bhagwati established formally the possibility of immiserizing growth: An open economy experiencing an expansion in its productive capacity (caused by economic growth or/and technological progress) can become worse off if its terms of trade deteriorate sufficiently and offset the beneficial effects of economic growth. In either case, if one were to cast the analysis of immiserizing growth within the neoclassical growth-theoretic framework, then the analysis would have to consider the effects of distortions during the transitional path from the initial to the final steady-state equilibrium. A branch of literature addressed this issue by analyzing the possibility of immizerizing neoclassical growth. The theory of distortions and welfare which constitutes the backbone of the modern theory of commercial policy. The insights of the latter as well as the possibility of immiserizing growth apply to formal neoclassical or endogenous growth dynamic settings. In the absence of distortions, an expansion in an economy's productive capacity enhances growth and dynamic efficiency; however, the presence of distortions might create the conditions for a negative correlation between on economic growth and welfare. Using the theory of distortions to identify policies affect the level of long-run growth and welfare and prevent the possibility of immeserizing growth is an important and relatively unexplored area in the new generation of Schumpeterian growth models which constitutes an avenue for research.

Balasubramanyam, V.N., M.A. Salisu, and D. Sapsford., 1996. 'Foreign direct investment and growth in EP and IS countries' , this paper examined , within a new growth theory frame work , the role which foreign direct investment (FDI) plays in the growth process in the context of developing countries characterized by differing trade policy regimes. The paper test (using cross- section data relating to a sample of forty-six developing countries), the hypothesis advanced by Jadhish Bhagwati according to which the beneficial effect of FDI , stronger in those countries which follow an outwardly oriented trade policy than it is in those countries adopting an inwardly oriented policy.

Alireza karbasi,Ebrahim Mohamadi and Samane Ghofrani ,this paper analyzes the role of FDI and trade in economic growth developing countries within the endogenous growth-theory framework. Using cross-section data relating to a sample of forty-two developing countries over three decades, this paper show that FDI and trade contribute toward advancing economic growth in developing countries. Results imply be greatly enhanced if the host country has a better stock of human capital. Also show that FDI stimulates domestic investment. Sound macroeconomic policies and institutional stability are necessary preconditions for FDI-driven growth to materialize. This paper results imply that lowering the inflation rate, tax burden, and government consumption would advance economic growth in developing countries.

Borensztein, E., J.D. Gregorio, and J.W. Lee, 1998. 'How does foreign direct investment affect economic growth?' this paper examined, FDI is an important vehicle for the transfer of technology, contributing relatively more to growth than domestic investment. However, the higher productivity of FDI holds only when the host country has a minimum threshold stock of human capital. Thus, FDI contributes to economic growth only when a sufficient absorptive capability of the advanced technologies is available in the host economy.

Xu, B., 2000. 'Multinational enterprises, technology diffusion, and host country productivity growth', this paper investigated the hypothesis that Multinational enterprises (MNEs) are an important channel of international technology diffusion. This investigation used data on majority-owned affiliates of US manufacturing MNEs in 40 countries covering the period 1966–1994. A distinctive feature of study was to distinguish between the technology diffusion effect and other productivity-enhancing effects of MNEs. The paper found strong evidence of technology diffusion from US MNE affiliates in advanced countries (DCs), but weak evidence of such diffusion in less developed countries (LDCs). Results from the DC sample indicated that US MNEs are almost as important as international trade a conduit for technology spillovers. In the sample period, the overall effect of technology spillovers through these two channels was found to raise annual TFP rate of DCs.

The paper found that the level of human capital is crucial for a country to benefit from the technology spillovers of MNEs. It was found that a country needs to reach a human capital threshold of about 1.9 years in terms of male secondary school attainment to benefit from technology transfer of US MNE affiliates. Most LDCs meet the second threshold but not the first. It results are consistent with the findings of single-country studies that the technology spillover effects of MNEs are positive in advanced countries but are insignificant in less developed countries.

Edwards, S., 1998. 'Openness, productivity, and growth: what do we really know?' this paper examined, to analyze the robust of the relationship between openness and total factor productivity growth. Nine indexes of trade of trade policy are used to investigate whether the evidence supports the faster in more open economies and the results are robust to the use of openness indicator, estimation technique, time period and functional experience faster productivity growth. Although the use of instrumental variable help dealing with endogeneity, issues related to causality remain somewhat open, and require time series analyses to be adequately addressed.

Lipsey, R.E., 2001. Foreign direct investment and the operations of multinational firms: concepts, history and data, this paper examined, the term "Foreign Direct Investment," or "FDI," include two related but different sets of topics or activities, explained by different theories and by different branches of economics. The first might be referred to as the international finance, or macro, view. The second might be referred to as the industrial organization, or micro, view. The macro view sees FDI as a particular form of the flow of capital across national borders, from home countries to host countries, measured in Balance of Payments Statistics. Those flows give rise to a particular form of stocks of capital in host countries, namely the value of home country investment in entities, typically corporations, controlled by a home country owner, or in which a home country owner holds a certain share of voting rights. The variables of interest are the flow of financial capital, the value of the stock of capital that is accumulated by the investing firms, and the flows of income from the investments.

Richard A. Brecher and Carlos F. Diaz-Alejandro, for a small tariff-imposing country, this paper reconsiders the implications of an inflow of capital from abroad for a small tariff-imposing country, within the standard two-commodity two-factor model of international trade. The host country continues to import the capital-intensive good while re-maining incompletely specialized; the analysis shows that the capital inflow must reduce host-country welfare, assuming that the foreign capital receives the full (untaxed) value of its marginal product. Under other situation considered, the inflow may have different consequences for welfare.

Alireza karbasi,Ebrahim Mohamadi and Samane Ghofrani ,2005. 'Impact of Foreign Direct Investment and Trade on Economic Growth, this article analyzed the interaction among FDI, trade, and economic growth and the role of FDI and Trade in promoting economic growth across selected developing countries. This paper examines data from forty – Two developing countries over the last three decades. Their results suggest that FDI, trade, human capital, and domestic investment are important sources of economic growth for developing countries. They find a positive interaction between FDI and trade in advancing economic growth. Their results also show that FDI stimulates domestic investment. The contribution of FDI to economic growth is enhanced by its positive interaction with human capital and sound macroeconomic policies and institutional stability.

Pack, H. (1994) ' Endogenous growth: an empirical investigation', this paper examined , the most important contribution on endogenous growth theory has been to reinvigorate the examination of the determinants of long -term growth. Endogenous growth theory is clearly setting the terms of the discussion for this researcher. The typical arguments over neoclassical growth theory involved issues live now long a burst of investment might encourage a higher growth rate of per capita income before reversion to a steady state, and whether the marginal product of capita had some minimum bound. The long-term imprint of any growth theory must finally depend on the extent to which it generates a productive empirical literature.

2.3 Analytical Framework

The theory of the effect of trade policy regime on gain from FDI in a given host country was first presented by Bhagwati (1978) as an extension to his theory of immiserizing growth and further developed by Bhagwati (1985 and 1994); Brecher and Diaz-Alejandro (1977); Brecher and Findlay (1983). It assumes that FDI inflows coming into a country in the context of a restrictive, IS regime can slow down, rather than promote growth. This is because in an IS regime, FDI (as well as domestic investment) mostly take place in sectors (mostly characterized by high capital intensity in production) where the host developing country does not have comparative advantage. Moreover, FDI becomes an avenue for foreign companies to maintain their market share and to reap the extra profit, the economic rent, created by the highly protected domestic market. Such a regime also provides incentives for rent seeking and directly unproductive profit seeking (DUPE) activities.

On the other hand, the EP regime, which aims to achieve neutrality in incentives, is superior to the IS regime in reaping gains from FDI. Under the EP regime the main incentives for FDI in a given host country are the relatively low labor cost and/or the availability of raw materials. This allows the foreign investors to operate in an environment that is relatively free from distortions. This also leads to the output expansion in internationally competitive and export oriented product lines. Moreover, the production of firms in an EP regime is not limited by the size of the domestic market and has the potential to reap economies of scale through international market penetration.

FDI is an important channel of R&D spillover (including human capital development) from developed to developing countries (Grossman and Helpman, 1991)[1]. Given that, the multinational enterprises (MNEs), the major direct investors, conduct a large proportion of the world's total R&D (Borensztein *et al.*, 1995; Lipsey, 2000; and Sjoholm, 1997)[2]. There are several ways that investment of MNE subsidiaries likely generates technology spillovers to host countries such as training local staff, enhancing production standard for backward and forward related industries, and enhancing the competitive pressure to local entrepreneurs. Moreover, localization of foreign subsidiaries generates the demonstration effect on domestic firms on technological choices, managerial practice, etc.

The generation of favorable technology spillovers requires a conducive investment climate. The IS regime is unlikely to provide an economic climate conducive to the favorable spillover from foreign firms. The FDI generated by IS regime is invested mostly in the industries where proprietary assets are important[3]. This creates barriers to entry for local firms and thus constraints technology and efficiency spillovers. Moreover, the protection generated from IS regime likely limits the local competition, which is the important factor that stimulates firms to update new technologies in both production and management, and enhances their own productivity.

In contrast, the EP regime is more conducive to generating favorable spillover effects because under such regime FDI is mostly attracted to industries in which the country has comparative advantage. In such industries, local firms have a greater potential to catch up with foreign firms and achieve productivity improvement. This

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[1] Spillover is defined as the external effects of R&D that a firm invents for enhancing its own productivity to the other firms. Spillovers can occur both with the country and across the country (Sjoholm, 1997).

[2] Over four-fifths of the stock of foreign direct investment originates from only half of a dozen countries- the U.S.A., United Kingdom, Japan, Germany, Switzerland, and the Netherlands- which are also the major producers the most advanced technology (BlomstrÖm *etal.*, 2000)

[3] Proprietary assets are defined as the asset that can differ productivity between firms owning them and the others. They can generate revenue productivity. Other firms cannot quickly or effectively imitate (Caves, 1996).

generates healthy competition and allows host countries to maximize the gain from technology spillover from foreign firms.

Both qualitative and quantitative approaches will be used as the methodology of the study. The study will be focused on analyzing the impact of Foreign Direct Investment on growth and impact of International Trade on growth in Myanmar's economy.

2.4 The Model Applied

The study of this paper is examined the effect of the FDI and Trade on growth using the time series economic data of MYANMAR. Based on the above discussion, the model to investigate the interaction of FDI and trade policy regime in economic growth is derived by using the production function framework. Our econometric model is derived from a production function in which the level of a country's productivity depends on FDI and trade. The starting point of model formulation is the aggregate production function.

$$Y = f(A, L, K) \qquad \text{---------} \qquad (1)$$

Where

Y = output (gross domestic product – GDP)

L = labour input

and

K = capital stock.

The variable A is total factor productivity (TFP) of growth in output not accounting for increasing in factor inputs (K and L). According to the new endogenous growth theory, A is endogenously determined by economic factors. The model we use to test this hypothesis is derived, in conventional manner, from a production function in which FDI is introduced as an input in addition to labour and domestic capital. As stated earlier, FDI is the prime source of human capital and new technology to developing countries, this variable is included in the production function in order to capture the externalities, learning by watching, and spill- over effects associated with FDI. We also introduce exports as additional factor input into the production function, following the large number of empirical studies which investigate the export led growth hypothesis.

Since the available data on FDI do not fully capture addition to domestic investment by foreign firms, it is not possible to separate local and foreign components of domestic investment. However, by making the reasonable assumption that the method of estimating FDI has been consistent over the years, the effect of FDI on economic growth operating through A. On the basis of Bhagwati's hypothesis; it seems also reasonable to assume that impact of FDI on A depends on the trade policy regime.

To account for the isolated impact of trade openness on economic growth, introduce TP as an explanatory variable. In turn, a proxy variable for the openness of trade policy regime (TP) may be incorporated into the equation. Therefore, one can write;

$$A = G\,(\,FDI,\ FDI*TP\,) \qquad \textbf{(2)}$$

Substituting (2) in (1) , we obtain:

$$Y = F\,(\,L,\ K,\ FDI,\ FDI * TP\,) \qquad \textbf{(3)}$$

Since a constant data series on capital stock is not available for MYANMAR. In this study, the ratio of gross domestic capital formation (GDI) to GDP is employed to represent ***K***. The variable ***FDI*** is measured as the ratio of FDI inflow to GDP. FDI-trade interaction is measured as the product of FDI and TP (that is FDI*TP). There is no unique measure of openness of the trade policy regime. In this study, three alternative proxies are used;

(***OPEN 1***) is the ratio of total products trade (import + export) to goods GDP (that is, total GDP net of value added in construction and services sectors)

(***OPEN 2***) is the ratio of export to gross output in manufacturing sector and

(***OPEN 3***) is the ratio of world price (converted to domestic currency) to domestic price indexes of manufactured products .

The ***OPEN 1*** measure is superior to the widely used trade to GDP ratio because the addition of non-traded activities (construction and services) as part of the leads to an underestimation of the exposure to foreign trade of the given economy. This point is particular relevant in Myanmar where the construction and financial services recorded rapidly growth during latter part (from the later 1988s).

The ***OPEN 2*** measure is based on the premise that greater openness is a requirement for successful world market penetration in manufactured goods. In other words, export success in manufacturing that is likely to occur under a policy regime where policies are more neutral and allows the market mechanism; effectively indicate the country's comparative advantage.

The ***OPEN 3*** measure is that, under free trade, the domestic price of manufactured goods should move in line with the world price converted into domestic currency. Impositions of trade restrictions raises domestic price above world price and hence the ratio of world price (p_w) to domestic price (p_d) tends to decline. By contrast, trade liberalization tended to reduce the gap between the two prices. Thus, a country that undergoes a policy shift from I S to E P regimes tends to experiences and increase in the relative price index **OPEN** ***3.***

The estimating equation used in the empirical analysis, is

$$Y_t = \alpha + \beta_1 L_t + \beta_2 K_t + \beta_3\, FDI_t + \beta_4\,(TP_t * FDI_t) + \varepsilon_t \qquad (4)$$

Where Y = gross domestic product, GDP (in log form)

L = (+) number of labor force (in log form)

K = (+) the percentage of gross domestic capital formation to GDP

FDI = (+/-) the percentage of foreign direct investment FDI to GDP

TP = (+) Openness of the trade policy regime proxies - alternatively by

(1) OPEN1 = the ratio of total products trade to goods GDP

(2) OPEN2 = the export-output ratio the ratio of total products trade

(3) OPEN3 = the relative price index

t = time subscript.

ε = stochastic error term

The sign expected for the regression coefficient is given in bracket. The coefficients β_1 and β_2 are the output elasticity with respect to labor and capital. The impact of FDI on growth (Y) is given by the partial derivative of Y in (4) with respect to FDI, $\beta_3 + \beta_4 * TP$. To test the relevance of Bhagwati hypothesis, the statistical significance of β_4 is examined. The coefficients of different variables are expected to show the following signs in explaining:

Variable	Expected sing
number of labor force (L) β_1	+
Gross domestic capital formation(K) β_2	+
Percentage of FDI to GDP (FDI) β_3	+ / -
openness(TP) β_4	+

Under the Bhagwati hypothesis, the sign of β_4 is expected to be positive. That is, the contribution of FDI to growth will be an increasing function of TP. The sign of β_3 is uncertain ; it can be positive or negative depending on the nature of the trade policy bias over the entire sample period where as β_4 aims to capture the impact of trade policy regime operating thorough FDI. Even when β_3 is negative; it does not imply that the FDI contribution is negative. Whether its contribution is negative or not depends on the size of the coefficient of the interactive term of FDI and trade policy regime, β_4 compared to the β_3.

2.5 Summary

The model will estimate using annual data for the period 1980 to 2004. Data on gross domestic product (GDP), manufacturing output, gross domestic capital formation

(GDI), and FDI inflows are to be obtained from the Ministry of National Planning and Economic Development, in Myanmar. Wholesale price index of manufactured products, and exchange rate are also to be from the Central Statistical Organization, Ministry of National Planning and Economic Development, Myanmar.

In constructing the data series on *OPEN3*, the world price is measured in terms of the US producer price index, obtained from the International Financial Statistics, International Monetary Fund, (IMF). The domestic manufacturing price is measured using wholesale price index of manufactured goods mentioned above.

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CHAPTER III

ECONOMIC INTEGRATION IN MYANMAR: A DESCRIPTIVE ANALYSIS

3.1 Introduction

Global economy has witnessed a rapid integration beginning in the early 1980s. As globalization and regionalism gained its momentum and the welfare gain from open trade and FDI are realized by the pioneer East Asian nations (especially, the ASEAN countries), MYANMAR also tried to catch up with the movement under the State Peace and Development Council. Section 3.2 of the chapter illustrates the characteristics of Myanmar economies. Section 3.3 of overviews of Myanmar GDP. Trends in trade and investment and trade and investment policies in Myanmar will be presented in section 3.4 and 3.5.

3.2 Characteristics of Myanmar Economies

3.2.1 Background of the country

Myanmar is the largest country in South East Asia with a total land area of 261228 square miles (676,578 square kilometers). It stretches for 582 miles (936 kilometers) from east to west and 1275 miles (2051 kilometers) from north to south. It is nestled between China, the Lao People's Democratic Republic, Bangladesh, India, and Thailand. Myanmar is bordered with its neighbouring countries for about 3822 miles (6151 kilometers), sharing 1370 miles (2205 kilometers) with China, 1310 miles (2108 kilometers) with Thailand, 832 miles (1339 kilometers) with India, 170 miles (274 kilometers) with Bangladesh and 140 miles (225 kilometers) with Laos. The length of the coastline from the mouth of the Naaf River Kawthaung in Tanintharyi Division is 1385 miles (2229 kilometers). The Bay of Bengal and the Andaman Sea form the 2,832-kilometre southern boundary from the Kra Isthmus (with Thailand) to the border with Bangladesh.

The country is generally divided into seven main regions: the Northern Hills, the Western Hills, the Rakhine Coast in the southwest, the Shan Plateau in the east, the Central Belt, the Lower Ayeyarwady Delta, and the Tanintharyi Coast in the south. Administratively, Myanmar contains 14 states and divisions. States are designated for the main ethnic groups, while the divisions correspond to the majority Bamar people. The terrain varies extensively throughout the country, with snow-capped mountains in the north to the vast flatlands in the central region. Most of the country's perimeter is comprised of mountains and hills, which often make travel and communication in those regions extremely difficult. The three main mountain ranges found in the western, central and eastern regions all run in a north south direction, and as a result the extensive river system in the country tends to follow a similar longitudinal pattern.

The country's longest river is the Ayeyarwady, which stretches 2,170 kilometers. Myanmar is a tropical country with three distinct seasons, although some regional variations do occur. The dry season runs from mid-February to mid-May, but in the central region, the dry season often extends into what is for the rest of the country the rainy period. The wet season begins in mid- May and lasts until mid-October, when the cool season commences. Rainfall varies widely throughout Myanmar, with an average of 250 centimeters annually in the coastal and delta regions compared to only 70 centimeters in the central area.

Myanmar civilization traces its roots back as early as the 5th century. The first major Myanmar kingdom was Bagan, founded in the 11th century and lasting until the Mongol invasion in the late 13th century. Bagan represents the pinnacle of ancient Myanmar civilization in a number of ways, including engineering, science, Buddhism, and architecture. The legacy of Bagan can be seen today in the thousands of pagodas that still stand. Several kingdoms followed Bagan such as Bago and Ava (near Mandalay) until the British consolidated their control and abolished the monarchy in 1885. From that point until World War I, Myanmar was ruled as a part of the British Indian Empire and eventually secure the country's independence in 1948.

Myanmar had a democratic government between 1948 and 1962, but throughout this period a number of rebellions by communist and ethnic groups broke out. The Burma Socialist Programme Party administered the state through its ideology known as the Burmese Way to Socialism. In 1988, the socialist policies were abandoned when a new military regime called the State Law and Order Restoration Council (SLORC) took over the government. The military leaders renamed SLORC as the State Peace and Development Council in 1997.

3.2.2 Background of the Economy

In the world, every country adopts appropriate economic system in conjunction with its political system. Even though the economic system differs from one country to another, the final goal for every country is to achieve sustainable social and economic development in the long run. In order to reach such goal effectively and efficiently, it is agreed that economic plans are to be formulated and implemented within the framework of the country's economic environment. Hence, each country has its own way in planning for socio-economic development.

MYANMAR consists of seven states and seven divisions comprising 135 national races living all over the country. The population of Myanmar in the year 2004-2005 is estimated at 54.3 million. Myanmar had gained independence in 1948. Since independence Myanmar had to live with insurgency and lack of security, peace and stability that had hampered the development in many regions of the country especially in the border areas. This had also hindered the growth of social and economic development.

The periods of Myanmar’s Economic System can be outlined as –

- 1948-1962 as period of market economy
- 1962-1988 as period of centrally planned economy
- 1988 up to Present as period of market oriented economic system

From 1962 to 1988, Myanmar had a socialist economy. Elements of modern socialism in Myanmar date back to the 1930s, but a socialist form of economic system took shape in the early 1960s, assumed political and administrative control. The socialist era featured state-owned enterprises and government initiated cooperatives with an orientation towards import substitution. The private sector continued to function during this period, albeit under many restrictions. As a result of the socialist policies and the country's overall isolation from international matters, private manufacturers did not produce for export except for a few industries. Once considered one of the wealthiest South-East Asian countries, Myanmar's economic problems hit rock bottom in 1987. By the late 1980s the Myanmar economy was in tatters due to the low productivity and inefficiency of state-owned enterprises, low levels of skill, and a shortage of capital and technology.

In response to the severe economic crisis and domestic unrest, the State Law and Order Restoration Council (SLORC) took the reins of government in 1988 and embarked on a new course for the economy. SLORC reversed many of the socialist era policies and implemented several economic reforms, including new laws, regulations, operating methods, and reorganization of government agencies in an effort to utilize market principles to jumpstart the sluggish economy. The reform programme since 1988 has had a major impact on most sectors of the economy. The new economic environment enabled entrepreneurs to start up their own businesses instead of working for state-owned enterprises or cooperatives. However, the structure of Myanmar's present economy has changed very little compared to the pre-independence years (before 1948).

Myanmar is richly endowed with a wide variety of natural resources. Forests are one of its most precious resources, particularly teak trees, and altogether the country has over 2,300 species of trees. Forests cover approximately half of Myanmar, making it one of the country's most important economic sectors. Myanmar possesses around 80 percent of the world's teak forests, with over 15 million acres of the highly sought after hardwood. Annual teak production capacity can reach 0.6 million cubic meters, but typically nearly 29,000 tons are produced annually. Numerous minerals are found in Myanmar such as gold, copper, zinc, granite, iron, nickel, and several types of gems. The Ministry of Mines oversees all mining activities, and investors are required to enter into joint ventures with the Ministry's state-owned enterprises. Oil and natural gas are also present in the Andaman Sea and have attracted several international oil and gas companies. The major gas field, Yadana, has a pipeline connecting with Thailand. Myanmar is estimated to have 1.2 trillion cubic feet of natural gas.

Agriculture dominated the economy and employed over 66 percent of the workforce in 1931, but by the late 1990s, the percentage of workers in the agriculture sector had dropped to around 56 percent. Agriculture is considered the base of the economy around which other sectors are expected to develop, but the government is also trying to promote a variety of industries such as tourism, mining, construction, and forestry.

During the second period of 1962-1988, particularly from 1962/63 to 1969/70, the government formulated and implemented the plan in the form of departmental project plan. Then, the government had laid down the directive of the Long- Term Twenty-Year Plan setting 1970-71 as the base year.

Within the framework of the Twenty-Year long-term plan, five Short-Term Four-Year Plan were to be formulated. After two and a half year, introduction of new administrative system had led to abort the Plan. During the second period the government laid down directives of the Twenty-Year long-term plan spanning over the period 1974-75 to 1993-94 under which Five Four-Year Plan were to be formulated setting 1973-74 as the base year, at the average annual growth rate of 5.9 percent during the long term plan period.

After 1985-86, the last year of the Third Short-Term Four Year Plan the economy became worsened and suffered from severe decline by 15.8 percent and for three consecutive years from 1986-87 to 1988-89. This was due to decline in exports and imports of raw materials and spare parts which adversely effected the capacity utilization and led to contraction of the production. The sluggish growth in the economy affected the political stability, which led to change the government and the economic system.

The third period, i.e. from 1988 to the present, the Government had given first priority to bring peace, stability and tranquility in the country because there could not be any progress if there is no peace and stability. There has to be undertaking of reform measures for laying down the market oriented economic system to arrest the decline and spur immediate economic recovery. The government is earnestly working hard to promote all round development of the national economy, so as to catch up with those of other fast developing Asian Nations and to build a peaceful and modern state within the context of the market oriented economic system by undertaking urgent reform measures.

During the stabilization program period, Myanmar's economy was managed by formulating and implementing of the annual plan. Due to the reform measures and mainly due to active and extensive participation of private sector almost in all economic activities, the decline in economy was arrested and began to recover achieving a growth rate of 5.9 per cent and other macro economic indicators such as exports imports and investment also showed a positive sign of recovery. A series of reform measures which had been undertaken to transform the economy are as following:-

(1) Decentralizing central control,

(2) Encouraging private sector development,

(3) Abolishing price controls and reducing subsidies,

(4) Allowing foreign direct investment,

(5) Initiating institutional changes,

(6) Initiating the new financial management system,

(7) Streamlining taxes and duties,

(8) Promoting external trade by streamlining export and import procedures,

(9) Diversifying exports through introducing of new products and emphasizing on semi-processed and processed goods,

(10) Improving infrastructural support,

(11) Restructuring wages and prices,

(12) Allowing farmers to cultivate crops of their choice and to process, transport and trade freely,

(13) Allowing reclamation and utilization of fallow and culturable waste land up to 5000 acres for the undertaking of agriculture, livestock and fishery production on a commercial basis,

(14) Allowing national private entrepreneurs to participate actively in agriculture sector,

(15) Establishing industrial zones across the country with the aim for obtaining good foundation for turning the country into industrialized nation,

During the First Four-Year Plan period, exports increased at an average annual growth rate of 17.7 percent and imports by 21.1 per cent. In the Second Five-Year Plan Period, exports increased at an average annual growth rate of 17 per cent while that of imports by 4.8 per cent. In the Second five years plan it may be noticed that yearly export growth is over 20% with the exception in 2003/ 04 showing negative growth. This was due to the prohibition made to some Western Banks from providing financial services to Myanmar using US currency in business transactions. Otherwise the export growth would be over 20%. There was reduction in import. However, import began to rise in 2005/06. It can be observed that in all 4 years of first plan period and in all five years of second plan, balance of trade was negative, which is unhealthy for the economy. It may be aware that, balance of trade was surplus for the four consecutive years beginning from 2002-2003. Myanmar foreign trade is mainly with the Asian countries, sharing 90 %, followed by European countries, 4.8 % and American countries, 1.5 %. ASEAN shares 51.3 %.

Myanmar strives for the development of the economy based on the agriculture sector. Being an agrarian country, Myanmar has food surpluses. Not only promotion of agricultural productivity but also the needs for development of fishery industry and marine resources business are being attended to. Forests of Myanmar are well conserved and policies designed for sustainable development and prevention of environmental degradation have been laid down. As plans to increase the production of food are being formulated and implemented, it is firmly believed that not only will Myanmar have domestic food sufficiency; it will also be able to fulfill regional requirements for food to a certain degree.

The purpose of this paper is to examine the contribution of FDI and International Trade on economic growth using time series data from the MYANMAR economy. MYANMAR is a good laboratory from testing the hypothesis for three reasons. First, throughout the past two decades, MYANMAR has been a significant recipient of FDI among developing countries. Second, and more importantly, MYANMAR has undergone a clear policy transition from an IS regime to an EP regime over this period. Third, MYANMAR is a rich resources country. The trade policy regime in MYANMAR was characterized by a heavy importance on import – substitution in the after 1988s. From the late 1988s, there has been a palpable shift towards greater export orientation.

3.2.3 Overview of Myanmar Economies

During the 1990's, the Government of Myanmar implemented a number of reforms intended to nurture markets and promote greater economic openness. It began the liberalization of agriculture by reducing the role of public procurement, loosening restrictions on the distribution of fertilizer, permitting exports of agricultural products (with the exception of rice), and inviting large-scale private sector investors to assist in the development of agricultural land. The Government also paved the way for an expanded role for the private sector in manufacturing and trade sectors. Foreign exchange transactions were legitimized, the tariff system simplified and duties reduced, and inducements were offered to foreign investors. A modest program of privatization of state economic enterprises (SEEs), concentrating on smaller entities, was piloted.

However, in a context of slowing growth and stiffening sanctions on trade and investment flows, reform efforts began to stall in the second half of the 1990s and some reversals took place. Despite a spurt in economic growth in 1999, which was largely a consequence of a bumper agricultural crop, Myanmar's prospects for growth over the medium term are constrained by growing macroeconomic imbalances and impediments to structural adjustment. However, prospects could be improved if Myanmar were to recommence reforms and undertake needed adjustments. Ultimately, poverty reduction and broader improvements in the quality of life will rest on policy and institutional frameworks that serve to promote durable and equitable growth. Official development assistance could have an important role in serving these objectives and meeting Myanmar's still considerable development needs. However, should international financial institutions be in a position to resume assistance to Myanmar, its impact would be greatly enhanced by advanced measures to improve the policy environment. Some key economic indicators of Myanmar are provided in Table 3.1.

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

Table 3.1 Key Economic Indicators of Myanmar, selected years of 1982-2004

Indicators	Unit	1996	1997	1998	1999	2000	2001	2002	2003	2004
1	2	3	4	5	6	7	8	9	10	11
Surface Area	Thousands sq. km	676.6	676.6	676.6	676.6	676.6	676.6	676.6	676.6	676.6
Population	Million	45.57	46.4	48.16	49.13	50.13	51.14	52.31	53.52	54.75
Population Growth Rate	Percent	1.9	1.8	3.8	2	2	2	2.3	2.3	2.3
Density people per	Sq. km	67	68	71	73	74	76	77	79	80
Per-capita GDP	US$	109	100	144	189	210	162	175	179	166
Per-capita GDP (PPP)	US$	786	830	872	943	1074	1200	1315	1312	1408
GDP at Current Price	US$ Millions	4,956	4,657	6,953	9,275	10,549	8,281	9,135	9,605	9,081
Real GDP Growth Rate*	Percent	6.4	5.7	5.8	10.9	13.7	11.3	12	13.8	13.6
Gov. Budget Deficit	Percent of GDP	-6.8	-5.15	-5.77	-4.98	-4.34	-	-	-	-
Unemployment Rate	Percent	4.1	4.1	4.1	4.1	4	4	4	4	4
Inflation Rate1	Base Year 1995	20	29.7	51.48	19.26	-0.83	21.1	57.08	36.59	57.28
Consumer Price Index1	Base Year 1995	43.04	55.82	84.55	100.8	100	121.1	190.2	259.8	201.4
Foreign Exchange Rate (Market Rate) 1	Kyat per US$	159.8	240.4	232.3	236.7	261.4	458.8	644.6	901.7	1293
Foreign Exchange Rate (Official Rate) 1	Kyat per US$	5.86	6.18	6.27	6.22	6.43	6.68	6.57	6.08	5.81
Interest Rate (3 Month Deposits)	Percent	12.5	12.5	12.5	10.5	9.5	9.5	9.5	9.5	9.5
Interest Rate (Minimum Lending Rate)	Percent	16.5	16.5	16.5	16	15	15	15	15	15

Source- Government of the union of Myanmar, Ministry of National Planning and Economics Development

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

31

The population of the Union of Myanmar was estimated at 54.30 million in 2004, an increase of 1.1 million with a growth rate of 2.02 per cent over 2003. Of the total estimated population of 54.3 million in 2004 , the male population was 27.0 million or 49.7 per cent and the female population was 27.3 million or 50.3 per cent. The age distribution of population shows that 17.7 million or 32.6 per cent are in the age-group of under 15 years, 32.1 million or 59.2 per cent are in the working age-group of (15-59) years and 4.5 million or 8.2 per cent are in the age-group of 60 years and above 65. Table 3.2 shows the comparison of population in the ASEAN.

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

Table 3.2 Myanmar in the ASEAN: A Comparison of Population, 1980-2004

(In Thousand)

Country	1980	1990	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
Brunei Darussalam	186	254	296	305	314	323	331	338	345	354	364	374
Cambodia	6590	8600	10200	10702	10368	11437	11599	12200	13148	13473	13798	14131
Indonesia	147490	179379	194755	197004	199280	201581	203909	206265	208647	211057	213494	215960
Lao PDR	3185	4077	4575	4728	4846	4967	5091	5218	5348	5481	5618	5758
Malaysia	13745	18102	20416	20958	21515	22086	22673	23275	23852	24444	25050	25671
Myanmar	33610	40786	44744	45565	46402	48160	49133	50125	51138	52313	53515	54745
The Philippines	48285	60938	68349	69952	71550	73148	74746	76348	77926	79504	81081	82664
Singapore	2414	3047	3526	3670	3794	3922	3951	4018	4095	4172	4185	4198
Thailand	46700	55840	59400	60000	60649	61098	61806	62408	62914	63430	63950	64470
Viet Nam	52462	66017	71996	73157	74307	75456	76597	77635	78685	80161	81185	82222
ASEAN	**354667**	**437040**	**478257**	**486041**	**493025**	**502178**	**509836**	**517830**	**526098**	**534389**	**542240**	**550193**

Source- Government of the union of Myanmar, Ministry of National Planning and Economics Development

33

Myanmar had 22.5 million people in the workforce in 1997-98. Nearly 14 million were men and 8.6 million were women. Between 55 and 60 percent of the workers are employed in the agriculture sector, followed by nearly 16 per cent in the retail, restaurant, and hotel sectors. Manufacturing is the third largest employer, taking in over 11 percent of all workers. Eighty-five percent of the population over 15 years old is literate, but the education system in Myanmar has not been working optimally for many years, particularly at the higher education level. Nonetheless, the Myanmar people exhibit a thirst for learning and acquiring new skills, and possess many similar characteristics to the famed Vietnamese workforce such as willingness to work hard, acquire new skills quickly, and discipline.

Due to the increase in working age group and extensive participation of the private entrepreneurs in the economic activities, the total employed persons were estimated at 22.05 million in 2004. Of these, the agriculture sector engaged 13.41 million or 60.8 per cent of the total number of 22.05 million. The processing and manufacturing sector employed 2.35 million or 10.67 per cent, livestock and fishery and the forestry sectors 0.71 million or 3.22 per cent and the remaining productive sectors comprising energy, mining, electric power and construction employed 0.73 million or 3.29 per cent. Services sectors comprising transport, communications, social services, administration and other services engaged 2.46 million or 11.17 per cent and the trade sector 2.17 or 9.85 percent. The estimated employment in various sectors for 2004 is shown in the table below.

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

Table 3.3 Estimated Employments in Various Sectors in 2004

Sr. No.	Sector	Number (Thousand)	Ratio (Percentage)
1	**2**	**3**	**4**
1	Agriculture	13409	60.80
2	Livestock and Fishery	473	2.14
3	Forestry	239	1.08
4	Energy	31	0.14
5	Mining	189	0.86
6	Processing and Manufacturing	2352	10.67
7	Electric power	33	0.15
8	Construction	472	2.14
9	Transport	634	2.88
10	Communications	23	0.11
11	Social Services	664	3.01
12	Administration and other Services	1141	5.17
13	Trade	2173	9.85
14	Workers n.e.s	220	1.00
	Total	**22053**	**100**

Source- Government of the union of Myanmar, Ministry of National Planning and Economics Development

a) Economic Situation during the period 1985/ 86 to 1988/89

After 1985-86, the value of export decreased whereas the price of imports became higher and hence, imports of raw materials and spare parts decline leading to contraction of domestic production. During the period 86/ 87 to 88/89 Gross Domestic Product (GDP) declined by 15.8 per cent. The deterioration of the economy affected the political stability which led to the change of government. The economic system was also changed from socialist economic system to a market-oriented one in late 1988.

b) Economic Situation during the period 1989/ 90 (Stabilization Programmed periods)

The government has placed emphasis on stabilization and consolidation of the country and consequently, during the three year period from 89/90 to 91/ 92, stabilization programmes were formulated to revitalize the economy. The economy began to restore, registering a growth rate of 5.9 per cent or an increase of 1.1 times during the three-year period.

c) Economic Situation during the period 1989-90 to 1991-92 (Stabilization Programmes Period)

The government has placed emphasis on stabilization and consolidation of the country and consequently, during the three year period from 1989-90 to 1991-92, stabilization programmes were formulated revitalize the economy. Due to consistent efforts made through dilemma and with the extensive participation of private sector, the economy began to restore, registering a growth rate of 5.9 per cent or an increase of 1.1 times during the three years period while that of per capita GDP at current prices increased to Kyat 4496 in 1991-92 from Kyat 1940 in 1988-89, showing an increase of 2.3 times over that of 1988-89 level.

d) Economic Situation during the Short Term Four-Year Plan (1992/93 to 1995/96)

As the stability has been restored, short-term plans had been formulated since 92/93 with a view to accelerating the economic development. Short Term Four-Year Plan spanning 92/93 to 95/ 96 was formulated with target average annual growth rate of 5.1 per cent. The economy achieved with an average annual growth rate of 7.5 per cent. The economy expanded 1.3 times and per capita income rose from K 4,496 to K 13,515. The Short Term Four-Year Plan was successfully implemented, creating a favourable economic foundation for further development.

e) Economic Situation during the Second Short Term Five-Year Plan (1996/97 to 2000/2001)

With an aim towards a stable and sustainable growth by consolidating the favourable economic foundation achieved, the Second Short Term Five-Year Plan (96/97 to 2000/ 2001) was formulated with target an average annual growth rate of 6 percent. The Five-Year Plan was successfully implemented, achieving average annual growth rate of 8.5 per cent, an increase of 1.5 times while that of per capita income increased to K 50,927 in 2000/ 2001 from K 13,515 in 95/96. Agriculture sector realized average annual growth rate of 7.3 per cent, Industry sector 11.4 per cent and Services sector 8.5 per cent.

f) Economic Situation during the Third Short- Term Five-Year Plan (2001/2002 to 2005/ 2006)

After completion of the Second Plan, the Third Short Term Plan was formulated. GDP for this Five- Year Plan (2001/02-2005/ 06) was targeted with an average annual growth rate of 11.3 per cent. The performance achieved during the plan period was 12.8 per cent, an increase of 1.83 times. Per capita income was K 50,927 in the base year and K 221,217 in the final year 2005/06. Average annual growth rates in agriculture sector increased 9.8 per cent, industry sector 23.5 per cent and services sector 13.9 per cent.

3.3 An Overview of Gross Domestic Product in Myanmar

Myanmar had undergone various economic systems in her long historical past. Beginning with the British colonial period, the free market system with the laissez-faire and free trade doctrine had been the guiding philosophy and policy of the British colonial administration for a century. The national governments since independence in 1948 till early 1962, practiced a mixed-economy model, allowing the market forces to play a leading role in the development process. Then for 26 years, since 1962, socialism with a centrally planned economy was adopted. Finally, following the political disturbances in August 1988, the State Peace and Development Council (SPDC) assumed power in September 1988, abolishing socialist system and instituting instead market-oriented economic system.

Efforts have been made for economic stability and sustainable development of the economy, by achieving consistent development of the agriculture sector, the mainstay of the economy, with the other sectors in accord with the economic objectives of the State. In line with the objective of building a modern developed nation, measures are being undertaken to establish agro-based industries together with other required industries the first phase and to develop electric power and energy sectors for building industrial nation. Moreover, emphasis has been given to expand the production, to implement afforestation works and greening of nine arid areas, to improve health and education services for human resource development, to develop rural areas and to maintain the firm economic and financial foundations of the State.

Since inception of market oriented economic system in 1988, the government has laid down various development plans to gain progress. During the period from 1989 to 1991, stabilization programmers were formulated to revitalize the economy and Myanmar's economy was managed by formulating and implementing annual plans. Due to concerted efforts and extensive participation of the private sector, Myanmar's economy began to restore. Table 3.4 show the value of Gross Domestic Product at selected years.

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

Table 3.4 Gross Domestic Product at selected years (At Current Prices)

Value (Kyat in Million)

Sr. No.	Particular	1962	1973	1977	1981	1985	1988	1995	2004
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
1	**Goods**	**3118.4**	**7859.7**	**17084.1**	**25627.7**	**34300.6**	**51127.5**	**422443.1**	**5861159.4**
1	Agriculture	1685.8	5009.4	10713.7	16764.3	22243.5	36991.1	321550.4	3731643.8
2	Livestock& Fisheries	351.1	867.6	2208.5	2911.3	3981.9	5811.4	36439.6	630305.6
3	Forestry	224.1	282.3	386.9	654.5	757.7	936.5	4760	27887.3
4	Energy	54.7	153.5	282.7	429.8	533.5	294.4	600.9	9974
5	Mining						217.9	2569	46661.8
6	Processing & Manufacturing	616	1276.2	3084.3	4008.8	5561.4	5722.6	41594.4	1050446.8
7	Electric Power	35.6	75.8	94.0	166.7	278	321	1871.8	7469.6
8	Construction	151.1	194.9	314.0	692.3	944.6	832.6	13057	356770.5
2	**Services**	**1674**	**2770.3**	**3767.5**	**6537.3**	**8300**	**9266**	**41928.1**	**1195724.1**
1	transport	409.8	590.6	824.8	1491.3	2010.4	1929.4	17088.3	855390.8
2	Communications	25.8	38.4	59.0	120.6	207.7	310.9	1681.8	78197.5
3	Financial Institutions	88.3	184.3	358.7	1038.6	1332.3	1538.4	1041.1	6602
4	Social & Administrative Services	574.9	1135.2	1595.9	2032.2	2567.8	2996.6	10782	103890.3
5	Rental & Other Services	575.2	821.8	929.1	1854.6	2181.8	2490.7	11334.9	151643.5
3	**Trade Value**	**1865.8**	**4069.7**	**8765.9**	**10714.2**	**13388.7**	**15849.2**	**140357.9**	**2022045**
	Gross Domestic Product	**6658.2**	**14699.7**	**29617.5**	**42879.2**	**55989.3**	**76242.7**	**604729.1**	**9078928.5**

Source: Government of the union of Myanmar, Ministry of National Planning and Economics Development

จุฬาลงกรณ์มหาวิทยาลัย

39

According to official estimates, real gross domestic product (GDP) growth had declined between 1997 and 1998, largely attributable to the adverse impact of bad weather on agricultural production. Another factor is the shortage of agricultural inputs such as fertilizer and pesticides caused by foreign exchange constraints. GDP grew by 5.8 percent in 1998 and is now reported to have grown by about 10 percent in 1999. Real growth in the agriculture sector declined from 3.8 percent in 1996 to 3.7 percent in 1997, but it recovered to 10.5 percent in 1999.

Trade and services, which account for 23.4 percent and 11.5 percent at 2000/2001 constant prices in 2004, respectively, have been growing steadily in 1996 to 1998: trade at about 6 percent on average and services at about 8 percent. The industrial sector, including energy, mining and manufacturing, accounts for only 12-13 percent of GDP. Real growth in manufacturing accelerated from 5.0 percent in FY1997 to 24.8 percent in 2004, and is reported to have registered even a much higher rate in 2002. The share of manufacturing in GDP has remained relatively high and the structure of the economy has changed much since the introduction of market-oriented reforms 8.7 per cent in GDP in 1988 to 10.7 percent in 2004. This is largely attributable to inadequate investment in manufacturing. Table 3.5 show the comparison of average annual growth rates of GDP.

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

Table 3.5 **Average Annual Growth Rates of Sector of GDP, 1996 - 2004**

S.N		Sectors	1996	1997	1998	1999	2000	2002	2003	2004
1		2	3	4	5	6	7	8	9	10
					(At 1985-86 Constant prices)				(At 1985-86 Constant prices)	
1		Goods	6.4	5.1	4.9	12.1	13.5	10.6	13.5	13.2
	1	Agriculture	3.8	3.0	3.5	10.5	9.5	4.7	9.3	10.3
	2	Livestock& Fisheries	11.9	7.1	9.3	16.8	17.8	14.0	25.3	15.2
	3	Forestry	2.1	2.8	3.2	4.6	3.3	6.2	6.4	-5.9
	4	Energy	-2.1	2.3	53.6	66.5	30.8	25.0	10.3	8.3
	5	Mining	12.4	29.7	7.0	30.0	25.5	32.4	7.9	15.8
	6	Processing &Manufacturing	4.6	5.0	6.2	14.5	23.4	28.7	22.0	24.8
	7	Electric Power	12.8	17.8	-5.4	14.2	13.9	22.1	15.0	7.3
	8	Construction	24.6	9.8	6.3	4.4	11.9	60.5	19.7	13.5
2		Services	8.3	8.8	7.9	8.8	13.2	25.3	17.4	17.8
	1	transport	6.0	6.5	5.7	12.0	22.5	25.8	20.9	16.8
	2	Communications	21.7	28.1	11.6	11.0	23.8	89.8	3.5	48.9
	3	Financial Institutions	21.9	14.4	17.0	12.6	14.2	45.5	10.4	24.6
	4	Social & Administrative Services	5.6	6.3	6.5	7.0	7.4	13.5	10.7	14.9
	5	Rental & Other Services	5.9	6.0	6.6	5.8	6.9	20.0	14.1	14.4
3		Trade Value	5.0	5.0	6.3	9.5	14.1	10.5	13.3	12.9
		Gross Domestic Product	6.4	5.7	5.8	10.9	13.6	12.0	13.8	13.6

Source: Government of the union of Myanmar, Ministry of National Planning and Economics Development

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

41

Table 3.6 below illustrates the per capita income in some of the Southeast Asian countries. It can be seen from the figures that the per capita income in Myanmar compared the members of the ASEAN.

Table 3.6 Gross Domestic Per Capita

(US$ Millions)

Country	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
Brunei	17,096	16,227	11,961	12,670	12,751	12,121	12,070	12,971
Cambodia	317	320	265	295	291	283	296	310
Indonesia	1,167	1,128	488	693	731	688	820	973
Lao, PDR	396	360	259	285	332	328	333	362
Malaysia	4,766	4,672	3,257	3,485	3,881	3,698	3,924	4,198
Myanmar	109	100	144	189	210	162	175	179
Philippines	1,184	1,157	896	1,018	980	924	959	973
Singapore	25,127	25,147	20,892	20,611	22,757	20,553	20,823	20,987
Thailand	3,134	2,656	1,900	2,046	2,029	1,887	2,050	2,291
Viet Nam	337	361	361	374	403	415	439	481
ASEAN	**1,505**	**1,429**	**947**	**1,079**	**1,128**	**1,058**	**1,153**	**1,266**

Source: ASEAN Finance and Macroeconomic

The economy remains largely an agrarian economy with the agriculture sector accounting for more than 40 percent of GDP including related activities such as livestock, fishing, and forestry. Therefore, agriculture performance is the most important factor in GDP growth and socioeconomic development. Myanmar's GDP is still comprised mainly of goods, as seen in Table 3.7. Goods accounted for approximately 65 percent of GDP in 2004, while trade and services contributed 13 and 22 percent, respectively.

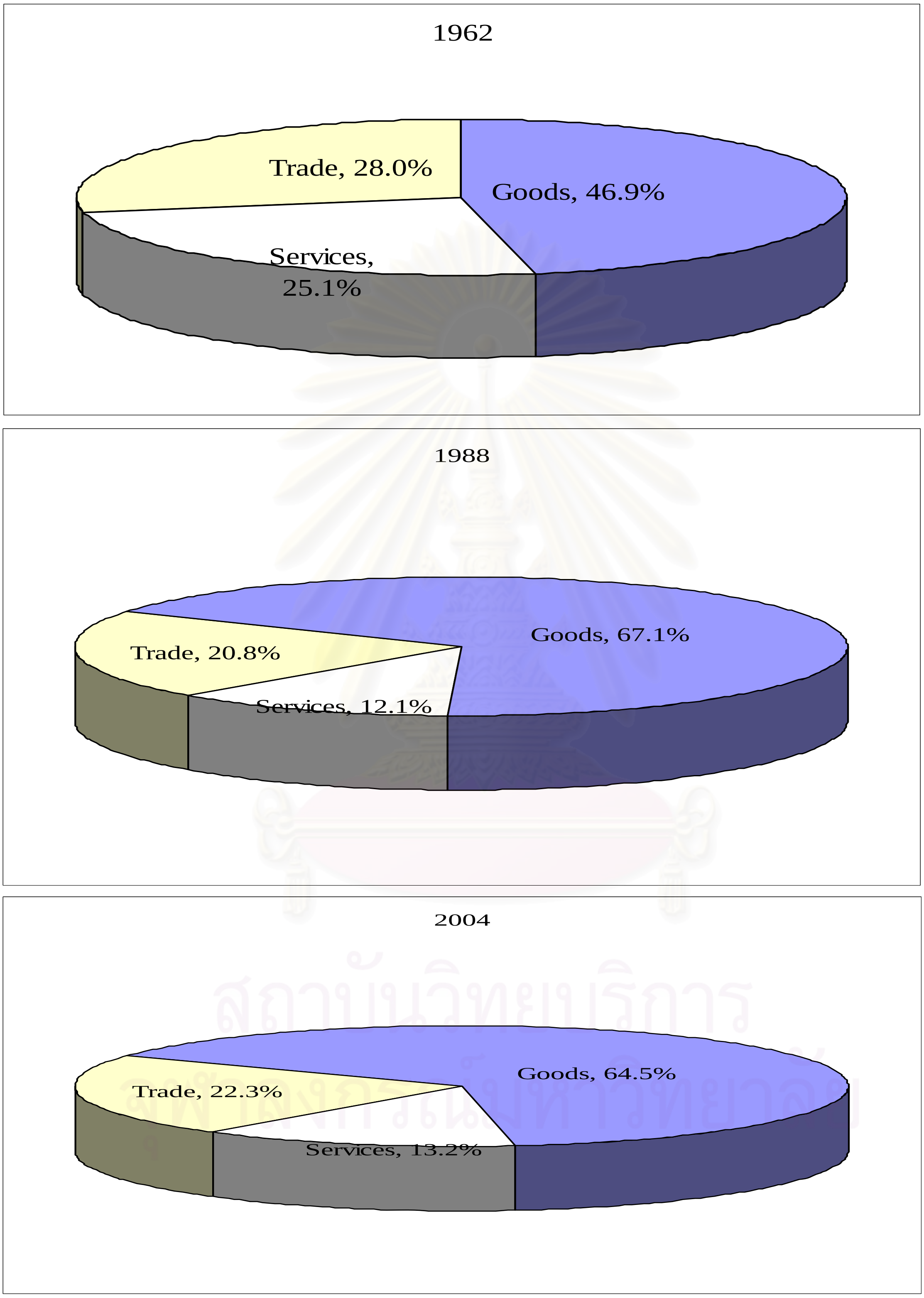
Table 3.7 Structural Change of GDP by Sector (Percentage) , 1962-2004

Sr. No.	Particular	1962	1973	1981	1985	1988	1995	2004
1	2	3	4	5	6	7	8	9
1	**Goods**	**46.9**	**53.5**	**59.8**	**61.3**	**67.1**	**69.9**	**64.5**
1	Agriculture	25.3	34.1	39.1	39.7	48.5	53.2	41.1
2	Livestock& Fisheries	5.3	5.9	6.8	7.1	7.6	6	6.9
3	Forestry	3.4	1.9	1.5	1.4	1.3	0.8	0.3
4	Energy					0.4	0.1	0.1
5	Mining	0.8	1	1	1	0.3	0.4	0.5
6	Processing & Manufacturing	9.3	8.7	9.3	9.9	7.5	6.9	11.6
7	Electric Power	0.5	0.5	0.4	0.5	0.4	0.3	0.1
8	Construction	2.3	1.3	1.6	1.7	1.1	2.2	3.9
2	**Services**	**25.1**	**18.8**	**15.2**	**14.8**	**12.1**	**6.9**	**13.2**
1	transport	6.2	4	3.5	3.6	2.5	2.8	9.4
2	Communications	0.4	0.3	0.3	0.4	0.4	0.3	0.9
3	Financial Institutions	1.3	1.3	2.4	2.4	2	0.2	0.1
4	Social & Administrative Services	8.6	7.7	4.7	4.6	3.9	1.8	1.1
5	Rental & Other Services	8.6	5.6	4.3	3.9	3.3	1.9	1.7
3	**Trade Value**	**28**	**27.7**	**25**	**23.9**	**20.8**	**23.2**	**22.3**
	Gross Domestic Product	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Development Source: Government of the union of Myanmar, Ministry of National Planning and Economics

In Myanmar’s GDP, there are 14 sectors namely Agriculture, Livestock and Fishery, Forestry, Energy, Mining, Industry, Electric Power, Construction, Transport, Communication, Financial, Social and Management, Rental and other Services and Trade. An international accepted practice and economy could be separated into three main categories, namely agriculture, industry and services. These three main categories can be subdivided into a number of economic sectors to cover the whole economy. Myanmar's GDP is still comprised mainly of goods, as seen in Figure3.1 Goods accounted for approximately 60 percent of GDP in 1962, 1988 and 2004, while trade and services contributed 21 and 19 percent, respectively.

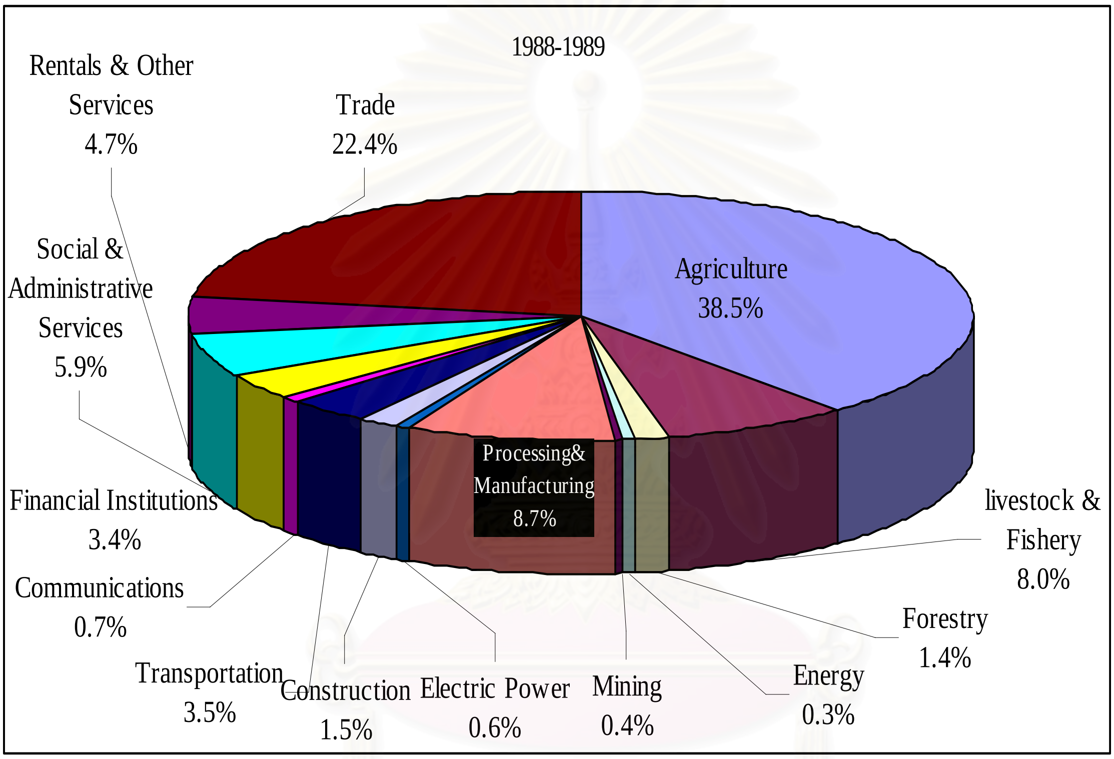
Figure 3.1 General composition of GDP as of 1962, 1988 and 2004

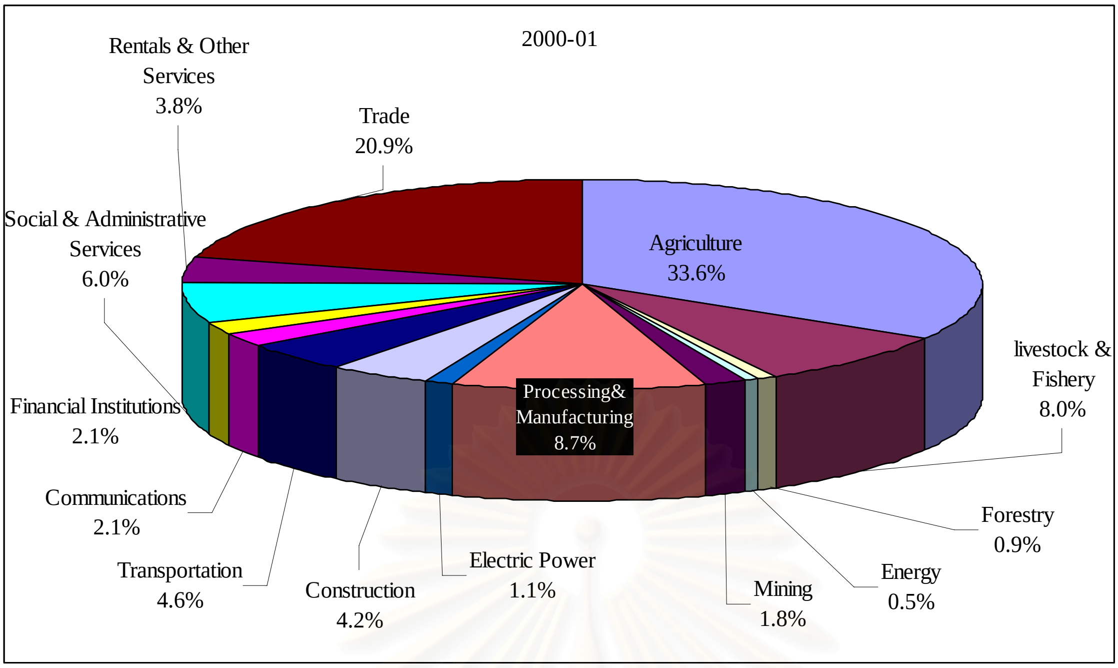


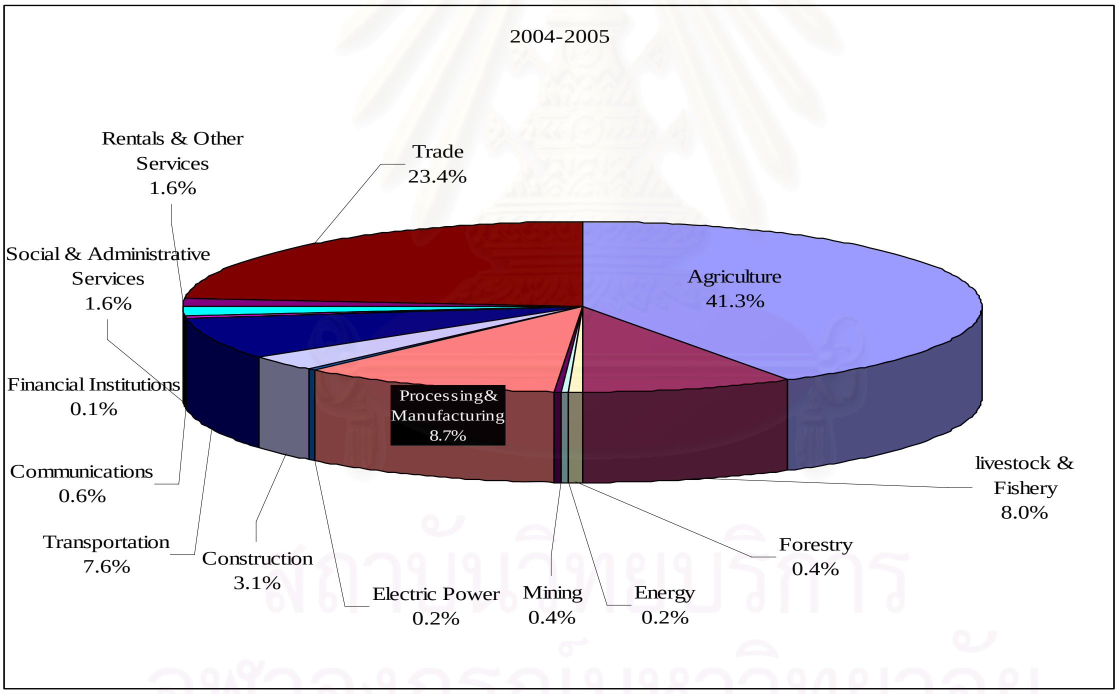
Development Source: Government of the union of Myanmar, Ministry of National Planning and Economics

Gross Domestics Product is including 14 sectors and Agriculture is the dominant sector of the MYANMAR'S economy. It employs 65 percent of the labor force, accounts for 76 per cent of total commodity production, and contributes about 50 per cent of GDP. In addition, about 40 per cent of exports consist of agricultural goods. At the below Figure 4 are Structural changes of Gross Domestic Product by Sector in MYANMAR.

Figure 3.2 Structural changes of GDP by Sector (Percentage)







Source- Government of the union of Myanmar, Ministry of National Planning and Economics Development

a) Agriculture Sector

Myanmar is an agricultural country and agriculture sector is the back bone of its economy, contributes 40.2% (2005) of GDP; 12.0 %(2004) of total export earnings and employs 60.8% (2004) of the labor force. The agriculture sector remains basic in the national economy of Myanmar. 75% of the total population reside in rural areas and are principally engaged in agriculture, livestock and fishery sector for their livelihood.

Myanmar possess a large land area in the South East Asia region and unlike most neighbouring countries, she still has a vast potential of land resources for cultivation and for further expansion of the cultivable land. Of the total land area of 67.6 million hectare only about 13 percent is under cultivation. There is also a great potential for further expansion of mixed and multiple cropping areas, especially in lower Myanmar where the moisture content of soil and water availability are much better than in Upper Myanmar. In Upper Myanmar, especially in the dry belt zone, cultivation is done with water drawn from networks of, irrigation facilities. There still exists a great room for further extension of irrigation facilities, as the potentialities have so far been exploited only to a small extent. The total cultivated area under irrigation accounts for about 21 per cent of net area sown. The Ministry of Agriculture has taken every effort to raise the irrigation coverage of the cropped area to 25% in the short term. Utilization of land in Myanmar is show in the Table 3.8.

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Table 3.8 Land Use in Myanmar, 2001-2004

Type of Land	2001		2002		2003		2004	
	Thousand acres	%	Thousand acres	%	Thousand acres	%	Thousand acres	%
1	**2**	**3**	**2**	**3**	**2**	**3**	**2**	**3**
Acreage	24,685	14.76	24,921	14.91	25,338	15.16	25,963	15.53
Current Fallow	1,536	0.92	1,442	0.86	1,278	0.76	999	0.6
Cultivable Waste	16,466	9.85	16,114	9.64	16,245	9.72	15,287	9.14
Reserved Forests	34,533	20.66	35,023	20.95	37,397	22.37	39,932	23.88
Other Forests	47,758	28.57	47,538	38.43	45,250	27.07	43,525	26.03
Others	42,208	25.25	42,148	25.21	41,678	24.93	41,480	24.81
Total	**167,186**	**100**	**167,186**	**100**	**167,186**	**100**	**167,186**	**100**

Source- Government of the union of Myanmar, Ministry of National Planning and Economics Development

Moreover, the progressive achievements in the agriculture sector covering production, services and trade, accrue to national development. For the development of agriculture sector, emphasis had been placed on ensuring self-sufficiency in rice, expanding the cultivation of pulses and beans for export promotion and expanding the cultivation of cotton, sugar-cane, oil seed crops, culinary crops such as chilies, onions, potatoes, coffee, tealeaf and pepper and physic nut which is bio-diesel plant for the requirement of lubricant oil and fuel oil. The table 3.9 below shows the structure of the Agriculture in Myanmar between the selected years.

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Table 3.9 Structure of Agriculture Sector in Myanmar

Sr. No.	Item	1986	1988	1990	1995	2003	2004
1	2	3	4	5	6	7	8
1	Sown area under Various crop(Thousand acres)	24547	23802	25024	31837	41318	42675
2	Net area sown (Thousand acres)	20338	19903	20568	22654	27288	28187
3	Mixed and multiple cropping area (Thousand acres)	4209	3899	4456	9183	14030	14488
4	Cropping intensity	120.7	119.6	121.7	140.5	151.4	151.4
5	Labor Force (million)	9.95	10.02	10.32	11.27	15.8	13.41
6	Production, thousand metric tons;						
	1. Rice, paddy	13904	12956	13748	17670	23145	24731
	2. Sugarcane	3379	2309	1931	3199	6916	7313
	3. Groundnut	535	431	465	583	877	946
	4. Sesamum	196	72	161	698	227	541
	5. Maize (seeds)	281	190	184	270	704	783
	6. Gram	151	143	212	299	444	238
	7. Cotton	79	59	61	162	156	195
	8. Jute	46	46	24	43	23	17
10	Production Index 1999-2000=100	65.8	63.5	61.1	90	118.7	122

Source- Government of the union of Myanmar, Ministry of National Planning and Economics Development

With a view to realizing the three objectives of the agricultural sector: to have surplus in paddy production, to achieve self-sufficiency in edible oil and to step up the production of exportable pulses and industrial crop, concerted efforts are being made. Special emphasis has been placed on expansion in cultivation of paddy for self-sufficiency in rice deficit areas. The State leaders also provide required co-ordination and co-operation and attend to the needs of the cultivators. In line with the policy of the agriculture sector, such as: to allow farmers to cultivate and produce crops at their choice, to expand agricultural land and to safeguard the rights of farmers, to permit commercial production of industrial crops and perennial crops and to encourage the participation of private sector in the distribution of farm machineries and other inputs, the following measures have been undertaken:-

- development of new agriculture land,
- provision of sufficient water for cultivation,
- increased utilization of farm machinery,

- application of modern agro-technologies and
- development and utilization of new quality seeds.

For expansion of cultivated land area, reclamation of fallow land culturable waste land, development of farmers' embankment and paddy-fish integrated farming in deep water areas and inundated areas, protection of soil erosion and development of up land farming in high land areas are being carried out. The Central Management Committee of Culturable Waste and Fallow Land has leased out 20 thousand acres to 79 organizations and private entrepreneurs for cultivation in 2004, thus a total of 803 thousand acres have been allocated to 2700 organization and private entrepreneurs up to 2004. Of the total, 796 thousand acres have allocated to 2562 private entrepreneurs for cultivation of crops and 10 thousand acres to 138 private entrepreneurs for paddy-fish integrated farming.

In order to ensure progress in land reclamation works and cultivation of crops in short-run, national entrepreneurs, private companies and organizations are encouraged to grow main crops including paddy by granting rights to reclaim lands. Up to 2004, 2.3 million acres were allocated to the private entrepreneurs and companies of which 0.3 million acres were under cultivation. Due to the cultivation of crops by reclaiming fallow, virgin and waste land, net area sown and mixed and multiple cropping area increased from 27.3 and 14.0 million acres in 2003 to 28.2 and 14.5 million acres in end of March 2004, showing an increase of 900 thousand acres and 500 thousand acres each in net area sown and also in mixed and multiple cropping area. Thus, total sown acreage amounted to 42.7 million acres, an increase of 1.4 million acres over the previous year. The cropping intensity was 151.4 per cent in 2003 and according to the end of March 2004, it is 151.4 per cent.

Myanmar's main economy objective has been to generate all-round growth of other sectors of the economy with agricultural sector development as the base. Moreover, in the process of transformation from a centrally planned to a market-oriented economic system, the agriculture sector from the initial stage had been liberalized with a view to promote higher growth rates of the economy. In addition, Myanmar has made headway in terms of ensuring a relatively high and stable growth in the agriculture sector. The production of rice, main staple food, and other major crops of importance to human nutrition such as oilseed, pulses and other food crops under multiple and mixed-cropping systems, are progressing substantively.

In Myanmar, the land-man ratio is still very favourable and therefore land ownership is still not a critical issue. However, Myanmar's agriculture is still basically a rained agricultural system and irrigation development remains a principal requisite. In recognition of its importance for agricultural development, the name of the Ministry of Agriculture was assigned as Ministry of Agriculture and Irrigation to ensure speedier and efficient irrigation support. A major constraint has been inability to utilize the rich water resources of the country. To date only around 5 percent of the country's estimated total water resources of 870 million acre/feet has been exploited. The State Law and Order Restoration Council, since the assumption of the responsibility of the State in 1988, has solely with its own financial resources, invested over 11 billion kyat for the implementation of 72 irrigation projects within a short space of time. This has resulted in the increment of the irrigation area from 12.6 percent of the total sown area in 1988 to 21 percent in 1996. Similarly, the cropping intensity increased from around 120 percent to 143 percent within the same period.

The double cropping area under paddy, the "National Crop" of Myanmar, has significantly increased, contributing to the overall percentage increase in cropping intensity. Traditionally, only around 12 million acres of paddy were grown annually, mainly under rainfed conditions. However, since 1992, this was augmented with the introduction of summer paddy, and within the past three-year period, the area brought under summer paddy has totaled over 3 million acres and is expected to reach 4 million acres by the end of 1996. The increased cultivation of rice, which covers more than 50 percent of the annual total sown area, clearly illustrates the improvement of the cropping intensity of a single crop within a short time span.

Myanmar's Economy has traditionally been based on Agriculture. That is because Nature has blessed it with vast areas of fertile land and abundant sources of water which are the principal ingredients of an Agro-based economy. Major rivers flow from the North to South of the country emptying into the sea around the Western and Southern part of Myanmar. These rivers are fed along their routes by a myriad of rivulets and creeks. On the arable land, fed by the water of the rivers, rivulets and creeks are grown various types of crops.

The seasonal Monsoons from the South-West brings rain to Myanmar for about five months every year, filling the rivers and creeks and watering the land for cultivation of rice, the principal crop of Myanmar. Nowadays however, rice is also being grown in winter as well as in summer in areas which are fed by water from the various dams, or pumped into the paddy fields from the rivers and creeks.

Myanmar is primarily an agricultural nation. Some 63 % of the working population is engaged in growing or processing crops, while another 12 % works in industry. Before World War II Myanmar was the world's major rice exporter. After the war, the area of land devoted to agriculture slowly recovered, but as the population grew the surplus available for export never reached the earlier level. The following table shows the progressive increase of multiple cropping area form 1940 to 2004.

Table 3.10 Land Cultivation, 1940-2004 (Thousand acres)

Iteams	1998	1999	2000	2001	2002	2003	2004
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Cereals							
Paddy	14230	15528	15713	15940	16033	16168	16646
Wheat	245	260	198	196	206	235	266
Maize(seeds)	465	519	537	621	664	703	724
Pulses and Beans							
Matpe(Black gram)	1306	1371	1532	1785	1870	1810	1933
Pedisein(Green gram)	1747	1839	1834	1845	1918	1902	2034
Butter bean	116	130	129	125	123	132	133
Gram(Chick pea)	279	323	411	485	476	512	505
Pesingon(Piegeon pea)	666	761	895	1197	1269	1296	1366
Oil Crops							
Groundnut	1242	1400	1458	1405	1436	1617	1691
Sesamum	2963	3352	3518	3416	3501	3620	3596
Sunflower	848	1204	1281	1232	1137	1262	1276
Industrial Crops							
Cotton	804	842	801	730	747	722	756
Jute	100	95	111	125	112	80	67
Rubber	369	419	446	460	456	468	503
Sugarcane (Industrial use)	311	333	343	402	367	373	361

Development Source: Government of the union of Myanmar, Ministry of National Planning and Economics

Area under multiple cropping, expanded significantly during the decades from 1940 to 1981. It was due to an intensive recourse to farm mechanization and increasing availability of irrigation water, with the completion of large scale dams. Increases, however, were slight during the 1981’s, and 1990's, and the shortage of fuel for mechanization during those periods, may have been the main cause of hindrance. But with the inception of favorable price incentives for some crops, multiple cropping once again increased remarkably, from 1992-93 and onwards- and in particular second cropping of pulses registered sharp rises.

The agricultural sector being the mainstay of the Myanmar economy with about 36% percent of the total GDP and about 46 percent of foreign exchange earnings in accorded priority. Since 1990, according to the policy for the participation of private sector in agricultural sector, local and foreign investors are encouraged by the government and now some areas such as distribution of agricultural machinery and inputs are being engaged by private sector. However, there is no significant participation of private investors in crop production because investors have been attracted by other most profitable economic sectors.

Nonetheless, from the last year, 1998, participation of private investors in agriculture is rapidly increased when the Government introduces a scheme to go out rights of land utilization for the purpose of agricultural activities with the aim of private sector participation. Interested company and groups are now allowed for the land from deep water flooded and waste land area and now 33 applicants have already been granted 0.98 million acres up to February 1999. Land preparations for further necessary assistance are being given by respective agencies under Ministry of Agriculture and Irrigation.

National entrepreneurs are encouraged to cultivate cash crops like paddy, rubber, cotton, palm olein, pulses and beans on commercial scale. Among these, with effect from 1999 crops, except oil crops, the 50 percent of the production of restricted items like rice and other items will be allowed to export annually subject to recommendation of the Agricultural Crops Supervisory Board under the Ministry of Agriculture and Irrigation. Presently Myanmar has 18 million hectares of cultivable land of which only 9 million hectares are under cultivation. We still have 9 million hectares available for cultivation.

Myanmar is rich in agricultural land resources and agricultural labour is relatively cheap. The investment in this sector is a very promising one. Local and foreign investors are welcomed to invest in the form of joint - venture or 100 percent investment and profit sharing basis.

Myanmar has total water resources of approximately 870 million acre - feet per annum and presently utilising only 6 percent. So far, 86 irrigation projects have been completed. The Ministry of Agriculture has taken every effort to raise the irrigation coverage of the cropped area to 25 percent in the short term.

The cultivation practices of farmers, in tandem with increased cropping intensities, has also at the same time improved rapidly, the most obvious being the transformation of traditional to mechanised agriculture. Other major changes that are taking place in parallel are; varietals changes in accordance with the emerging cropping patterns, use of improved seeds and efficient use of agricultural inputs such as fertilizer, pesticides and herbicides.

The agricultural sector as dominant force in Myanmar's national Development, plays significant role in providing overall domestic agro-based industries. Agricultural, livestock and fisheries and forestry at present contribute to 36% of Myanmar's GDP and to 35% of export earnings and remain as the principle pillars in the national economy. Myanmar has 18.12 million hectares of cultivable land of which only 10.12 million hectares are under cultivation at present. It is expected to reach 14.16 million hectares in next 30 years period. Available in addition 8.9 million hectares for cultivation are for agricultural investment and agricultural labor is relatively cheap. Myanmar is leading producer as well as exporter of pulses and sesame among ASEAN countries and second largest exporter in global market. The strategies measures has been made to improve agricultural productivity in the area expansion, yield expansion, crop diversification, use of advanced agricultural technology such as post harvest technology and to apply better storage and milling and packaging system.

Myanmar's economy is still heavily reliant on agriculture. Agriculture accounted for 41.2 percent of GDP in 2004-2005. No other sector comes close to matching agriculture's contributions to the national economy. The next largest sectors, manufacturing and livestock/fisheries, comprised 10.6 percent and 9.1 percent of GDP in 2004-2005 .With such a large percentage of the country's GDP and employment hinging on agriculture, steady growth in the sector is crucial if Myanmar's economy is going to improve . Myanmar's overall GDP has recorded some impressive gains since the mid-1990s, but the growth rates for agriculture are somewhat disappointing over the past few years. Table 3.11 shows a comparison of GDP growth and agriculture growth between 2000 to 2004.

Table 3.11 Real growths of GDP and Agriculture, 2000-2004

(In percent)

	2000	2001	2002	2003	2004
GDP	13.7	11.3	12.0	13.8	13.6
Agriculture	11.1	8.1	4.7	9.3	13.2

Source- Government of the union of Myanmar, Ministry of National Planning and Economics Development

Equally important is agriculture's contribution to employment. Sixty-three percent of the labour force is engaged in the agriculture sector, indicating that agriculture will be a key sector in the economy for some time to come. Also notable is the percentage of manufacturing firms related to agriculture. Over 58 percent of all manufacturing firms are in the food and beverage industry. Rice is the staple crop and the second largest export commodity, after teak. Other important crops are sugar cane, groundnuts, sesame, wheat, maize, millet, jute, cotton, beans, pulses and oilseeds, vegetables, rubber, toddy palm, tobacco, spices and other edible produce.

Table 3.12 shows that the Growth, export and FDI stocks of agricultural sector.

Iteam	2000	2001	2002	2003	2004
GDP growth %	13.7	11.3	12	13.8	13.6
Agriculture Growth %	11.1	8.1	4.7	9.3	13.2
Export Value (kyat million)	2312	3021	2808	2343	1830
% of total export	0.18	0.18	0.14	0.17	0.11
FDI stock (US $)	206.08	206.08	206.08	206.08	206.08

Source- Government of the union of Myanmar, Ministry of National Planning and Economics Development

b) Livestock and Fishery Sector

Myanmar has vast pasture land with suitable climate for animal husbandry and poultry. Myanmar with a coastal line of 2832 km is also rich in marine resources. It has been estimated that one million metric tons of fishery resources could exploitation is less than 60% of the important sector of the economy and it contributes 9.3% to GDP in 1988-99. Sectoral policies and principle objectives of the livestock and fishery sector are:-

- to promote all round development in the livestock and fishery sector;
- to increase meat and fish production for domestic consumption and share the surplus with other countries;
- to encourage the expansion of aquaculture; and
- to upgrade the socio- economic status of livestock and fisheries communities.

During the last ten years, all livestock population increased with various growth rates, poultry achieving the highest rate. In Myanmar, cattle, buffalo, pig, poultry, and small ruminants like sheep and goat are raised for local consumption. Beef cattle breeding are non-existent and dairy cattle breeding are still at an infant stage. Consumption of meat in Myanmar is quite low as compared to developed countries. While the per capita consumption of fish was 28.45 kilograms in 2001-2002, per capita consumption of meat was only 9.85 kilograms.

The fisheries sector is considerably important in Myanmar's economy, as fish constitutes a major source for animal protein in the diet of the people. The country is endowed with rich and varied marine and inland fishery resources, with a production potential (sustainable yield) of 1.05 million metric tons per annum from marine source alone. Inland water bodies such as natural lakes, reservoirs, river systems ponds etc. cover an area of about 8.2 million hectares. Aquaculture played a minor role in our fisheries industry till 1989. Only three thousand hectares of fishponds were established at the time. However, due to the encouragement and support by the Government through the Law Relating to Aquaculture, the aquaculture industry has now expanded to over ninety thousands acres of fishponds.

The country is endowed with rich and varied marine and inland fishery resources, with a production (sustainable yield) of 1.05 million metric tons per annum from marine source alone. Inland water bodies such as natural lakes, reservoirs, river systems, ponds, etc, cover an area of about 8.2 million hectares. There are 3474 flood fisheries (leasable fisheries) producing about sixty eight thousand tons fish prawns annually.

The fisheries sector is considerably important in Myanmar’s economy, as fish constitutes a major source for animal protein in the diet of the people. The staple food in Myanmar is rice and pulses, beans, and vegetables are also consumed in large quantities. Per capita consumption of fish was 18 kg and per capita consumption of meat was 6.2 kg last year.

Production, processing and marketing of all fishery / fishery related activities is carried out by the private sector. All state owned fishing vessels, carrier vessels, ice plants, processing plants, cold stores, fish meal plants, dehydration plants etc. are sold or leased to the private sector and the Government and the Ministry of Livestock and Fisheries encourages and support the expansion, and the role of the private sector. This resulted in increase of production, increase in exports and consequently, increase in state revenue. The following table shows the production of fish, which includes prawn, shrimp, lobster, shark, ray, etc. of the Union of Myanmar, in conjunction with export.

The Union of Myanmar enacted the "Territorial Sea And Maritime Zone Law" on 9 April 1977 and the law clearly defined the Baselines (straight lines drawn between fixed points on the mainland, on islands or rocks officially recognized by Myanmar as its territory. Schedules of such points are indicated in the Law) , the Territorial Sea (extending twelve nautical miles from the baselines), the Continental Shelf (extending two hundred nautical miles from the baselines) and the Exclusive Economic Zone in which the zone area covers a distance of two hundred nautical miles from the baselines. Myanmar has a long coastline of 2832 kilometers. The total area of swamps along the coast is about 0.5 million hectares which provides a very good basis for the development of shrimps and prawn culture. The continental shelf covers 228,781 sq., kilometers and Myanmar's exculsive economic zone (E.E.Z) is 486,000 sq., kilometers wide. According to surveys and research undertaken in marine fisheries, the Maximum Sustainable Yield (MSY) of the Union of Myanmar is estimated at about 1.05 million metric tons per year.

At present, only fourteen percent of the total production could be exported due to insufficient number of processing facilities, ice plants, cold stores etc. Although the government still manages some demonstration farms and hatcheries for extension service, the main infrastructures in the fishery industries are managed and operated by private entrepreneurs. In other words, there is no State owned institution competing with the private sector in fishery and fishery related operations. There are about (646) species of fish in Myanmar's Marine Fishery Waters and most of the exported products come from this source.

c) Manufacturing Sector

With the abundant natural resources, high labour quality available at low cost, exiting manufacturing facilitates and favourable geographic location, Myanmar has high potentials for industrial development. It contributes 9.2 % of GDP during the past 10 year period. The share in GDP by ownership in manufacturing sector is 26% state owned 1 % co-operative and 73% private sector respectively. The employment in this sector is relatively low, less than 10 percent of total labour force, which is about 1.7 million. The agro-based industries in terms of number as well as value are predominantly agricultural products processing industries such as rice milling, food and beverage, etc. Within the ASEAN, labour intensive and low-tech industries are relocated to least developed countries. Myanmar has more rooms for such kind of opportunities. The priority industries in which investment is strongly encouraged. The manufacturing and processing sector accounts for 10.6 percent of the country's GDP. Annual growth in the manufacturing sector is shown in Table 3.13.

Table 3.13 Real growth of GDP and manufacturing, 2000/2001-2004/2005

(in percent)

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
GDP	13.7	11.3	12.0	13.8	13.6
manufacturing	23.0	21.8	28.7	22.0	24.8

Source- Government of the union of Myanmar, Ministry of National Planning and Economics Development

The principal industrial activities relate to agriculture, such as food processing and tobacco products, but other important industries include wood-based industries, beverages, clothing, jewelry, metal, pharmaceutical and household goods, paper and chemical, cement, animal feed, and iron and steel products.

- Export Oriented Industries
  - Resource based industries
    - agro-based industries (canned fruits/ vegetables)
    - wood-based industries
    - leather, rubber-based industries
    - copper fabrication
    - seafood industries
  - Non-Resource based industries
    - garment/textile
    - light manufacturing/ electrical appliances
    - electronic industry
    - footwear industry
- Domestic market Oriented Industries
  - Resource based industries
    - food/beverages (rice, oil, sugar, etc)
    - agro supportive industry (farming tools, fertilizers, pesticides)
  - Non-Resource based industries
    - cement
    - simple electronic and machinery components
    - plastic ware

- iron and steel
- agro supportive industry (tractor, water pump)
- packaging industry

d) Forestry Sector

Myanmar is indeed very rich in forest resources, as the forest covers about 50.81 percent of the total land area. According to its climatic zones from temperate to arid and tropical, several variant forests types exist. They are the temperate forests in the north, the deciduous forests in the south. There are over 5000 different plant species, including 2100 tree species, 840 kinds of orchid, 96 varieties of bamboo and 32 different types of cane. In 1998/99 reserved forest and protected public forest area totaled 105672 sq. km.

The forest policy of Myanmar has been formulated according to the forestry principles adopted by the United Nations Conference on Environment and Development. The Government gives priority to protect the soils, water catchments eco-systems, bio-diversity, plant/ animal resources, scenic reserves and national heritage sites. At the same time sustainable management of the forest is practiced simultaneously so as to ensure perpetuity the level of benefit both tangible and intangible for future generations. It also employs the maintenance and rational use enhancement of the forest resources base, to ensure ecological resilience and its contribution to socio-economic growth on a continuous basis.

e) Mining Sector

Myanmar is rich in mineral resources and minerals of potential importance are copper, gold, lead, zinc, silver, tin and tungsten, antimony, chromium and nickel. In terms of mineral resources are very much under-utilized. There still exist a large mineral potential and it is the policy objective of the Ministry of Mines to immediately boost up the present production thus fulfilling the growing domestic needs of mineral and metal products and the same promoting exports.

The Myanmar Mines Law was promulgated in mid 1994, with this new law, all mining activities are administered by the Ministry of Mines. The Myanmar Mines Rules was promulgated in 1996.

Mineral-wise the government emphasis is more on the production of copper, gold, lead, since, iron and is collaboration with foreign companies for the exploration and exploitation of these resources.

Types of possible investments can be through production sharing or profit sharing arrangements. It is the intention of the Ministry of Mines not to make new investments by itself, rather, it would encourage foreign investors to make them. The ministry of Mines is prepared to offer new areas or deposits for new projects or to provide raw materials, and existing facilities as its participation in the joint ventures. These participation would be valued on fair and equitable basis so that the foreign investor may receive reasonable return and the Ministry may enjoy mutual benefits.

Production sharing type of investment could either be straight split on total production or with consideration recovering production cost. In the cost recovery type of production sharing, it is usually done in such a way that a certain percentage of total revenue is reserved before consideration of recovering the production costs. Straight production split type is preferred by the Ministry of Mines in large volume, low price and low cost of production types of minerals such as dimension stones, coal and other industrial minerals. In the case of other more valuable metallic minerals such as gold and copper, production sharing with cost recovery type of co-operation may be possible.

f) Energy Sector

Much emphasis and priority is placed on the development of the electric power sector because of its vital importance to the nation’s social and economic development. At present, only about 15% to 20% of the total populations are accessible to the electric power supply, and the rest had to rely on conventional natural resources. The Government’s economics growth target requires a substantial expansion of the national power supply. Commercialization and privatization of the electric power sector will be required to fulfill the power needs.

Myanmar has an abundance of hydropower potential of more than 100,000 MW and huge reserve of offshore natural gas. Developments of hydropower involve high capital costs and long lead time for construction in contract to gas turbines and combined cycle power plant. In order to meet future demand hydropower has to be developed on long term basis and gas turbines will have to be built as stop-gap measure. The abundance of hydropower potential enables Myanmar to consider development of hydropower projects not only for domestic power supply but also for export to the neighboring countries.

Myanmar has very high potential in the development of oil and gas and hydro-energy sector. Oil and gas exploration under the energy sector contribute highest in the foreign investment in Myanmar. New discovery of off-shore gas fields developed by foreign investors are operating under the production sharing contracts. There is, therefore, a lot of potential can be seen in the establishment of downstream and related industries in this particular sector.

3.4 An Overview of Foreign Direct Investment in MYANMAR

Foreign Direct investment comprises mainly four different types , there are foreign direct investment (FDI), foreign portfolio equity investment (FPEI), foreign long term debt investment such as bonds and debentures, and short term loans of five years or shorter duration . Actually, differentiation between foreign direct investment and equity capital is only an approximation. Foreign direct investors usually exercise a degree of management control in the venture and have longer time horizon, first engaging in the production of goods and services. Portfolio equity investors, financial institutions, institutions or investors or individuals, on the other hand, are interested only in the financial return on their investment. Any investment is conventionally counted as foreign direct investment if it forms a 10 per cent stake in a company, both corporate and incorporated. The division is somewhat arbitrary. There can be shifts in ownership proportions as the conditions of the collaboration or the situation changes.

The flow of equity capital is dependent on the growth of the stock market - which has taken shape in Southeast Asian countries only in the last 10 years. The trends of the growth of equity market and FDI in Asia indicate a parallel development, rapidly increasing in the early 1990s, though the absolute size and the rate of growth of equity capital are much smaller than those of FDI. It is also noted that volatility of equity capital tends to rise with higher macroeconomic instability, with the volatility reflecting the actual or expected macroeconomic instability.

Foreign direct investment played a very important role in the recently industrializing countries of Southeast Asia. Singapore, Malaysia, Hong Kong, China and Thailand are large recipients of FDI inflow to the east and southeast since 1985. In 1995, FDI inflow formed about 27 per cent of gross fixed capital formation in China. Likewise, Singapore and Malaysia received FDI inflow at about 19 per cent and 17 per cent of gross fixed capital formation respectively in 1995. Actually, countries such as China, Malaysia, Singapore, and Indonesia received the largest share of FDI inflows in the region during this period. Overall, FDI inflow began in the early 1980s, rapidly increased in the late 1980s, and accelerated in the 1990s. These coincided with the rapid rate of growth of these countries during this period.

In Myanmar foreign investment occurred in the seventeenth century in the shipbuilding industry. By using famous Myanmar's teaks, the Portuguese, and other Europeans initiated and operated these ventures and the industry thrived until the steamships were introduced in the mid-nineteenth century. Since the middle of the nineteenth century, after the annexation of lower Myanmar to British India, influx of foreign capital, business and laborers had been very extensive. In fact, the growth of rice production in the Delta area within a very short period of time had been accomplished with the assistance of capital of European firms investing in rice trade and rice milling. Foreign seasonal laborers working at reaping activities in the field as well as in the rice mills also contributed to a great extent. It was estimated that foreign investment in Myanmar amounted to 155 million pound sterling in 1941 just before the Second World War. Besides British Malaya, Myanmar received a very high flow of foreign investment and operated a huge foreign trade sector compared with others in Southeast Asia. However, the character of this investment is that a large part of this capital was built up with ploughed back earnings of these foreign enterprises. Most of these businesses started off small but over a hundred years developed into large modern enterprises. In those days, business profits were very high and 20 per cent returns or more was very common.

After the Second World War in 1945, the returning British government began to reconstruct major foreign businesses through an assistance program called Project Board system. But Myanmar attained independence from the British in 1948 and the new parliamentary government nationalized major business firms such as Timber Corporation, transport companies and other economically efficient firms, while allowing some enterprises, such as oil companies, which needed technological advancement and fresh flow of capital to operate as joint ventures.

In 1955, the government invited foreign and local private businesses to operate in designated industries. Foreign entrepreneurs were also guaranteed against nationalization for a period of ten years, and offered incentives such as tax concessions, provision of foreign exchange for remittance, accelerated amortization, and repatriation of capital. Since the early 1950s, a new form of collaboration with foreign business, joint ventures, was initiated in industries and mining areas. For instance, a joint venture with Unilever to establish a soap factory was set up and successfully operated up to the time of nationalization by the socialist regime in 1964. There were plans to set up joint ventures with Japanese and British firms, and all were in various stages of negotiations during the period. The Union of Myanmar Investment Act was passed in 1959 as a definite step in the direction of formalizing the invitations to private foreign enterprises in the development process.

The trend of global economy today is getting momentum and the interdependence among nations has increased considerably. Every nation of the world makes a commitment to economic co-operation in order to a balanced expansion of the world economy. Foreign direct investment (FDI) constitutes an essential factor in this process . Foreign investment not only can facilitate the economic restructuring and optimization, but also can accelerate the integration of regional economy with the world economy. Each nation needs to take action to encourage thereby, FDI, promoting the development of the developing countries and enhancing co-operation between developed and developing countries.

Myanmar adopted the market oriented economic system in the year 1988 after adopting the centralized planning economic system for more than two decades. Substantial stabilization and reform measures had been undertaken to be in line with the new economic system. The initial step taken towards a more liberalized economy is to allow foreign direct investment and to encourage the private sector development. In the area of legal framework one of the first laws on investment promulgated by the state Law and Order Restoration Council is the Union of Myanmar Foreign Investment Law, promulgated on 30th November 1988 to induce foreign investment and to boost investment particularly in the private sector.

a) Foreign Direct Investment Policy

Since the Union of Myanmar Foreign Investment Law was promulgated on November 30, 1988 and its procedures prescribed on December 7, 1988 Myanmar has opened the doors to foreign investors to participate actively in exploiting natural resources thereby enhancing long-term mutually beneficial economic cooperation. The impact so far has been quite satisfactory. In fact, the policy on foreign investment cab is seen as an important component of the overall economic restructuring and development policy of the State.

The Basic Principles of Foreign Investment are as follow:-

(a) promotion and expansion of exports;
(b) exploration of natural resources which require heavy investment;
(c) acquisition of high technology;
(d) supporting and assisting production and services involving large capital;
(e) creation of new employment;
(f) development of works that would save energy consumption; and
(g) regional development.

Myanmar Investment Commission was formed in order to oversee and administer the Myanmar Foreign Investment Law. Myanmar Investment Commission is an initial approving authority for investment proposals under Foreign Investment Law. Myanmar Investment Commission scrutinizers the foreign investment proposal put up by the investors from technical, financial, commercial, economic, and social and environment aspect, within the framework of the policy objectives of the Foreign Investment Law.

If the proposal meets the requirements set out in the Laws, MIC puts up the proposal to Trade Council and Cabinet for final approval. It will take about six weeks to issue MIC permits. The Government is now encouraging resources based, labour intensive and export oriented manufacturing industries for the benefit of the State. Existing of fairly trained and literate labour force attracts labour intensive and export oriented industries.

b) Right to Transfer Foreign Currency

(i) A person who has brought in foreign capital can transfer the following:-

- foreign currency entitlement of him.
- net profit after deducting all taxes and provisions.
- foreign currency permitted for withdrawal by the Commission which may include the value of assets on the winding up to business.

(ii) A foreign employee can transfer his salary and lawful income after deducting taxes and other living expenses incurred domestically.

Enterprises operating under the Foreign Investment Law shall have the State guarantee against nationalization and expropriation.

c) Importing and Exporting

An enterprise permitted under the Foreign Investment Law has to be registered as exporter/importer upon business requirement with the Export Import Registration Office under the Directorate of Trade, Ministry of Commerce.

The following persons or enterprises can be registered as exporter/importers:-

(a) A citizen or an associate citizen or a nationalized citizen of the Union of Myanmar if the applicant is a sole proprietor.

(b) Partnership firms

(c) Limited companies, inclusive of foreign companies and branches or joint ventures formed under the Myanmar Companies Act 1914 and Special Company Act 1950.

(d) Co-operative societies, registered under the Co-operative Society Law 1992.

Myanmar products can be exported with the exception of some selected items of restricted items under the export license. All goods which are not prohibited by the respective Government departments can be imported under the import license. Permitted foreign investment enterprises can import the following without import licenses.

(a) Capital investment items imported as foreign capital during the construction and initial investment period.

(b) Raw materials required for the first three year's commercial production.

Import under open General License (OGL) is also allowed to those organizations permitted under the Foreign Investment Law.

As investment is the engine of the growth of the economy, the Government has been undertaking concerted and coordinated measures to increase investment by mobilizing financial resources from within the country and abroad Foreign Investment Law was enacted in November 1988. A FDI flow in the host by countries is shown as follows:-

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จุฬาลงกรณ์มหาวิทยาลัย

Table 3.14 **FDI flows in the host economy by geographical origin, 1995-2003**

million of dollars

Region	1995	1996	1997	1998	1999	2000	2001	2002	2003
1	2	3	4	5	6	7	8	9	10
Australia	-	1.60	0.40	0.30	1.30	1.90	1.10	0.71	1.87
Austria	-	-	0.80	0.20	-	-	-	-	-
Bangladesh	-	-	-	-	-	-	-	-	-
Brunei Darussalam	-	-	-	-	-	-	-	-	-
Canada	0.80	-	1.50	3.90	0.40	1.10	1.60	1.32	-
People's Republic of China	8.80	15.40	5.10	13.30	13.80	4.50	5.20	12.59	3.94
Cyprus	-	-	-	-	-	-	0.70	-	-
Denmark	-	3.30	-	-	-	-	-	0.03	-
France	86.90	71.80	201.70	90.00	33.00	20.80	24.30	-	-
Germany	-		0.20	1.50	7.00	-	-	26.56	-
India	-	3.00	-	-	-	0.30		0.06	-
Indonesia	-	-	7.00	4.80	1.00	7.50	3.50	3.43	2.42
Israel	-	-	-	-	-	-	-	-	-
Japan	0.40	15.60	18.90	33.50	18.80	16.30	7.70	4.62	0.21
Macau	-	-	-	-	-	-	-	-	-
Malaysia	5.70	10.60	5.10	12.00	15.50	5.90	2.20		8.17
New Zealand	2.80	-	-	-	-	-	-	-	-
Panama	-	-	-	8.50	2.50	-	-	-	-
Philippine	3.10	0.40	0.10		0.20	-	-	-	-
Republic of Korea	1.40	0.50	6.50	17.10	8.80	4.50	7.20	4.27	2.60
Singapore	55.50	175.00	279.10	79.10	14.90	57.60	55.70	20.87	8.38
Srilanka	-	-	-	-	-	-	-	-	-
Switzerland	-	-	-	-	-	-	-	-	-
Thailand	32.40	42.60	32.00	58.00	9.60	3.00	6.00	0.81	9.58
The Netherlands	2.00	4.40	1.20	-	0.50	-	-	-	-
United Kingdom	87.60	222.20	288.60	203.10	176.10	48.30	32.10	25.29	10.51
United States of America	30.20	14.30	30.60	158.30	0.80	36.40	44.70	90.84	80.39
Total	317.60	580.70	878.80	683.60	304.20	208.10	192.00	191.40	128.07

Source- Government of the union of Myanmar, Ministry of National Planning and Economics Development

The Law provides attractive incentives to foreign investors in the form of tariff and taxes. It also provides repatriation of profit after deduction of all taxes and the prescribed funds. Moreover, the Law provides irrevocable State guarantee that an enterprise permitted under the said Law and shall not be nationalized during the permitted period. Since the Law has been promulgated, and up to the end of 2004, a total of 394 foreign investment projects in 11 economic sectors have been committed by foreign investors from 27 countries and regions around the world, with the total amount of US$ 7750.18 million. Detail information of the number of affiliate’s foreign investment TNCs in the host economy by region is presented in Table3.15 respectively.

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

Table 3.15 The number of affiliates of foreign TNCs in the host economy by geographical, 1990-2004

Region	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Australia	-	-	1	-	2	2	5	3	-	-	-	-	-	-	-
Austria	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-
Bangladesh	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Brunei Darussalam	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Canada	-	-	-	-	-	5	3	3	-	-	4	-	-	1	
People's Republic of China	-	-	1	1	2	1	3	1	2		1	1		2	19
Cyprus	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-
Denmark	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-
France	-	-	1	-	-	-	2	-	-	-	-	-	-	-	-
Germany	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-
Hong Kong	3	1	3	5	4			3	1	2	4	1	1		6
India	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-
Indonesia	-	-	-	-	-	-	4	4	1	1	1	1	1	-	-
Israel	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-
Japan	2	-	1	-	-	4	5	6	1	2	-	2		-	-
Macau	-	-	1	-	-	-	-	-	-	-	1	-		-	-
Malaysia	-	-	1	2	4	2	10	6			2	1	5	-	-
New Zealand	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Panama	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-
Philippine	-	-	-	-	1	-	-	1	-	-	-	-	-	-	-
Republic of Korea	1	1	-	3	1		3	8		2	9	1		2	
Singapore	4	1	3	9	6	11	18	11	1	2	1		1	-	-
Srilanka	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-
Switzerland	-	-	-	-	-	-	-	-	-	-	-	-	1		
Thailand	6	1	4	5	8	3	10	3	2	3	2	-	-	2	4
The Netherlands	-	-	-	-	1	-	3	-	-	-	-	-	-	-	-
United Kingdom	1	-	2	1	4	9	8	5	1	1	3	-	-	1	-
United States of America	3	-	5	2	1	1	2	-	-	-	-	-	-	-	-
Total	22	4	23	28	35	39	78	56	10	14	28	7	9	8	29

Source- Government of the union of Myanmar, Ministry of National Planning and Economics Development

70

With a view to promoting investment of Myanmar citizens and to provide equal treatment as foreign investors by granting them the right to enjoy tax incentives, the Myanmar Citizens Investment Law (MCIL) was promulgated on 31 March 1994 and its Procedures were prescribed on 3 August 1994. The objectives of the said Law are as follows;-

(a) to cause investments of Myanmar citizens to be beneficial to the State;

(b) to promote development of production and services;

(c) to cause production of goods by utilizing the natural resources of the country;

(d) to establish enterprises for import substitution;

(e) to promote and expand export;

(f) to promote development of technology;

(g) to open up more employment opportunities;

(h) to promote development of private and cooperative sectors;

(i) to contribute towards regional development; and

(j) to enable extensive participation in the money market.

The State has been implementing, laying down three fundamental trade and commerce rules: the objectives of three rules are for the welfare of the State and her citizens who should not be oppressed by commercial activities and these activities to be carried out not aiming at profit but only for long-term continuance. The Ministry of Trade and Commerce has carried out the activities based on four objectives namely "to support the activities of domestic and foreign trade, to promote the nation's economy, to make trading enterprises capable and business-like organizations, to get more foreign currency for the State by exporting more, to provide supportive measures for commercial activities of the cooperative and private entrepreneurs." Myanmar adopted the market oriented economic system in the year 1988 after adopting the centralized planning economic system for more than two decades. Substantial stabilization and reform measures had been undertaken to be in line with the new economic system. The initial step taken towards a more liberalized economy is to allow foreign direct investment and to encourage the private sector development. In the area of legal framework, one of the first laws on investment promulgated by the state Law and Order Restoration Council is the Union of Myanmar Foreign Investment Law, promulgated on 30th November 1988 to induce foreign investment and to boost investment particularly in the private sector.

From the year, 1988/89 to end of March 2005 permitted amount of foreign investment totaled US$ 7.8 billion. The inflow of foreign investment started to contract in 1997/98, mainly due to the indirect impact of monetary crisis in Asian Countries. Under the Foreign Investment Law, 394 enterprises from 27 countries have been already permitted to invest in Myanmar with a total amount of US$ 7750.18 million up to the end of March 2005. The permitted amount of investment by countries is shown as follows:

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จุฬาลงกรณ์มหาวิทยาลัย

Table 3.16 FDI stocks in the host economy , by geographical origin 1990-2004 (millions of dollars)

Region	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Australia	25.2	25.2	27.2	27.2	28.2	30.0	40.1	82.1	82.1	82.1	82.2	82.1	82.1	82.1	82.1
Austria	71.5	71.5	71.5	71.5	71.5	71.5	72.5	72.5	72.5	72.5	72.5	72.5	72.5	72.5	72.5
Bangladesh	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Brunei Darussalam	-	-	-	-	-	-	-	-	-	-	-	-	2.0	2.0	2.0
Canada	22.0	22.0	22.0	22.0	22.0	25.0	32.5	37.8	37.8	37.8	59.8	59.8	59.8	61.2	61.2
People's Republic of China	-	-	0.4	1.1	5.5	5.7	28.8	29.3	32.0	32.0	61.0	64.3	64.3	64.3	193.5
Cyprus	-	-	-	-	-	-	-	-	-	5.3	5.3	5.3	5.3	5.3	5.3
Denmark	-	-	-	-	-	13.4	13.4	13.4	13.4	13.4	13.4	13.4	13.4	13.4	13.4
France	-	-	10.0	10.0	465.0	465.0	470.4	470.4	470.4	470.4	470.4	470.4	470.4	470.4	470.4
Germany	-	-	-	-	-	-	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Hong Kong	12.4	13.0	27.3	58.2	64.3	64.3	64.3	121.2	129.2	134.9	148.1	149.6	162.5	168.4	504.2
India	-	-	-	-	-	-	-	-	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Indonesia	-	-	-	-	-	-	210.9	236.3	237.4	238.8	240.0	241.5	241.5	241.5	241.5
Israel	-	-	-	-	-	-	-	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Japan	100.0	100.0	100.5	100.5	100.5	119.9	167.0	193.9	202.8	207.9	207.9	212.6	212.6	212.6	215.3
Macau	-	-	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	4.4	4.4	4.4	4.4	4.4
Malaysia	-	-	8.6	53.8	69.6	227.3	462.4	587.2	587.2	587.2	597.0	598.5	660.7	660.7	660.7
New Zealand	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Panama	-	-	-	-	-	-	-	30.5	29.1	29.1	29.1	29.1	29.1	29.1	29.1
Philippine	-	-	-	-	6.7	6.7	6.7	146.7	146.7	146.7	146.7	146.7	146.7	146.7	146.7
Republic of Korea	53.4	57.4	57.4	60.5	60.7	60.7	69.7	99.4	99.6	103.9	151.1	156.1	156.4	191.3	191.3
Singapore	8.8	9.5	32.7	261.5	316.6	604.0	1240.3	1510.9	1525.1	1529.9	1566.8	1566.8	1572.9	1572.7	1572.7
Srilanka		-	-	-	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Switzerland	-	-	-	-	-	-	-	-	-	-	-	-	3.4	3.4	3.4
Thailand	161.0	161.6	169.8	211.1	410.9	421.1	1026.8	1237.2	1248.0	1264.5	1290.3	1290.3	1290.3	1312.2	1341.2
The Netherlands	80.0	80.0	80.0	80.0	83.0	83.0	237.8	237.8	238.8	238.8	238.8	238.8	238.8	238.8	238.8
United Kingdom	19.6	19.6	24.2	32.3	632.1	792.4	1304.6	1352.1	1356.5	1371.6	1402.2	1403.7	1403.7	1431.0	1431.0
United States of America	173.2	173.2	202.7	222.2	226.2	241.0	582.0	582.0	582.0	582.0	582.0	582.0	582.0	582.0	243.6
Total	730.1	736.0	839.7	1217.3	2569.2	3237.4	6051.6	7064.5	7118.9	7177.1	7394.9	7413.8	7500.7	7591.9	7750.2

Source- Government of the union of Myanmar, Ministry of National Planning and Economics Development

73

The Foreign Investment Law provides an irrevocable State guarantee that an enterprise permitted by the MIC under the Foreign Investment Law shall not be nationalized during the period or the extended period. It also provides repatriation of profit. In the case of termination or dissolution of the business, repatriation of foreign capital can also be transferable. In appointment of personnel, though preference should be given to citizens there is no restriction for the appointment of experts and technicians from abroad. The FDI flows and GDI stocks in the host economy, by industry are shown as follows:-

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จุฬาลงกรณ์มหาวิทยาลัย

Table 3.17 Foreign direct investment flows in the host economy by industry, 1990-2004 (Millions of dollars)

Sector	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**
Total	280.6	5.9	103.7	377.6	1351.9	668.2	2814.2	1012.9	54.4	58.2	217.7	19.0	86.9	540.8	158.3
Agriculture			2.7				5.9	5.7			20.0				
Livestock & Fishery	77.3		5.8	7.6	148.2	13.0	17.5	5.8	4.7	3.3			26.4	2.8	
Mining	55.1		33.4	20.9	0.5	155.8	178.3	3.3	4.9	16.0	1.1		3.4	55.5	6.0
Manufacturing	42.7	5.9	13.3	18.1	76.3	21.3	923.6	319.2	43.3	18.1	77.4	15.8	13.1	18.8	3.5
Oil and Gus	19.1		44.5	19.5	1039.5	14.8	695.6	172.1		5.3	47.6	3.2	44.0	352.2	142.6
Construction							17.3				20.5				
Transport & Communications			1.0		1.3	118.9	47.9	106.3			7.9			30.0	
Hotel and Tourism	86.4		3.0	311.5	86.1	79.2	114.9	274.9	1.5	15.5	5.2			81.5	-25.1
Real Estate						251.5	623.5	122.2			28.0				31.3
Industrial Estate						12.0	181.1								
Other Services						1.7	8.6	3.4			10.0				

Source- Government of the union of Myanmar, Ministry of National Planning and Economics Development

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

75

Since the promulgation of the Foreign Investment Law in November 1988, the Government of Myanmar has taken measures to encourage foreign investment and up to March 2004, the Commission has permitted 394 enterprises to invest in the agriculture, manufacturing, energy, mining, fishery, tourism and transport sectors. Table 3.18 show the foreign direct investment stocks in the host economy by industry, 1990-2004.

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

Table 3.18 Foreign direct investment stocks in the host economy by industry, 1990-2004 (Millions of dollars)

Sector	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Total	730.1	736.0	839.7	1217.3	2569.2	3237.4	6051.6	7064.5	7118.9	7177.1	7394.7	7413.5	7500.6	7591.9	7750.2
Agriculture			2.7	2.7	2.7	2.7	8.6	14.3	14.3	14.3	34.3	34.3	34.3	34.3	34.3
Livestock & Fishery	77.3	77.3	83.1	90.7	238.9	251.9	269.4	275.2	279.9	283.2	283.2	283.2	309.6	312.3	312.4
Mining	109.2	109.2	142.6	163.5	164.0	319.8	498.1	501.4	506.3	522.3	523.4	523.4	526.8	528.2	534.2
Manufacturing	58.5	64.4	77.7	95.8	172.1	193.4	1117.0	1436.2	1479.5	1497.6	1575.0	1590.8	1603.9	1606.9	1610.4
Oil and Gus	317.2	317.2	361.7	381.2	1420.7	1435.5	2131.1	2303.2	2303.2	2308.5	2356.1	2359.1	2403.3	2457.5	2600.0
Construction							17.3	17.3	17.3	17.3	37.8	37.8	37.8	37.8	37.8
Transport &			1.0	1.0	2.3	121.2	169.1	275.4	275.4	275.4	283.3	283.3	283.3	313.3	313.3
Communications															
Hotel and Tourism	167.9	167.9	170.9	482.4	568.5	647.7	762.6	1037.5	1039.0	1054.5	1059.7	1059.7	1059.7	1059.7	1034.6
Real Estate						251.5	875.0	997.2	997.2	997.2	1025.1	1025.1	1025.1	1025.1	1056.4
Industrial Estate						12.0	193.1	193.1	193.1	193.1	193.1	193.1	193.1	193.1	193.1
Other Services						1.7	10.3	13.7	13.7	13.7	23.7	23.7	23.7	23.7	23.7

Source- Government of the union of Myanmar, Ministry of National Planning and Economics Development

77

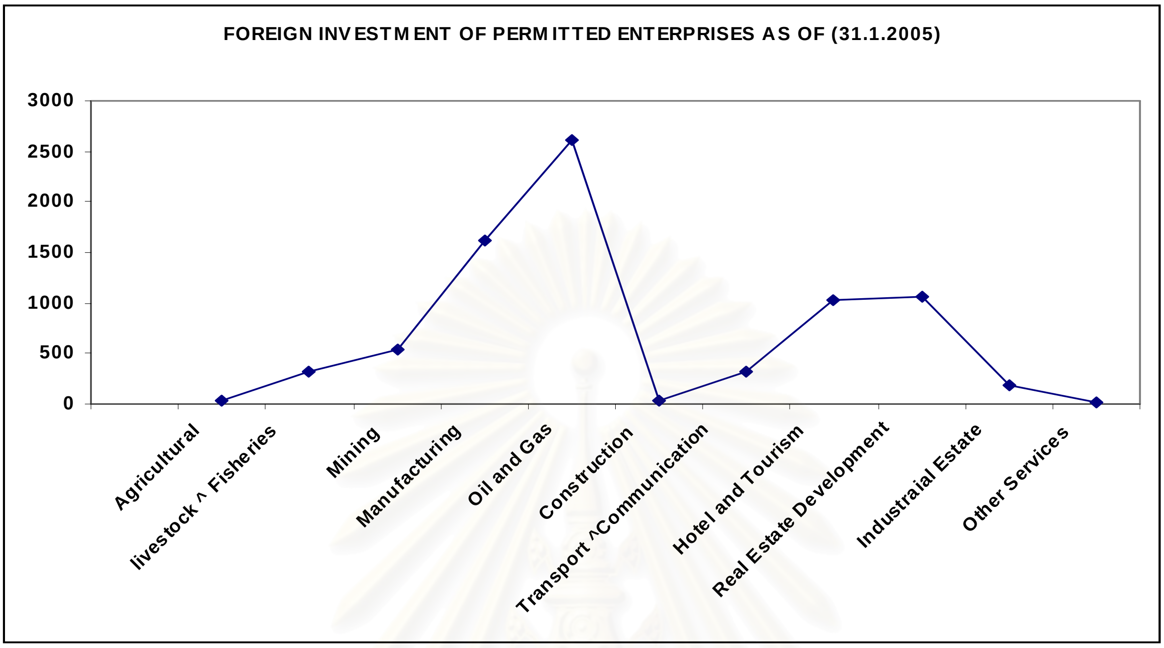
Myanmar has a long coastline with rich fishing grounds but they have been exploited very limitedly; the offshore fishing grounds are the least exploited. Hence vast potential still exists for investment in this area. As a form of liberalization in fishery sector, fishing rights have been granted to foreign companies on contractual basis in specified areas within the exclusive economic zone of Myanmar territorial waters. Various laws and procedures relating to fishing rights, marine fisheries, aquaculture and fresh water fisheries have been enacted in the 90's so as to allow wider fishing rights to private individuals both local and foreign and also to form joint ventures.

The establishment of internationally competitive export industries is required for the purpose of promoting industrialization. The textile, food and timber processing industries are expected to be promising ones, as well as other more value added ones that will enable to production and promotion of exportable commodities.

The Government adopted policies which promoted the private sector as the main engine of growth and also created an environment conducive to foreign investment. Economic reforms were introduced which allow the private sector a role in all area of the economy particularly external trade. the private sector involvement in agriculture, manufacturing and processing , trading, services, banking, construction etc, have gained momentum over the years. The contribution of private sector in the total GDP of the country has risen significantly 76.1% in 1999-2000 to 89.6% in 2001-2002, an impressive achievement. Sector-wise, the private sector generates 97.2% in agriculture, 80.0% in industry and 88.6% in trade.

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

Figure 3.3 Foreign investments of permitted enterprises as Approved amount (31. 1. 2005)



Source: Government of the union of Myanmar, Ministry of National Planning and Economics Development

3.4.1 The Salient Points for Business for Opportunities

Promising sectors which could be expanded the production frontier in a shortest possible time with much efficiency, greater comparative advantages and attractive return, are agriculture, livestock and fisheries (including off-shore and deep sea) , forestry , mining , energy , and manufacturing sectors.

a) Agriculture

The agricultural sector being the mainstay of the Myanmar economy with about 36% percent of the total GDP and about 46 percent of foreign exchange earnings in accorded priority. Since 1990, according to the policy for the participation of private sector in agricultural sector, local and foreign investors are encouraged by the government and now some areas such as distribution of agricultural machinery and inputs are being engaged by private sector. However, there is no significant participation of private investors in crop production because investors has been attracted by other most

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

profitable economic sectors. Nontheless, from the last year, 1998, participation of private investors in agriculture is rapidly increased when the Government introduce a scheme to go out rights of land utilization for the purpose of agricultural activities with the aim of private sector participation. Interested company and groups are now allowed for the land from deep water flooded and waste land area and now 33 applicants have already been granted 0.98 million acres up to February 1999. Land preparations for further necessary assistance are being given by respective agencies under Ministry of Agriculture and Irrigation.

National entrepreneurs are encouraged to cultivate cash crops like paddy, rubber, cotton, palm olein, pulses and beans on commercial scale. Among these, with effect from 1999 crops, except oil crops, the 50 percent of the production of restricted items like rice and other items will be allowed to export annually subject to recommendation of the Agricultural Crops Supervisory Board under the Ministry of Agriculture and Irrigation. Presently Myanmar has 18 million hectares of cultivable land of which only 9 million hectares are under cultivation. We still have 9 million hectares available for cultivation. Myanmar is rich in agricultural land resources and agricultural labour is relatively cheap. The investment in this sector is a very promising one. Local and foreign investors are welcomed to invest in the form of joint - venture or 100 percent investment and profit sharing basis.

Myanmar has total water resources of approximately 870 million acre - feet per annum and presently utilising only 6 percent. So far, 86 irrigation projects have been completed. The Ministry of Agriculture has taken every efforts to raise the irrigation coverage of the cropped area to 25 percent in the short term.

b) Livestock and Fishery resources

For the development of the livestock and cattle industry, Myanmar has vast pasture land with suitable climate. Myanmar with a coastal line of 2832 km is also rich in marine resources. It has been estimated that one million metric tons of fishery resources could be exploited annually on a sustainable basis. The present exploitation is only 60 percent of the maximum sustainable yield. The continental shelf covers 228,781 sq.km. and Myanmars' exclusive economic zone is 486,000 sq. km wide. The fishery together with the livestock breeding is the important sector of the economy and it contributes 7.1

percent of GDP. Investment in livestock breeding and fishery is also a very promising one.

c) Forestry

Nearly 51 percent of Myanmar is covered by forests. There are over 5,000 different plant species. The forest policy of Myanmar has been formulated according to the forestry principles adopted by the United Nations Conference on Environment and Development. Teak, hardwood, bamboo, rattan and other minor forest produce are the basic products received from Myanmar's forest. Despite higher global demand, Myanmar cut 432,000 cubic metres of teak, and 2,340,000 cubic metres of non - teak hardwood. The fifteen percent of total land area is kept as Reserved and Protected Public Forests. Myanmar is also carrying out a sustained programme of reforestation. As of 1997, there were over 610,000 hectares of forest plantations. Solely owned or joint - venture investment can be made in the forestry sector to produce semi-manufactures and manufactures.

d) Mining

Myanmar is well endowed with mineral resources and has many deposits. These resources are very much under - utilized and as there still exist a large mineral potential, it is the policy of the Ministry of Mines to immediately boost up the present production for domestic use and exports . Emphasis is given on the increased production of copper, gold, lead, zinc, iron and steel, dimentional granite and marble, nickel, tin and tungsten and limestone. Quite a number of local and foreign companies are now very active in mining sector. Investments can be made through production sharing or profit sharing arrangements.

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

e) Jewellery Manufacturing and Jade Carving

With the intention of acquiring new technology in Gem cutting, polishing, manufacturing of jewellery and also earn added value, Myanmar Gem Enterprise is looking forward to expand its joint co-operation in jewellery manufacturing with suitable foreign partners.

f) Energy

The Myanma Oil and Gas Enterprise (MOGE) is the only State Enterprise which carries out exploration, drilling, production and transportation of crude oil and gas in the country, both inland and offshore. In 1989, the Ministry of Energy had invited foreign compaines for exploration and development. At present, international oil companies including Total / Unocal, Mitsui, Premier, Texaco, Nippon Oil, ARCO of United States, Genting Group and Dataran Isibumi of Malaysia, and other oil companies from USA, Hong Kong, Canada and Australia are now very active in oil and gas exploration. The total expected recoverable gas now reached to 9.5 trillion cubic feet. MOGE has signed a voluminous sales contract of natural gas to PTT of Thailand and the construction of 36" diameter pipeline for a distance of 430 km from the field to the border is in progress. For increased electric power generation, the Ministry of Electric Power is inviting foreign investors for joint operation and development of hydropower projects in States and Divisions throughout the country.

g) Hotels and Tourism

Myanmar is a cultural destination with its rich cultural heritage and is also blessed with natural environment like snow - capped mountains, beautiful lakes, long rivers, lush tropical forests, unspoilt beaches and archipelagoes. There is a growing need for international class hotels in major tourist sites in States and Divisions. A sound infrastructure (airports, roads, super high ways, railroads, hotels, motels, telecommunication etc.) is highly crucial for the promotion of tourism and so investors who are looking for investment opportunities in these areas are also welcome.

h) Manufacturing

Under the Ministries of Industry (1) and (2) there are quite a number of factories inherited from the time of centrally planned economy. Most of them are German, English and Japan origin. Some of these factories need renovation and modernization to enhance their production to the maximum level.

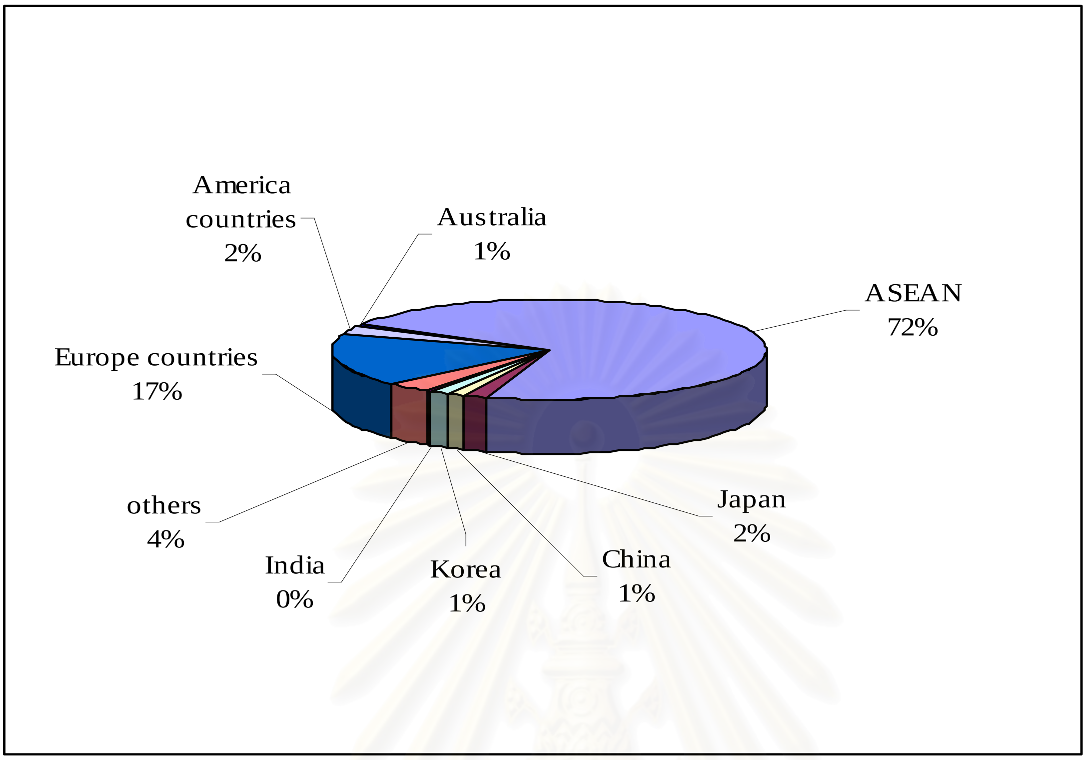
I) Industrial estates

The government has allocated industrial estates for the foreign and local investors, at the strategic places from the business point of view. The leading investors are Singapore, United Kingdom, Thailand, Malaysia and United States of America. Approved amount of FDI up to the end of March, 2004 is US$ 7750 million of 394 projects from 27 countries.

Myanmar offers considerable economic opportunities and potentials for FDI. Myanmar is situated on the dynamic crossroad, linking south east Asia, southwest China (Yunnan) and the India subcontinent which could be interpreted as a potential vast market of around 2 billion consumers. Myanmar will be incorporated into AFTA under CEPT Scheme and also into the ASEAN Investment Area. More room is widely opened for foreign investment in their prevailing competitiveness of the resources and geo-strategies positions. Up to March 2006, Asian countries are the largest investors with the total amount of US$ 11011.649 million followed by European countries with US$ 2388.231 and American countries with US$ 333.897 million. Out of Asian countries, the share of ASEAN-3 is the largest amounting to US$ 10461.787 million of which ASEAN countries amounted to US$ 9860.787 million. Japan to US$ 215.283 million, Republic of Korea to US$ 191.308 million. Figure 3.4 show the permitted amount of investment by countries is shown as follows.

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

Figure 3.4 FDI in MYANMAR by Country, 2006 (US $ Million)



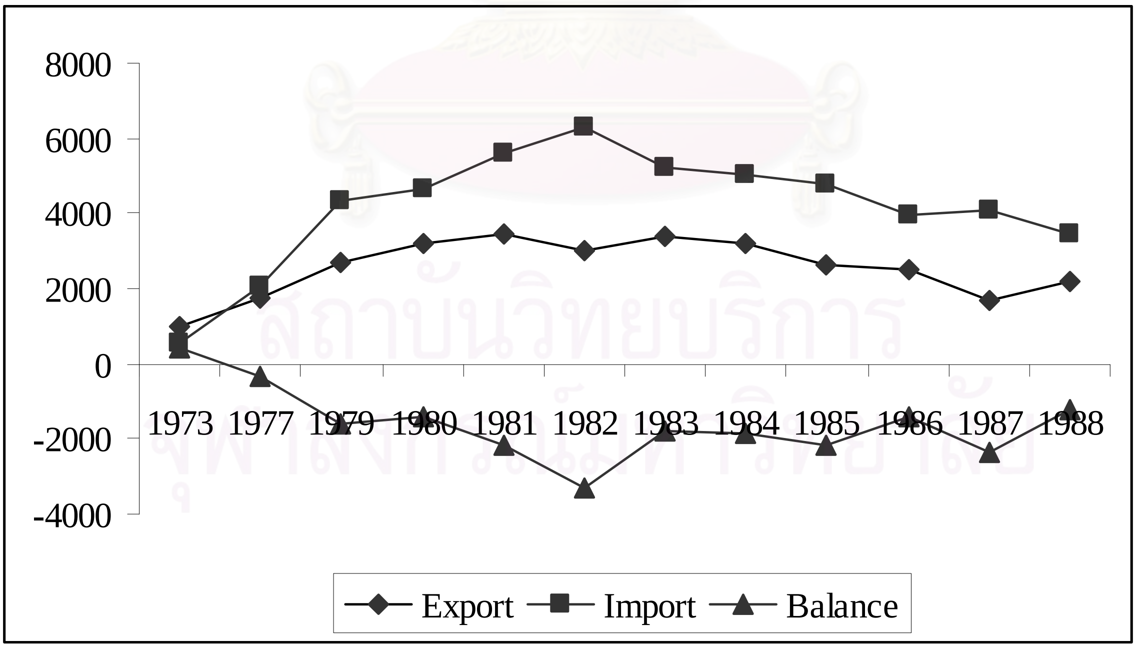
Source: Government of the union of Myanmar, Ministry of National Planning and Economics Development

3.5 An Overview of International Trade in MYANMAR

Myanmar's trade classification was based on the Standard International Trade Classification (SITC) prepared by the United Nations. The issue of the Burma (Myanmar) Standard International Trade Classification (BSITC) of 1995 was based on the United Nation's (SITC) of 1950. First it was meant to provide the commodity classification for external trade. The BSITC of 1955 was revised in 1960 to meet the requirements of all economic activities of Myanmar. The latest (BSITC) revised (1963) was modified within the frame work of the United Nations (SITC) revised (1960). Those modifications had been made in order to keep the classification in harmony with the changing trends in social, economic and industrial development. The commodity items in the BSITC could be adapted to Myanmar for finer details to facilitate a more comprehensive data collection of the external trade as well as the internal trade.

In general, the changes of commodity classification had been made based on changing trends of the United Nation's Standard International Trade Classification. Therefore , the United Nations (SITC) revised in 1960 and the tariff classification of the internationally agreed on the Brussels Tariff Nomenclature (BTN) of 1955, which had the commodities group according to the nature of the material of which the articles were made. The SITC revised provided a system of commodity classification by material and also by stage of fabrication and by industrial origin. In fact, many changes had taken place since the introduction of the BSITC in 1955. In this way, the classification had been rather limited for collection of basic data on international trade statistics. In order to meet the changing condition it became necessary to have the (BSITC) revised and revised accordingly. The finally revised BSITC (1963) consisted of 177 groups which provided the basic data most usually sought in studies on international trade. The groups were finally consolidated into 10 sections which divided the trade aggregate according to broad economic categories. The balance of trade of the Myanmar,before 1988 show in the finger 3.5 below.

Finger 3.5 The Balance of Trade , selected years in 1973-1988



Source: Government of the union of Myanmar, Ministry of National Planning and Economics Development

Ever since the initiation of economic reforms in 1988, the Myanmar Government has undertaken a series of measures to promote trade. These included, among others, permitting private enterprises to export and import, promoting border trade, streamlining the export-import procedures by lowering tariff and non-tariff barriers and reactivating the Myanmar Chamber of Commerce and Industry. As a founding member of WTO, the country’s foreign trade policies are today guided by the rule-based multilateral trading system.

3.5.1 Trade Regime of the Union of Myanmar

Since, Myanmar has changed it's economic course from a centrally planned economy into a market oriented system, a series of structural reforms had been introduced and new legal policy instruments given the private sector including foreign investors and businessmen, the right to do business and to make investment in the country were enacted. The Government of the Union of Myanmar has recognized, in the context of the market-oriented economic system, the private sector as a prime-mover of the market mechanism and pays great attention for its development. All-out efforts are being made to encourage the active participation of private sectors in foreign trade and giving full support in every angle. By these reasons, trade liberalization measures were introduced as follows:-

(1) To be in line with the changing economic system, the private individuals or enterprises are allowed to carry out the export import business which was previously monopolized by the state.

(2) Border Trade was regularized in order to develop and strengthen the bilateral trade relations with the five neighbouring countries. Department of Border Trade was established and its 13 branch offices providing one - stop service for border trade matters in collaboration with various departments concerned.

(3) Export and Import procedures have been realigned.

(4) Lowered the technical barriers to trade and simplified export/ import procedures geared towards trade facilitation and promotion.

(5) Incentives are being given to exporters by allowing 100 % retention of export earnings for importation of goods.

(6) Trade notifications are being issued by specifying necessary rules in conformity to the changing internal and external business environment.

(7) Exemption of commercial tax and customs duty on the imported items like fertilizers, agricultural machineries and implements, insecticides and pesticides, medicines and raw materials.

(8) The role of Chambers of Commerce and Industry had reactivated and reorganized the Union of Myanmar Federation of Chambers of Commerce and Industry - UMFCCI for the promotion of trade and industry of the private sector.

The registered exporter / importer has the right to do trading business. The registered exporters / importers are allowed to enjoy 100 percent export retention money for the import of goods. There exists no export quota nor ceiling for any exportable product or any individual or organization. Regarding the import policy, import is allowed against the export earnings with a view to promote export and to overcome the balance of trade deficit problems.

The private businessmen are encouraged to import capital goods, industrial machineries including raw materials and other essential items while the consumer choices can be fulfilled equally at the same time. These are categorized into two groups as priority A and priority B items.

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จุฬาลงกรณ์มหาวิทยาลัย

(1)Priority - which include agricultural machinery and farm implements, fertilizers, pesticides, item (a) high - yield quality seeds, edible oil, oil and fats for soap industry, construction stores and building materials ;

(2) Priority - about sixty items grouped under personal goods, household goods, foodstuff, items (b) construction materials, textile products, electric and electronic products and general products.

The importer is required to import 80 % priority items (a) and 20 % priority items (b). Generally, no quota or ceiling is fixed for imported items so long as the requirement to import the prescribed amount of priority items is fulfilled. The items not included in the categoires such as priority items (a) and (b), are allowed to import within the framework of 20% priority items (b).

It needs to apply licence for any export or import. The authority to issue export/import licences and permits is dedicated to Directorate of Trade and Department of Border Trade under the Ministry of Commerce. Directorate of Trade is authorised to issue export/import licences and permits for conventional export/import by overseas. The Department of Border Trade is authorised to issue export/import licences for overland trade with the neighbouring countries. Import/export licences will be issued within 24 hours to 48 hours if the applications are submitted in accordance with the prescribed rules and procedures. The validity of export / import licence / permit issued by the Directorate of Trade is three months from the date of issue, and it cannot be extendable. Export licence fee is not payable on export of any commodity including agricultural crops. All the imports are subject to pay the licence fees, customs duty and commercial tax.

Customs duties together with the commercial tax are collected at the point of entry and the time of clearance of imported goods. Raw materials and other essential imports are taxed at very low rates, while the highest rate is applied to luxury items. Commercial tax is levied according to the Schedules appended to the Commercial Tax Act 1991, and the rates vary depending on the types of goods and services. For the items not exempted from commercial tax, the rates of tax on imported goods are 5%, 10%, 20% 25% according to the respective schedule of goods. Another schedule represents specific types of foods such as cigarettes, liquor, etc. carrying rates above 25%.

Assessment of Import Duty is based on the assessable value, which is the sum of CIF value and the landing charge (0.5 % of the CIF value) for the goods imported. The commercial tax together with the custom duty are collected at the point of entry and the time of clearance of imported goods.

There are three state banks namely Myanma Foreign Trade Bank - MFTB, Myanma Investment and Commercial Bank -MICB and Myanma Economic Bank -

MEB, conducting foreign trade transactions of the Union of Myanmar. MEB opens branch offices at the border checkpoints for the commercial transactions of overland trade with the neighbouring countries.

The main law governing the authorization of licensing is contained in the Control of Imports and Exports (Temporary) Act, 1947, which has been amended when necessary and which is still in force. This law is administered by the Ministry of Commerce which, from time to time, issues necessary orders, notification, directives, pertaining to all export / import matters including issuance of licences and permits as well.

The authority to issue export / import licences and permits is delegated to Directorate of Trade and Department of Border Trade under the Ministry of Commerce. Directorate of Trade is authorised to issue export / import licences and permits for export / import by overseas. Department of Border Trade is authorised to issue export / import licences for cross border trade.

- Registration

All local, co - operative societies, joint - venture organizations, desirous of carrying on export / import business are required to apply to the Directorate of Trade for registration as exporter / importer.

1. The following enterprises desirous of carrying on export/import business may apply to the, Directorate of Trade for registration as exporter/importer:

(A) Partnership firms;

(B) Limited companies inclusive of foreign companies or branches registered under Myanmar Companies Act;

(C) Co-operative societies registered under the Co-operative Societies Law;

2. Term of registration, registration fee and extension fee for exporter/importer is as follows:

- (A) Terms of registration 1 year or 2 years
- (B) Registration fee or extension fee for one year Kyats 15,000/-
- (C) Registration or extension fee for two years Kyats 20,000/-
- (D) Registration or extension fee for three years Kyats 30,000/-

3. Effective from 1.4.94, the Directorate of Trade issued new form of certificate of registration as appended.

4. Alteration, addition or amendment is allowed upon payment of Kyats 300 per entry.

5. Registered exporter/importer shall, at the expiry of the term of registration, either one or two years as the case may be, apply for extension.

6. (A) Application shall be made prior to expiry of the term of registration;

   (B) If applied after the expiration, the following penalty shall be paid in addition to the relevant extension fee:

- (i)Within one month from the expiry- Kyats 1000/-;
- (ii)Within two months from the expiry- Kyats 2000/-;
- (iii)Within three months from the expiry- Kyats 3000/-;

7. Exporter/importer not desirous of continuing business may surrender the certificate of registration.

8. The exporter/importer has the right to apply for the issuance of duplicate copy of certificate of registration or identity card issued to him by the directorate of Trade upon payment of Kyats 300/- as service charges.

9. The followings are the rights of registered exporter/importer:

(A) To export all products in accordance with the prescribed rules and regulations except for those which are prohibited by the State and the products, prescribed to be solely undertaken by the State-owned economic enterprises;

(B) To import all products in accordance with the prescribed rules and regulations, with the foreign exchange (earned on export) or by using any other permitted methods of import;

(C) To do border trade business in accordance with the prescribed rules and regulations but registered exporter/importer should not be a foreign firm.

(D) To distribute by whatever means available in the local market;

(E) To apply for issuance of business pass-port;

(F) To receive the foreign guest for business negotiation.

- Export / Import Licences

Generally every export / import by private business enterprises and State Enterprises are subject to export / import licence / permit issued by the licensing authorities concerned. The validity of export / import licence / permit issued by the Directorate of Trade is normally three months from the date of issue.

- Items allowed for Export

Normally, the registered exporter / importer has the right to export all commodities, except for rice and rice products and other products which are prescribed to be solely exportable by the State - owned Economic Enterprises. 31 / 32 items including Teak, rice, etc. are prohibited to export overseas and through the border areas.

- Items allowed for Import

Policy pronouncement as to import include, inter alias, to cater the basic needs of the country's economic sectors, namely, agriculture, livestock breeding, fishery, forestry, transportation, manufacturing, mining and so on, while the consumer choices can be fulfilled equally at the same time. These are reflected in the classification of import items which are now divided into two categories: -

(1) Priority items (A) - which include machinery and spare parts, agricultural machinery and farm implements, fertilizers, pesticides, high yield quality seeds, oil and industrial raw materials, construction stores and building materials ;

(2) Priority items (B) - about sixty items grouped under personal goods, household goods, foodstuff, construction materials, textile products, electric and electronic products and general products.

The private importer is required to import 80 % priority (A) items if he wishes to import priority (B) items. He could also import 20 % priority (B) items, together with priority (A) items and ship them at the same time. Generally no quota or ceiling is fixed for imported items so long as the requirement to import the prescribed amount of priority items is fulfilled. Products allowed for Import which is excluded from Prohibited items, restricted items and Priority items. Some commodities, which are not in the list of prohibited items, restricted items, priority items are allowed to import as in the list of Priority (B) within the right of 20 % ratio for import.

- Items not allowed for Import

At the present, the under mentioned items are not allowed to be imported both by overseas and border. The commodities prohibited to import shall be from time to time amended in accordance with the latest situation of local market conditions.

a) Overseas

1. Seasoning powder (MSG)

2. Soft drinks

3. Biscuits Assorted

4. Chewing Gum

5. Cake

6. Wafer

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7. Chocolate

8. Canned food (meat & fruits)

9 .Noodles

10. Liquor

11. Beer

12. Cigarette

13. Fruits (fresh)

14.Prohibited products as per existing laws

b) Border Trade

Including above 14 items and

15.Plastic wares

- Export Retention

The registered exporters / importer are allowed to enjoy 100 percent export retention money for the export of goods. There exists no export quota or ceiling for any exportable product or any individual or organization with the exception of textile products which are subject to quota fixed by the importing country.

-Fees and Taxes on Export / Import

No export licence fee is payable on export of any commodity including agricultural crops. All imports are subject to payment of licence fees, customs duty and commercial tax. Import licence fee is payable on CIF value at a minimum of K 250 up to a maximum of K 50000. On CIF value over K1 million licence fee payable is K 50000 only. The rates of import licence fees are

C.I.F value (of the licence/permits)	Licence fees Kyat
Up to 10,000	250
From 10,001 to 25,000	625
From 25,001 to 50,000	1,250
From 50,001 to 1,00,000	2,500
From 1,00,001 to 2,00,000	5,000
From 2,00,001 to 4,00,000	10,000
From 4,00,001 to 10,00,000	20,000
From 10,00,001 and above	50,000

Customs duty together with the commercial tax is collected at the point of entry and the time of clearance of imported goods. Import tariff covers 21 sections of 98 chapters, consisting of 1241 headings and 6062 sub - headings (denoted by 8 digits) based on the Harmonized Commodity Description and Coding System. There are 22 bands of import tariffs ranging from 0 to 40%. Raw materials and other essential imports are taxed at very low rates, while the highest rate is applied to luxury items.

Commercial tax is levied according to the schedules appended to the Commercial Tax Act 1991, and the rates vary depending on the types of goods and services. For the items not exempted from commercial tax, the rates of tax on imported goods are 5 %, 10 % 20 %, 25% according to the respective schedule of goods. Another schedule represents specific types of foods such as cigarette, liquor, etc. carrying rates above 25 %.

Assessment of Import Duty is based on the assessable value, which is the sum of CIF value and the landing charge (0.5 % of the CIF value) for the goods imported. The commercial tax together with the custom duty is collected at the point of entry and the time of clearance of imported goods.

-Exemption From the Payment of Duties

Under section 23 of the Sea Customs Act exemption from the total or partial payment of duties may be allowed in such case as required by the Head of State. But the authority for the exemption lies with the Ministry of Finance and Revenue on behalf of the Head of State. In the case of joint ventures and firms established under foreign investment programmed, the Myanmar Investment Commission may authorize the exemption from the payment of duties in exercising the power conferred by the section 22, of the Foreign Investment Law.

Commodities, imported temporarily for inward processing, such as industrial raw materials, packing materials are exempted from customs duty for a period of two years under bond to re export within time limit.

-Export Policy

The commodities which are restricted to be exported from time to time.(Example; Kitchen consumable such as onion, garlic, potato, chili etc;) .Although above mentioned commodities are prohibited to export by private entrepreneurs, the state owned organizations are allowed to export in accordance with the prescribed rules and regulations.

-Commercial tax and income tax

8 percent commercial tax and 2 percent income tax shall be payable in foreign currency for all export from private sector.

-Import Policy

Commodities which are restricted for the time being are the following :

(a) Galvanised Corrugated - Prohibited Sheet (for roofing)

(b) Truck, Bus, Saloon, Vehicles.

(c) Restricted foodstuff, - Shall be allowed to import only for Hotels & Liquor, Beer, Cigarette Duty Free shops with the recommendation of the Ministry of Hotel and Tourism.

-Type of foreign exchange to be allowed for Import

Import shall be allowed against the following type of foreign exchange:

- The proceeds from Export.

-Commodities for which import licence fee is exempted

Import licence fee is exempted on the following commodities:

(a) 67 kinds of Medicines and Pharmaceutical raw materials used in the manufacture of drugs and medicines for the purpose of supporting the improvement of public health and the welfare of the people in receiving medical treatment.

(b) the following commodities imported for the development of the agriculture sector.

(1) Fertilizer

(2) Farm implements

(3) Agriculture Machinery

(4) Insecticides

(c) Commodities transported through the territory of the Union of Myanmar under the Transit Trade System.

(d) Materials used in the business during the construction and production period under the foreign investment permit issued by the Union of Myanmar Investment Commission

In general, registered exporters have the right to export all commodities, except rice and rice products, which are reserved for export solely by State-owned economic enterprises. Registered exporters are also allowed to enjoy 100 per cent retention of foreign exchange earned through exports. Imports are generally allowed against export earnings, with a view to promote exports and overcome trade deficits. Since March 1998, the Government has imposed a restrictive import policy, requiring that all imported items must be included on priority lists “A” – list items should be imported in a ratio of at least 80 per cent, and “B” – a list items can be imported at a maximum of 20 per cent. What this means is that B list items may be imported only after the arrival of the A – list items. In December 1998, the Ministry of Commerce stipulated that items which are not restricted but which are not included under either list should be treated as though they were B – list goods. Import permits may be obtained by producing evidence of export earnings. Priority A items includes agricultural machinery, farm implements, fertilizers, pesticides, high yielding, seeds, edible oil and fats for the soap industry, construction stores and building material. Priority B items includes about 60 items grouped under personal goods, household goods, foodstuffs, construction materials, textile products, electric and electronic products and general products.

Business people in Myanmar often claimed that they “export in order to import”. Such a practice is bound to affect the investment prospects and long-term growth of the economy. For example, a new venture which involves the import of machinery might find it difficult to import because the export earnings have yet to flow in as the project has not yet been commenced. Hence, it is worth considering doing away with such policy measures, which might be instrumental in achieving short-term goals at the cost of long-term growth.

Myanmar follows the Harmonized System of International Nomenclature. Three types of taxes can be levied on imports: import duties, commercial taxes and license fees. After joining ASEAN in 1997, measures have been undertaken to comply with the ASEAN Common Effective Preferential Tariff (CEPT) Scheme. Myanmar is in the process of meeting the CEPT tariff reduction commitments to be phased in between 2001 and 2008. Currently, tariffs range from a low of zero to a maximum of 40 percent, with cars, luxury items and jewelry, among others, facing the highest tariffs.

While food items continue to dominate exports, their share has declined from a little over 52 per cent in 1980/81 to 38 per cent in 2000/01. The share of manufactured goods has increased more than three-fold (from 5.3 to 18.5 per cent) during the same period. Estimates of revealed comparative advantage (Balassa Index) suggest that the comparative advantage of Myanmar is limited to a few products: clothing (10.37), wood products (4.82), fresh food (3.4) and minerals (2.46). In general, Myanmar’s commodity composition is characterized by the domination of traditional commodities. Changes in the pattern of exports by type of commodity are shown in the Appendices.

When it comes to the direction of trade, there is a fairly high regional concentration. A little over 60 per cent of the exports are directed to Asian countries; South-East Asia accounts for over 26 per cent of the total exports and of this, almost 90 per cent is accounted for by Thailand, Singapore and Malaysia. Because such high levels of regional concentration are likely to make Myanmar more susceptible to external shocks, there is a need for more regional diversification.

The country's export promotion strategy has to underline the need for product diversification as well as diversification in terms of trading partners. Given Myanmar's resource endowments, the Government has rightly emphasized the important role of agriculture in exports. Economic history, however, teaches that no country in the world has so far been able to achieve a per capita income higher than US$ 500 by focusing on primary agriculture. Also, empirical evidence tends to suggest that in the new trading environment, the primary exporting countries are unlikely to reap any significant return unless they go up the value chain. Hence, there is a need for concerted efforts to add greater value by investing in post-harvest operations and new product development. In this process, Myanmar should be able to join hands with the large transnational corporations, which dominate the processing and marketing of primary commodities.

Myanmar's foreign trade is mainly with ASEAN countries, constituting an average share of about 45 percent in total export and 49 percent in total import. Regarding trade with ASEAN, export amounted to US$ 1045.6 million and import amounted to US$ 1083.3 million, according to 2003/2004 data. Finger 3.6 shows that Myanmar's trade with major trading partners.

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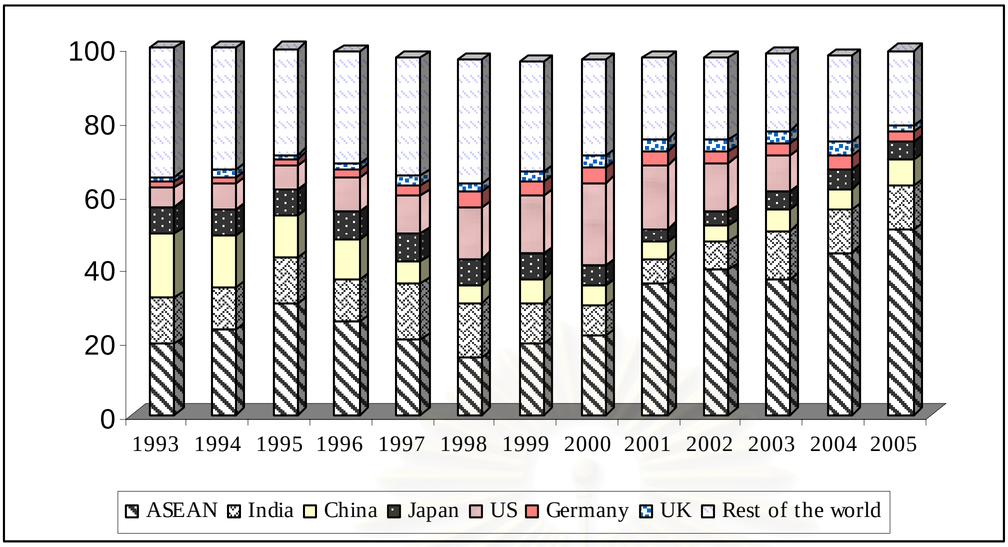
Finger 3.6 Myanmar's trade with major trading partner (percent)



Source: Government of the union of Myanmar, Ministry of National Planning and Economics Development

Myanmar has confidence in trade liberalization and wants free and fair trade in the world. Myanmar was a founder member of the old organization, GATT and a member of the World Trade Organization WTO. Hence, our foreign trade policies are generally governed by the rule-based multilateral trading system. The registered exporters and importers have the right to do trading business. These registered exporters / importers are allowed to enjoy 100 percent export retention money for the import of goods.

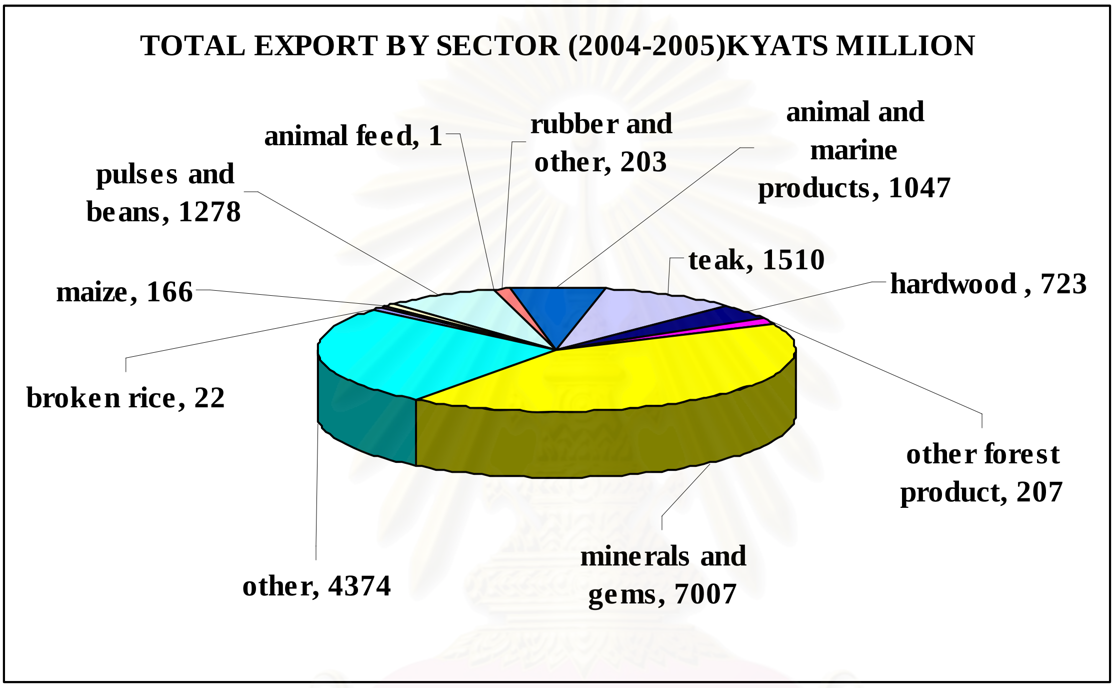
There exists neither export quota nor ceiling for any exportable product or any individual or organization. Regarding the import policy, import is allowed against the export earnings with a view to promote export and to overcome the balance of trade deficit.

Major export items are:

- Rice and Rice Products,
- Pulse and Beans,
- Rubber,
- Fish, Prawn and other marine products,

- Timber,
- Base Metal,
- Gems,
- Gas
- Garment.

Figure 3.7 Total Export By Sector (2004-2005) Kyat Million



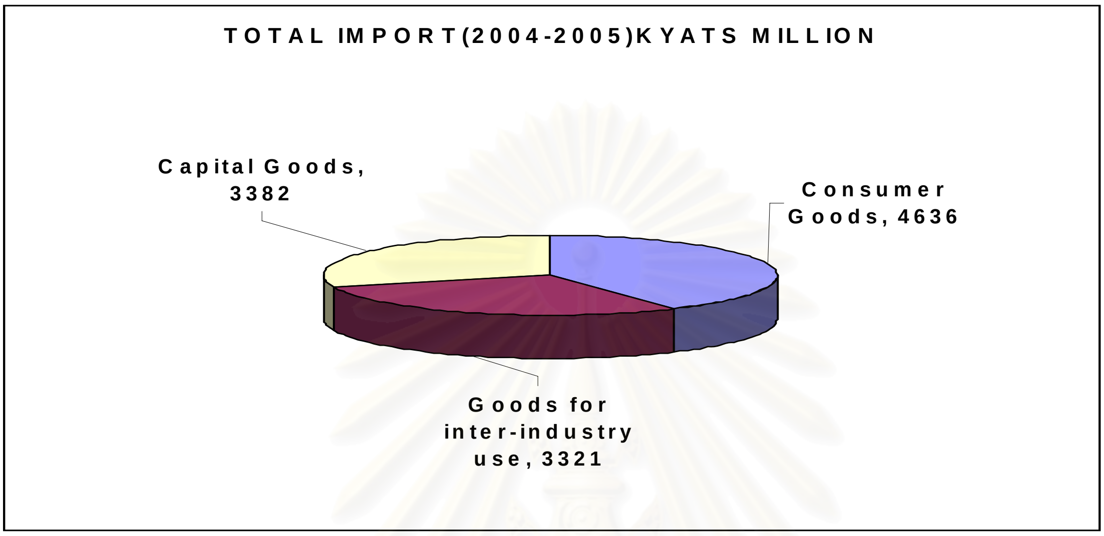
Source: Government of the union of Myanmar, Ministry of National Planning and Economics Development

Major import items are:

- Edible oil (vegetable and others),
- Dairy products,
- Soap and similar articles,
- Mineral fuel and oil,
- Plastics articles thereof;
- Rubber manufacture,
- Fabrics and artificial & synthetic fabrics,
- Electrical machinery of apparatus,
- Electrical machinery equipment & parts,

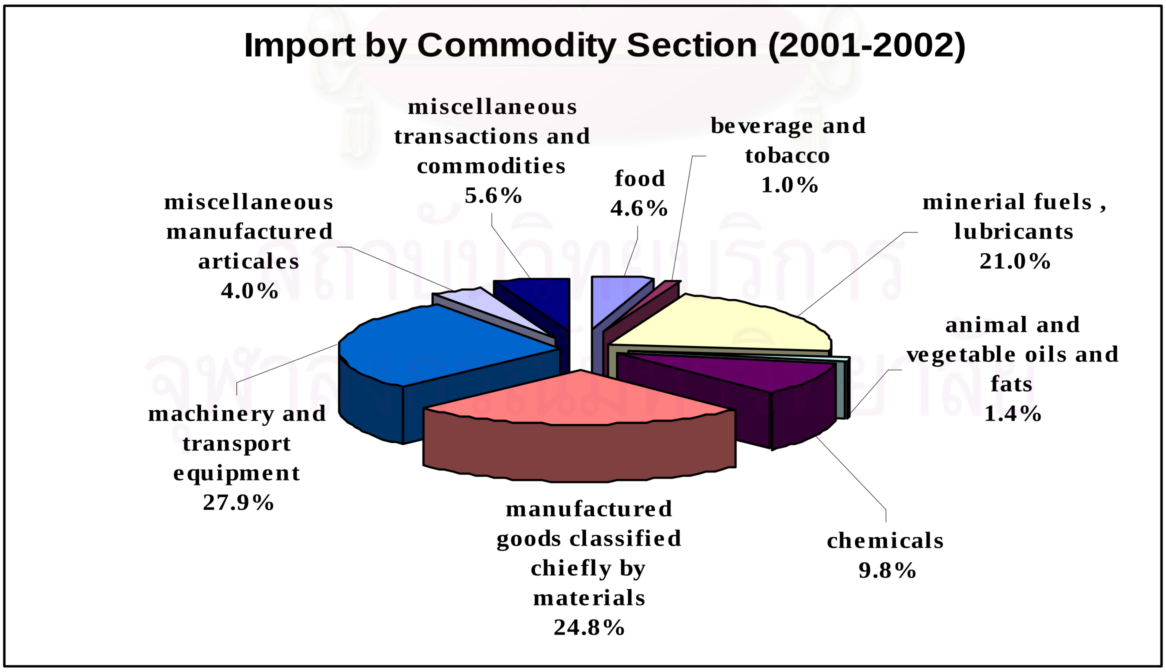
- Machinery and mechanical appliances,
- Transport equipment,
- Base metal & manufacture.

Figure 3.8 Total Import (2004-2005) kyat Million



Source: Government of the union of Myanmar, Ministry of National Planning and Economics Development

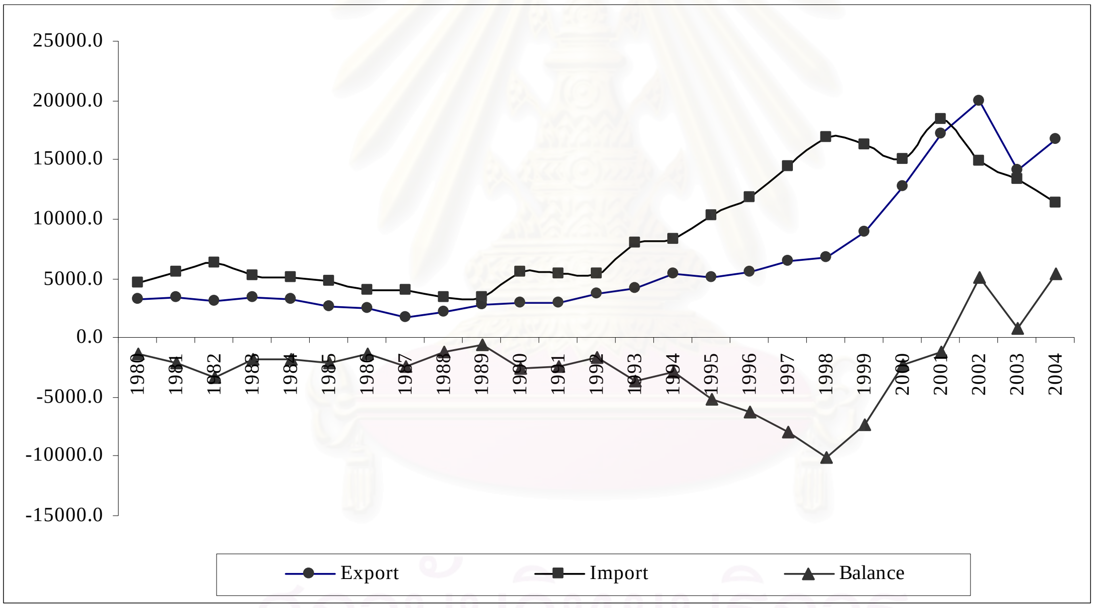
Figure 3.9 Import by Commodity Section (2001-2002)



Source: Government of the union of Myanmar, Ministry of National Planning and Economics Development

In Myanmar, the Balance of Trade - BOT, and the current account balance have been showing deficits for a long period. However, due to export promotion measures and systematic management of foreign trade system, the positions of Balance of Trade and Current Account Balance have improved significantly showing surplus since year 2002/2003, and for the first time in Myanmar's Foreign Trade history. The diagram below illustrates the pattern of trade from 1979 to 2004 and it can be see that exports and imports increased over the period , but the imports have increased over the exports, widening the trade deficit. In 1998 the gap of imports over exports increased substantially, especially as a result of the implementation of a large number of developmental projects.

Figure 3.10 Balance of Trade in Myanmar: 1980-2004



Source: Government of the union of Myanmar, Ministry of National Planning and Economics Development

In general, the changes of commodity classification had been made based on changing trends of the United Nation's Standard International Trade Classification. Therefore , the United Nations (SITC) revised in 1960 and the tariff classification of the internationally agreed on the Brussels Tariff Nomenclature (BTN) of 1955, which had the commodities group according to the nature of the material of which the articles were made. The SITC revised provided a system of commodity classification by material and also by stage of fabrication and by industrial origin. In fact, many changes had taken place since the introduction of the BSITC in 1955. In this way, the classification had been rather limited for collection of basic data on international trade statistics. In order to meet the changing condition it became necessary to have the (BSITC) revised and revised accordingly. The finally revised BSITC (1963) consisted of 177 groups which provided the basic data most usually sought in studies on international trade. The groups were finally consolidated into 10 sections which divided the trade aggregate according to broad economic categories.

Ever since the initiation of economic reforms in 1988, the Myanmar Government has undertaken a series of measures to promote trade. These included, among others, permitting private enterprises to export and import, promoting border trade, streamlining the export-import procedures by lowering tariff and non-tariff barriers and reactivating the Myanmar Chamber of Commerce and Industry. As a founding member of WTO, the country's foreign trade policies are today guided by the rule-based multilateral trading system.

Since, Myanmar has changed it's economic course from a centrally planned economy into a market oriented system, a series of structural reforms had been introduced and new legal policy instruments given the private sector including foreign investors and businessmen, the right to do business and to make investment in the country were enacted. The Government of the Union of Myanmar has recognized, in the context of the market-oriented economic system, the private sector as a prime-mover of the market mechanism and pays great attention for its development. All-out efforts are being made to encourage the active participation of private sectors in foreign trade and giving full support in every angle.

Myanmar follows the Harmonized System of International Nomenclature. Three types of taxes can be levied on imports: import duties, commercial taxes and license fees. After joining ASEAN in 1997, measures have been undertaken to comply with the ASEAN Common Effective Preferential Tariff (CEPT) Scheme. Myanmar is in the process of meeting the CEPT tariff reduction commitments to be phased in between 2001 and 2008. Currently, tariffs range from a low of zero to a maximum of 40 percent, with cars, luxury items and jewelry, among others, facing the highest tariffs.

During the 1991-1995 periods, exports increased at an average annual growth rate of 7.7 per cent and imports by 21.1 per cent. However, in the 1996 to 2000 period, exports increased at an average annual growth rate of 17.0 per cent while that of imports by only 4.8 percent resulting from the export promotion measures and systematic management of foreign trade system. In 2004, the value of exports was US $ 2928 million and imports US $ 1973 million , showing an increase of 24.2 percent in exports over the previous year while imports decline by 11.9 percent. The positions of foreign trade during 1991 to 2005 are shown as follow:-

Table 3.19 The position of foreign trade during 1991-2005

	Export		Import		(+)/(-)
	Value (US $ million)	Growth rate (%)	Value (US $ million)	Growth rate (%)	(US $)
1991	466		851		-385
1992	591	26.8	883	3.8	-292
1993	692	17.1	1297	46.9	-605
1994	917	32.5	1414	9.0	-497
1995	895	-2.4	1832	29.6	-937
average annual growth rate		17.7		21.1	
1996	929	3.8	1993	8.8	-1064
1997	1036	11.5	2309	15.9	-1273
1998	1082	4.4	2702	17.0	-1620
1999	1433	32.4	2605	-3.6	-1172
2000	1960	36.8	2319	-11.0	-359
average annual growth rate		17.0		4.8	
2001	2544	29.8	2735	17.9	-191
2002	3063	20.4	2300	-15.9	763
2003	2357	-23.0	2240	-2.6	117
2004	2928	24.2	1973	-11.9	955
2005	3558	21.5	1984	0.6	1574
average annual growth rate		12.7		-3.1	

Source: Government of the union of Myanmar, Ministry of National Planning and Economics Development

3.6 Summary

In this chapter, a descriptive analysis had been undertaken on the Myanmar's Economy. At the outset of the chapter key economic indicators of the Myanmar was presented to get an understanding of the character of each economy and comparison had been made with the other regional blocs to ascertain the position of the global economy.

Further, the chapter discussed the trade and investment trends and policies of the Myanmar to determine the causes for foreign direct investment in the region. It could be understood that the majority of Myanmar use trade openness. Hence, it is apparent that Myanmar needs to take steps to liberalize economies and open up economies to boost up the trade and foreign direct investment.

Finally, key macroeconomic indicators of the Myanmar had been presented and examined the reasons that Myanmar could achieve high trade share and FDI stock among the members of the ASEAN. This is important to the Myanmar to take experience of the ASEAN economic integration for their future economic integration.

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CHAPTER IV

Empirical Result

4.1 Introduction

The estimation results of Foreign Trade Regime and FDI-Growth nexus will be explained in this chapter. Note that estimated the model for the entire period (1980-2004). This was done in order to see the sensitivity of the result to economic disturbances created by after centrally planned economy in Myanmar.

We used the fully modified OLS estimator proposed by Phillips-hansen(1990) estimation. Although the OLS estimator from the co-integrating regression possesses the large sample property of consistency and are highly efficient, they are still biased in small samples. In the case of small samples, the OLS estimator has an asymptotic distribution, which is non-normal and is affected by nuisance parameters. This makes statistical inference difficult since the standard t-statistics will not be valid asymptotically. Therefore, in this study, the fully modified OLS estimator proposed by Phillips and Hansen (1990) is employed. The fully modified OLS estimator or Phillips-Hansen (PH) procedure is an optimal single-equation technique, which is asymptotically equivalent to maximum likelihood. It applies a semi-parametric correction to the standard OLS procedure. This corrects both the impact on residual term of autocorrelation as well as endogeneity. This provides median-unbiased estimators and provides t-statistics, which follow normal distribution asymptotically.

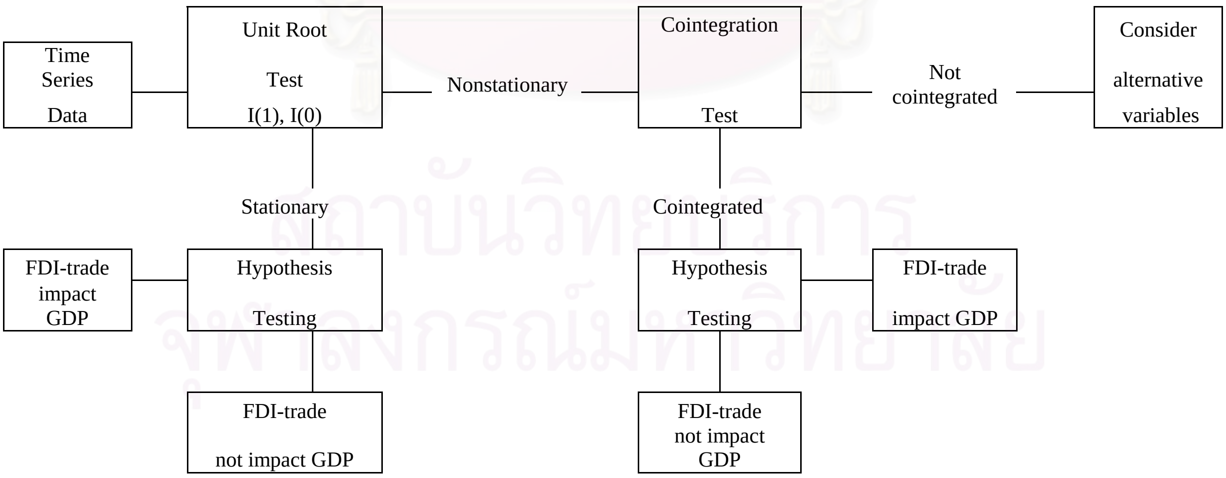
In theory, the maximum likelihood method (a full parametric correction) proposed by Johansen (1988) is superior to the PH procedure because under the Johansen method, the unit roots are explicitly incorporated in the specification. It also takes into account short-run dynamics in estimating the co-integrating vector, and additionally provides for testing for the existence of more than one co-integrating vector. Meanwhile, the PH procedure yields little improvement on the precision as well as the biasness of the estimator, particularly in the case that the lagged dependent variable included. Moreover, in the large sample, the t-statistics poorly perform.

However, the small-sample properties of the Johansen method are still unknown. Moreover, recent applications of this technique have encountered some practical difficulties. The first problem is that criteria to determine the number of co-integration relations such as trace, determinant, and eigen value are very sensitive to the choice of lag length for the VAR (Vector Autoregressive). In this study, for instance, the Johansen Co-integration estimations yields results that are far from economically interpretation such as the negative elasticity of labor and capital, enormous values of coefficient estimated. Moreover, the results are highly sensitive to VAR orders selected. Moreover, severe collinearity may emerge between some of the regressors, particularly when dealing with VARs of a reasonable size. This in turn renders the point estimates of the long-run elasticities even more sensitive to the choice of lag specification. In addition, there are not economic reasons to suggest for more than one co - integration vector for the variables under study. With these reasons, the PH procedure is preferred in this study.

4.2 Results

The estimation producer is below diagram.

Figure 4.1 estimations producer for the effect of trade policy regime on FDI contribution to economic growth



4.2 .1 Unit roots testing results

Perform unit-root tests on the original variables. A testing strategy is required to determine whether drift (intercept) or deterministic trend or both or neither is present in

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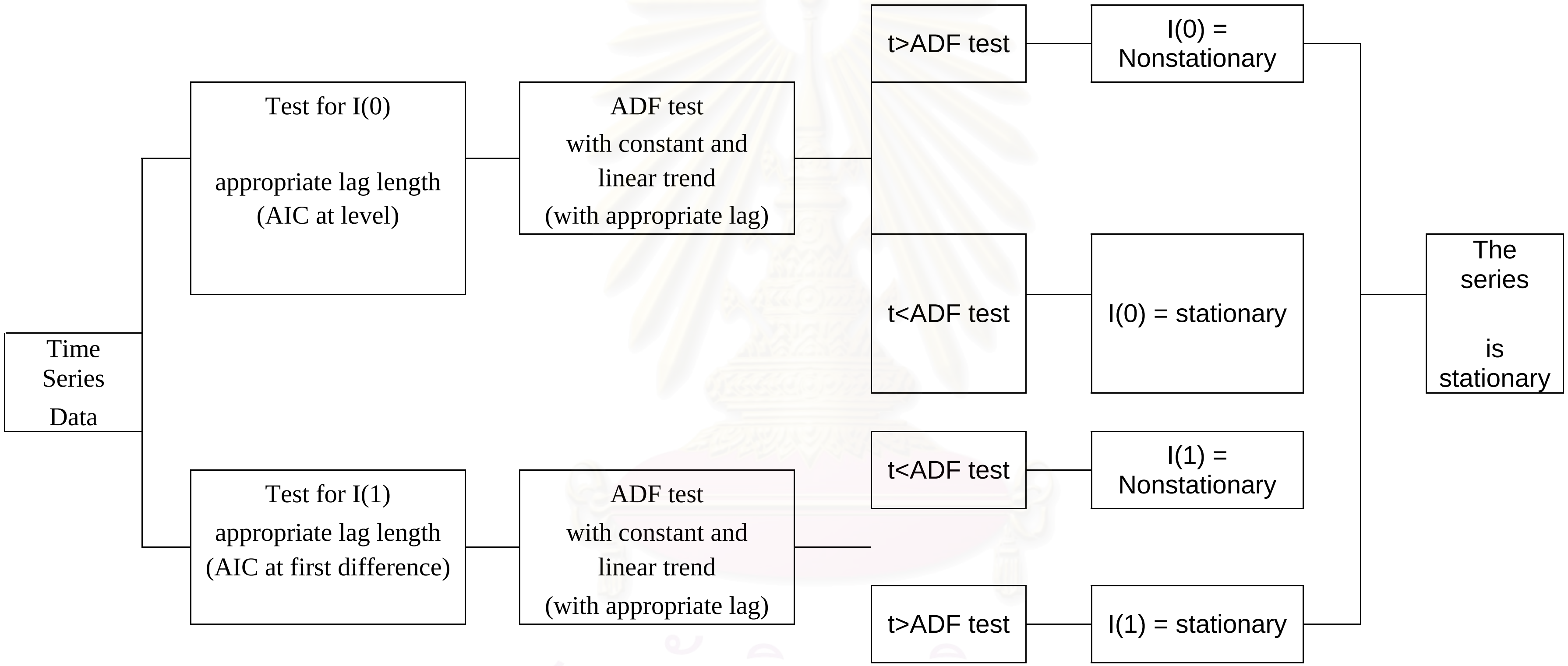
the series, since the power of the test is reduced by including these terms when the process is not actually present and by omitting the terms when they are needed. The strategy is quite complex though a simpler procedure is available, utilizing prior knowledge about the series.

In time series analysis, it is important to determine the nature of the long run movements of the variable is stationary or non-stationary before carrying out any estimation. The non-stationary time series means the mean and/or variance of a time series are time-dependent. Augmented Dickey and Fuller (ADF) is a criterion for testing whether a time series is stationary. Figure 4.2 show that the estimations producer for the ADF test.

Figure 4.2 estimations producer for the Unit roots testing



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110

Before testing unit root, we choose lag length. Our approach is to use AIC (Akaike information criterion) and SBC (Schwarz information criterion) to appropriate lag length. We approximate is basically an empirical observations. We approximate that ARIMA (p,1.q) process follow ARIMA (n,1,0) autoregression of no more than $T^{1/3}$ order. Since for our economic data we have 25 annual observations, then the lag length is 3.

Table 4.1 shows that AIC and SBC results for each variable from lag 1 to 3. The least value of AIC and SBC indicate the appropriate lag length. However, the results of AIC and SBC are different for Open 2 variable. As the results, we will choose appropriate lag length by AIC.

Table 4.1 The value of AIC and SBC at level

VARIABLES	lag = 1	lag = 2	lag = 3
GDP	36.73769	36.66709*	36.82788
	36.93517	36.91505	37.12632
LABOR	14.96846*	15.00268	15.09310
	15.16594	15.25064	15.39154
GDI	4.10917	3.85900*	3.91570
	4.30665	4.10697	4.21414
FDI	-0.86266*	-0.77691	-0.63790
	-0.66519	-0.52894	-0.33946
OPEN1	-6.12839	-6.50225*	-6.46509
	-5.93092	-6.25429	-6.16665
OPEN2	-3.78055	-3.67499	-3.87427*
	-3.58307	-3.42703	-3.57584
OPEN3	-3.47708*	-3.34635	-3.33342
	-3.27960	-3.09838	-3.03499

* = chosen calculated statistic values (appropriate lag length by AIC)

The regression analysis makes sense only for data which are not subject to a trend. Since almost all economic data series contain trends, it follows that these series have to be detrended before any sensible regression analysis can be performed. A convenient way of getting rid of trend in a series is by using first differences, that is the difference between successive observations, rather than levels of the variables. Therefore, it is necessary to take first difference of each variable to estimate co-integration and error-correction. The series of data must be difference more than one, if that series still is non-stationary. AIC and SBC is use to select the appropriate lag length again for first difference.

Table 4.2 The value of AIC and SBC at first difference

VARIABLES	lag = 1	lag = 2	lag = 3
GDP	36.88723*	36.96816	37.13601
	37.08560	37.21686	37.43473
LABOR	15.15316*	15.29651	15.42538
	15.35153	15.54520	15.72410
GDI	4.29962*	4.38385	4.42361
	4.49799	4.63254	4.72233
FDI	-0.71668*	-0.60724	-0.45505
	-0.51831	-0.35854	-0.15633
OPEN1	-6.02100*	-5.98982	-5.92311
	-5.82263	-5.74112	-5.62439
OPEN2	-3.57520*	-3.53977	-3.48971
	-3.37683	-3.29107	-3.19100
OPEN3	-3.26765*	-3.15687	-3.01266
	-3.06927	-2.90818	-2.71394

* = chosen calculated statistic values (appropriate lag length by AIC)

After the test for lag length, we test stationary property of variables. The Dickey-Fuller (DF) test is employed for this purpose. If calculated ADF less than ADF table it indicate that series is non-stationary; it has unit root. On the other hand, if calculated ADF grater than ADF table it indicate the series is stationary. Table 4.3 shows that Unit Roots (Dickey-Fuller (DF) test) results of appropriate lag length.

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Table 4.3 Integrating Test for Data Series Employed

Variables	ADF Test T- statistics	
	I (0)	I (1)
1	2	3
Gross Domestic Product (Y)	-2.49	-3.69
Labor Force (L)	-3.62	-3.49
Ratio of gross domestic capital formation to GDP (K)	-3.45	-4.62
Ratio of foreign direct investment to GDP (FDI)	-2.69	-4.44
Merchandise trade to goods GDP (OPEN1)	-7.35	-5.16
Export-output ratio (OPEN2)	-2.84	-4.53
Relative price Index(OPEN3)	-1.81	-3.16

Note: 1. Statistic values calculated by program EVIEWS version 3.1

2. The t-statistic reported is the t-ratio on γ_1 in the following auxiliary regression.

$$\Delta X_t = \gamma_0 + \gamma_1 X_{t-1} + \sum_{i=1}^{p} \beta_i \Delta X_{t-i} + \gamma_3 T + \mu_t$$

where X is the considering variable; T is a time trend and μ is the disturbance term. In estimating the regression the lag length (p) on the lagged dependent variable and T are determined by the Akaike Information Criterion (AIC) to ensure the white property of corresponding residual from the regression.

The results, reported in Table 4.3, suggest that all data series are integrated processes of order 1 or *I* (1) (i.e. the series are non-stationary in level but stationary in first-differences). The implication is that the set of variables taken together has the potential to form a co-integrating vector whose coefficient can directly be interpreted as long-term (steady-state) elasticities. Therefore, the model is estimated using the co-integration technique.

4.2.2 The result of the three alternative measures of TP

The purpose of our empirical investigation is to analyze the effects of FDI and trade on economic growth and to examine how FDI interacts with trade openness in advancing economic growth in Myanmar. We control for preexisting economic conditions by including initial GDP as one of the explanatory variables. We also account for differences in macroeconomic policies and institutions in Myanmar by including variables, such as labor, gross domestic information and trade openness, and FDI. We test the effects of FDI and trade on economic growth in a frame of equation utilizing data from Myanmar. In this paper, used to the fully modified OLS estimator proposed by Phillips-Hansen (1990) as technique of estimation. The reasons for choosing these among various other co-integration techniques are discussed in above topic introduction. Note that since the main interest here is in the long-run relationship postulated by the Bhagwati's hypothesis, estimating short-run dynamics is not intended.

The three alternative measures of *TP* yielded basically comparable results. This choice was made on the basis of superior stationary property of the regression residual. The alternative estimates are reported in bellow Table 4.4.

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Table 4.4 Estimation Results Based on Alternative Openness Indicators 1980-2004

variables	OPEN1	OPEN2	OPEN3
1	**2**	**3**	**4**
Intercept	61.32 (-14.12)	61.79 (-13.84)	62.44 (-14.57)
L	8.26 (-19.56)	8.31 (19.08)	8.38 (-20.1)
K	-0.03 (-1.29)	-0.03 (-1.27)	-0.03 (-1.22)
FDI	-1.26 (-0.91)	-1.7 (-1.00)	3.07 -1.7
OPEN*FDI	20.85 (-1.07)	8.23 (-1.12)	-8.13 (-1.64)
DF	***-5.36***	-5.13	-4.51

Note : 1. Phillip Hansen estimation method

2. Number in parenthesis is the corresponding t-statistics

3. *OPEN1* = the ratio of total merchandise trade to goods GDP.

OPEN2 = the export-output ratio the ratio of total merchandise trade

OPEN3 = the relative world to domestic price of tradable goods.

4. DF is the corresponding t-statistics of lagged residuals from testing DF unit roots on residuals.

Above table 4.4 show that the results of alternative openness indicators 1980 to 2004. Openness 1 is more superior stationary property of the regression residual than other openness. All alternative openness variables are non-stationary in I(0) but stationary in I(1). The following discussion focuses on the results based on the total merchandise trade to goods GDP (*OPEN1*).

The regression results are reported in Table 4.5. Note that I have estimated the model for the entire sample period (1980-2004) as well as for the before Trade and Foreign Investment Law was enacted period (1980-1988) and after Trade and Foreign Investment Law was enacted period (1988-2004). This was done in order to see the sensitivity of the results to economic disturbances created by Law was enacted. The results are very different, apart form minor differences relating to the size of some coefficients. The discussion in this section focuses on the estimate for the entire period.

4.2.3 The result of the Foreign Trade Regime and FDI-Growth Nexus

The purpose of our empirical investigation is to analysis the effects of FDI and trade on economic growth. We also account for differences in macroeconomic policies and institutions in the host countries by including variables, such as labor and gross domestic information. We test the effects on FDI and trade on economic growth in a framework of single equation utilizing over the 1988-2004.

Table 4.6 Long-Run Determinants of Economic Growth during the 1980-2004, 1980-88 and 1988-2004

variables	**WholePperiod1980-2004**	**1980-1988**	**1988-2004**
	PH	**PH**	**PH**
1	**2**	**3**	**4**
Intercept	61.32	18.17	66.6
	(14.12)	(2.71)	(25.26)
L	8.26	0.04	8.81
	(19.56)	(0.06)	(33.51)
K	-0.03	-0.04	-0.04
	(-1.29)	(-5.66)	(-1.01)
FDI	-1.26	5.28	-2.53
	(-0.91)	(-0.34)	(-1.96)
OPEN*FDI	20.85	-39.81	41.7
	(1.07)	(-0.63)	(4.09)
DF	-5.36	-3.3	-4.9

Note : 1. PH = Phillip Hansen estimation

2. Number in parenthesis is the corresponding t-statistics

3. DF is the corresponding t-statistics of lagged residuals from testing DF unit roots on residuals. 95% and 90% critical value for rejected the hypothesis that residual is characterized as I(0) is –3.62 and –3.25 respectively. This critical value is from the response surface table developed by Mackinon (1991)

The regression results are reported in Table 4.5. Note that I have estimated the model for the entire sample period (1980-2004) as well as for the before Trade and Foreign Investment Law was enacted period (1980-1988) and after Trade and Foreign Investment Law was enacted period (1988-2004). This was done in order to see the sensitivity of the results to economic disturbances created by Law was enacted. The results are very different, apart form minor differences relating to the size of some coefficients. The discussion in this section focuses on the estimate for the entire period.

As shown in equation (4) above, our empirical results reveal that, in line with the traditional growth model, the coefficient associated with β_1 **(labor force)** has expected positive sign, suggesting that labor positively affect economic growth. The positive effect amounted to about 20% of the average annual growth during the whole period.

The coefficient associated with β_2 (gross domestic capital formation) has expected positive sign, in results that gross domestic negatively affect economic growth. However, capital is very small negative sing (about 1% of the average annual growth during the whole period); this does not mean that capital does not affect the output growth in the Myanmar case. Myanmar is low developing country.

Since Bhagwati's hypothesis is concerned with the differential impact of FDI upon growth in EP as opposed to IS countries. The estimate of β_4 (the coefficient attached to *TP*FDI*) is significantly different from zero with the theoretically expected (positive) sign, providing strong support for the Bhagwati hypothesis. That is the growth impact of FDI on the Myanmar economy seems to have significantly enhanced as the country's trade policy regime shifted from IS emphasis and toward greater export orientation. Since Bhagwati's hypothesis is concerned with the differential impact of FDI upon growth in EP as opposed to IS countries.

Moreover, the significant and negative sign of β_3 implies the FDI inflows could have even generated a negative effect on growth performance of the economy under the IS regime. Evaluating at the average value of OPEN1 over the past three decates, the contribution of FDI affected negatively on growth performance of the Myanmar economy. The negative effect amounted to about 1% of the average annual growth during this period.

Under the IS regime, high domestic trade protection attracted foreign investors mostly to share economic rents with local firms. FDI was concentrated in capital- and technology-intensive industries where technology gap between foreign and local owned firms was very high. Thus the capacity of local firms to learn from foreign firms was limited.

Since the late 1988s to the early 1997s, FDI inflows gradually shift to light manufacturing industries particularly labor intensive assembly activities in electronic and electrical goods where the country has comparative advantage in international production. The new FDI firms are more export-oriented relatively to those in the early 1988s. With relatively smaller technology gap, the presence of such foreign affiliates likely demonstrate managerial as well as international marketing and consequently enhance export-propensity to local firms.

4.3 Conclusion

This paper has examined the effect of trade policy regime on FDI contribution to economic growth using time series data from the Myanmar economy. The empirical analysis was built around the ‘Bhagwati’ hypothesis that an export-promoting regime is more conducive compared to an import-substituting regime in generating favorable effect of FDI for the host countries. The findings are consistent with this hypothesis. Thus the Myanmar’s experience during the period under study makes a strong case for simultaneous liberalization of trade and investment policy regimes. Liberalizing the foreign investment regime while retaining a restrictive trade policy regime could well generate immiserizing growth. When studying the interactive impact of trade and FDI using time-series analysis, one can be interested in understanding how the regional trade regime functions and how trade openness affect FDI inflows.

Policy Implications we can draw from our empirical results seem to be important. For Myanmar to benefit from the growth-enhancing effects of foreign direct investment, it should continue to liberalize its trade transaction. For Myanmar to benefit from technology transfer and spillover effects, FDI should be encouraged but it should be accompanied with trade openness. In an environment of trade restrictions, FDI inflows cannot be a catalyst for long run economic growth. The positive interactive impact of

FDI and trade openness on economic growth would growth would probably hold in Myanmar.

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

CHAPTER V

CONCLUSION AND RECOMMENDATIONS

5. 1 Introduction

This chapter presents the conclusion and recommendations based on the estimated results from the effect of trade policy regime on FDI contribution to economic growth using time series data in Myanmar. Section 5.2 presents the conclusion of the research. Policy recommendations will be presented for Myanmar in section 5.3 based on the projected results to strengthen her trade policy and investment in Myanmar. Section 5.4 illustrates the limitations of the study and recommendations for further study on the Myanmar Economy.

5.2 Conclusion

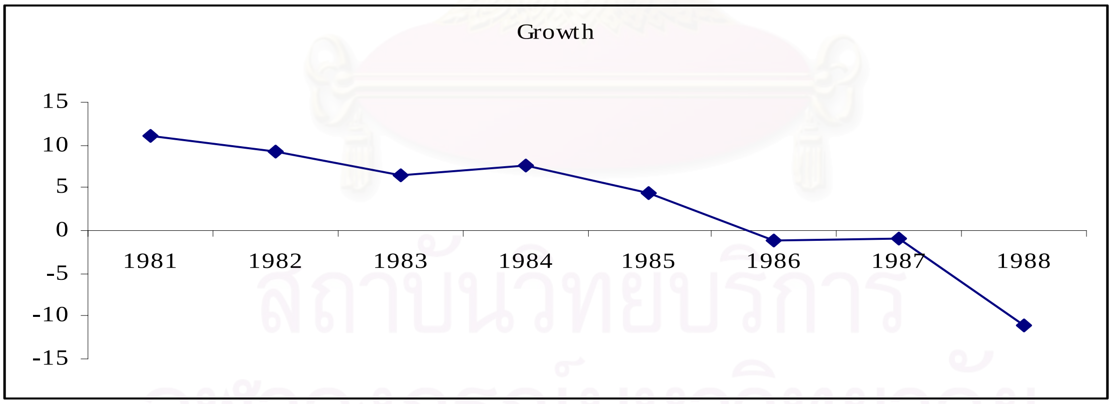
Several important conclusions could be drawn from the analysis of FDI, trade and out put in Myanmar and FDI and trade impact on the Myanmar economy. Based on the results the impact of welfare variables on the Myanmar economy can be presented as follows to determine the contribution of trade and FDI on economic development in Myanmar.

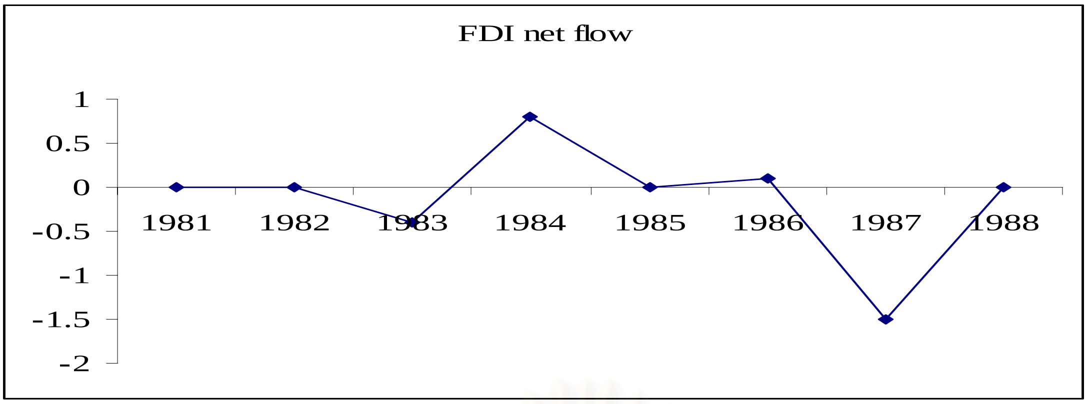
The empirical analysis was built around the 'Bhagwati' hypothesis that an export-promoting regime is more beneficial compared to an import-substituting regime in generating favorable effect of FDI for the host countries. It assumes that FDI inflows coming into a country in the context of a restrictive, IS regime can slow down, rather than promote growth. The methodology involves estimating a growth equation, which provides for capturing the impact of FDI interactively with economic openness on economic growth, using data from the period 1988-2004. In my results, the estimate of the Trade Policy interaction (TP*FDI) is strong support for the Bhagwati hypothesis. That is the growth impact of FDI on the Myanmar economy seems to have significantly enhances as the Myanmar trade policy regime shifted from IS emphasis and toward grater export orientation.

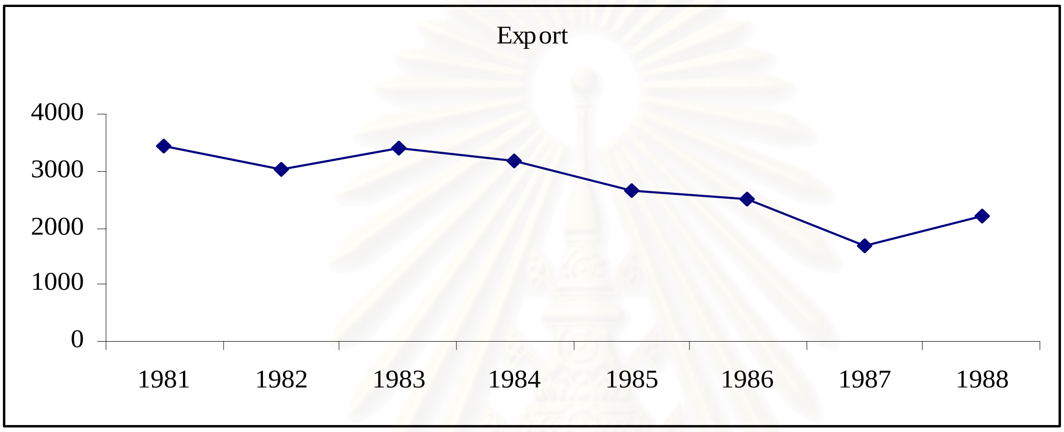
5.2.1 Foreign Trade Regime and FDI-Growth Nexus in Myanmar (1980-1988)

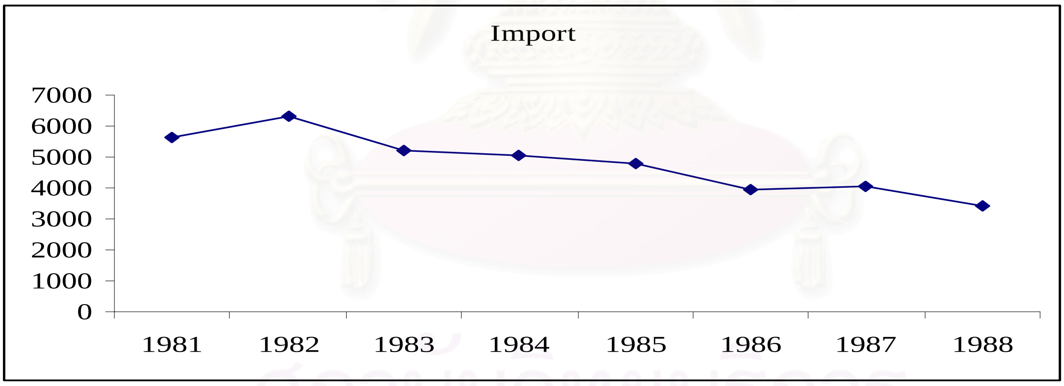
During the period 1988 to 1989 Gross Domestic Product declined by 15.8 per cent. The deterioration of the economy affected the political stability which led to the change of government. The economic system was also changed from socialist economic system to market-oriented one in late 1988. In my results, the period of 1980-1988, the result was not consistent with general inference of Myanmar that the contribution of FDI to the overall performance of the Myanmar economy was not significant. During the 1980-1988, higher volume of FDI was not come to Myanmar and Trade was not open at all .The figure 5.1 shows that the structure of Growth rate, FDI, Import and Export after market oriented economy. (The period of centrally planned economy based on socialist economic system.)

Figure 5.1 The Structural changes of Growth, FDI, Import and Export after market oriented economy (1980-1988)









Source- Government of the union of Myanmar, Ministry of National Planning and Economics Development

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

The effect of trade policy regime on gain from FDI in a given host country. Liberalizing the foreign investment regime while retaining a restrictive trade policy regime could well generate immiserizing growth. Above the figure 5.1, we can see that FDI net flow deeply decreased at 1987 when growth and export are decreased. During the period of centrally planned economy (based on socialist economic system), trade policy was not open and small volume of FDI come to host country when growth and export was increased.

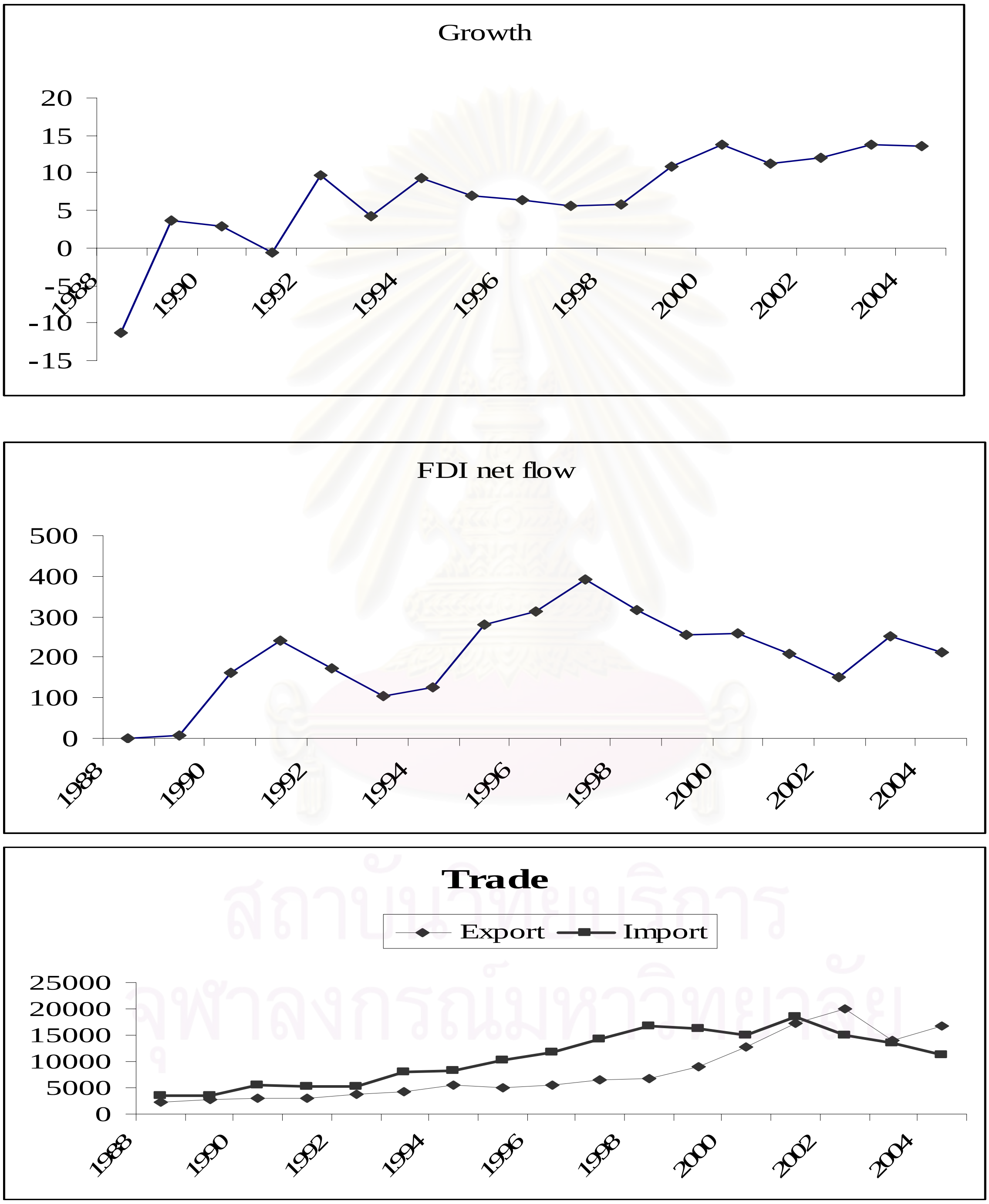
5.2.2 Foreign Trade Regime and FDI-Growth Nexus in Myanmar (1988-2004)

The government has placed emphasis on stabilization and consolidation of the country and consequently, during the three-year period from 1989 to 1991, stabilization programmes were formulated to revitalize the economy. The economy began to restore, registering a growth rate of 5.9 percent or an increase of 1.1 times during the three-year period. Myanmar Foreign Investment Law was promulgated on November 30, 1988 and its procedures prescribed on December 7, 1988. Myanmar has opened the doors to foreign investors to participate actively in exploiting natural resources thereby enhancing long-term mutually beneficial economic cooperation.

Myanmar's foreign trade policy is very independent one. We can trade with any country in the world expect with some countries that are trade embargoed by the United Nations Resolutions or a few countries and territories which we have cut off diplomatic relations. Myanmar has bilateral trade agreements with the Republic of Korea, People's Republic of China, Thailand, Bangladesh, India, Pakistan, Vietnam, Laos, Philippines, Malaysia in the Asian region, and with six countries in Eastern Europe, on the principle of equality of rights and mutual benefits. Myanmar has signed 4 Border Trade Agreements with its neighbors. With China in August 1988, with India in Ianuary 1994, with Bangladesh in May 1994 and with Thailand in March 1996, with a view to legalize and normalize the increasing border trade, which is integral part of the Myanmar foreign trade.

We test the effects of FDI and trade on economic growth in a framework of equation utilizing data from entire period 1980-2004 as well as 1980-1988 and 1988 to 2004. During the 1988 to 2004, the results of regression reveal that FDI and trade contribute positively to economic growth. This result is consistent with the idea that flow of advanced technology brought along by FDI can increase the growth rate of the Myanmar economy by interacting with trade. The figure 5.2 shows that the patterns of Growth, FDI and Trade on Myanmar economy during the 1988 to 2004, that is market-oriented economy , Myanmar has undergone a clear policy transition from an IS regime to an EP regime over this period. The trade policy regime in Myanmar was characterized by a heavy emphasis on import-substitution in the after 1988s. From the late 1988s, there has been a palpable shift greater export orientation.

Figure 5.2. The Structural changes of Growth, FDI, Import and Export after market oriented economy (1988-2004)



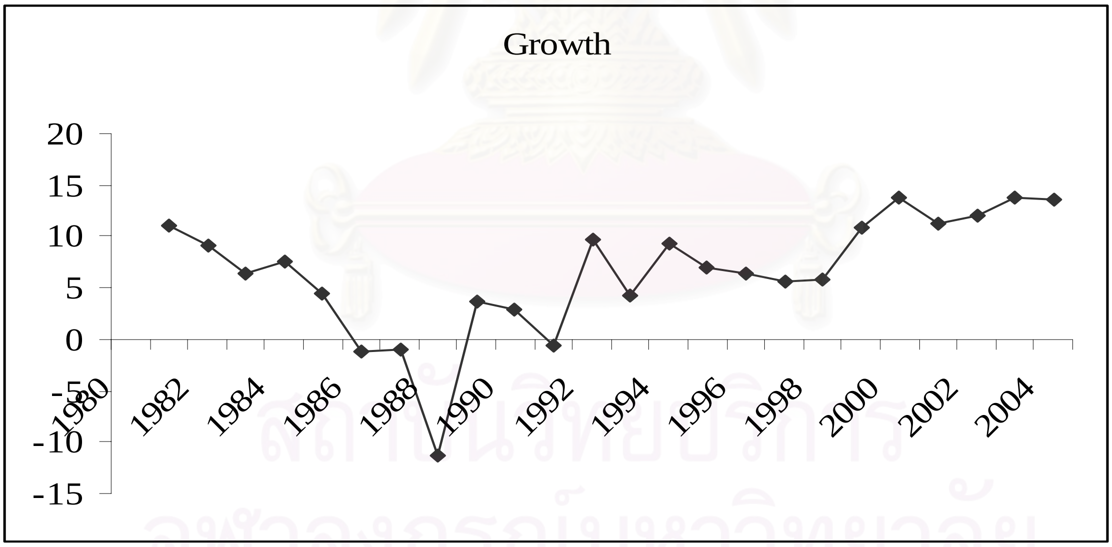
Source- Government of the union of Myanmar, Ministry of National Planning and Economics Development

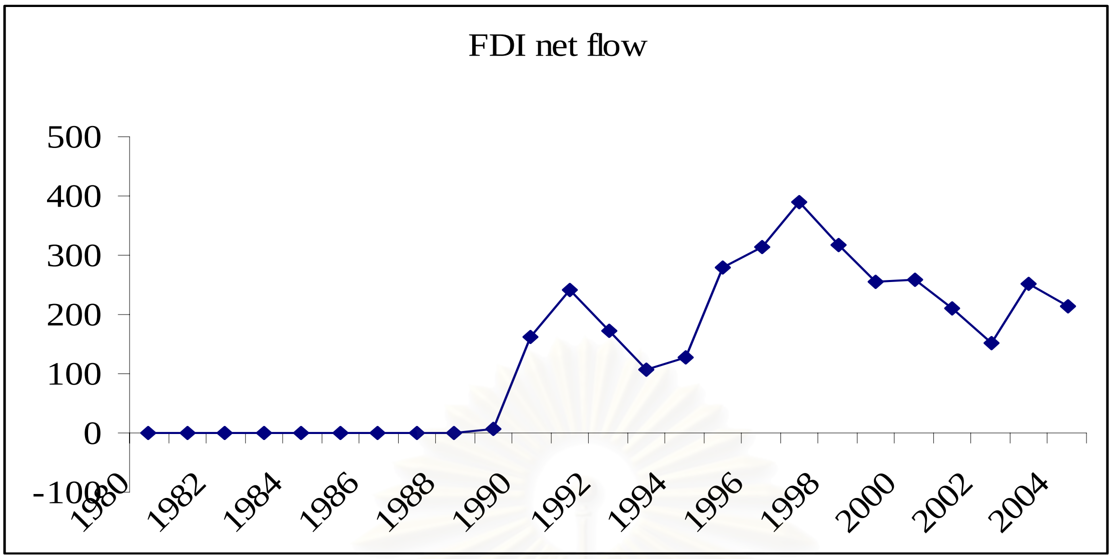
สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

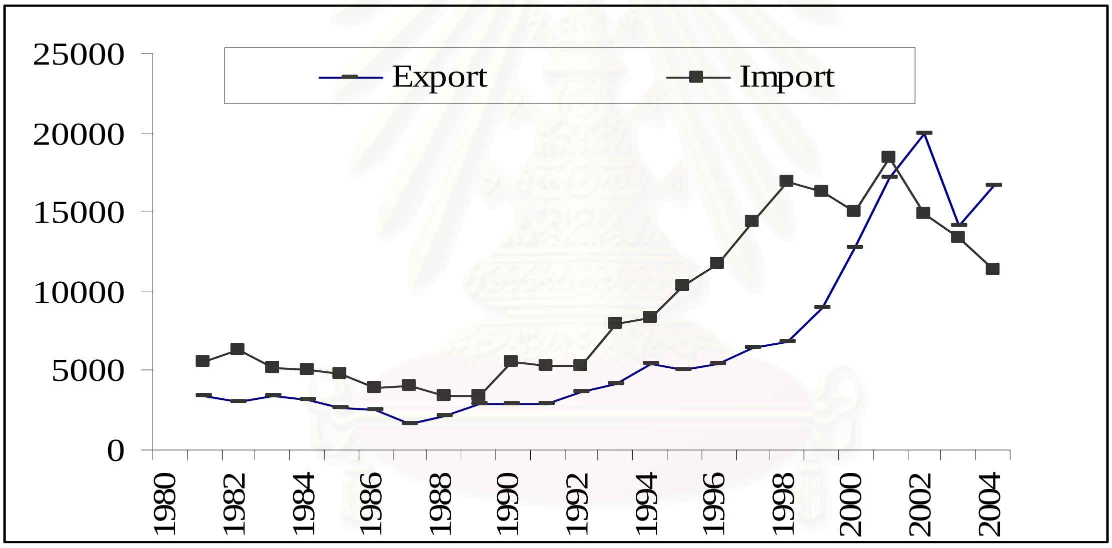
5.2.3 Foreign Trade Regime and FDI-Growth Nexus in Myanmar (1980-2004)

This paper analyses the relationship between trade strategy, FDI and growth in Myanmar in the context of new growth theory. An interesting hypothesis proposed by Jagdish Bhahwati, which links trade strategy to both the magnitude of FDI individual developing countries are able to attract and its efficacy in promoting growth. The Bhagwati hypothesis therefore has tow components: first, that EP country attracts a greater volume of FDI and second that they enjoy grater efficiency (social returns) there from. We have elsewhere reported evidence in support of the former (or volume) effect and the present paper focuses its attention on testing the first component of Bhagwati's hypothesis.

Figure 5.3 The Structural changes of Growth, FDI, Import and Export after market oriented economy (1980-2004)







Source- Government of the union of Myanmar, Ministry of National Planning and Economics Development

As shown in chapter (4) above, our empirical results reveal that, in line with the traditional growth model, since Bhagwati's hypothesis is concerned with the differential impact of FDI upon growth in EP as opposed to IS countries. The estimate of FDI-trade interaction is statistically significant. This implies that FDI and trade complement each other in advancing growth rate of income in Myanmar. We can see in figure 5.3, the volume and efficacy of inward FDI is very according to whether a country is following the export promotion of the import substituting.

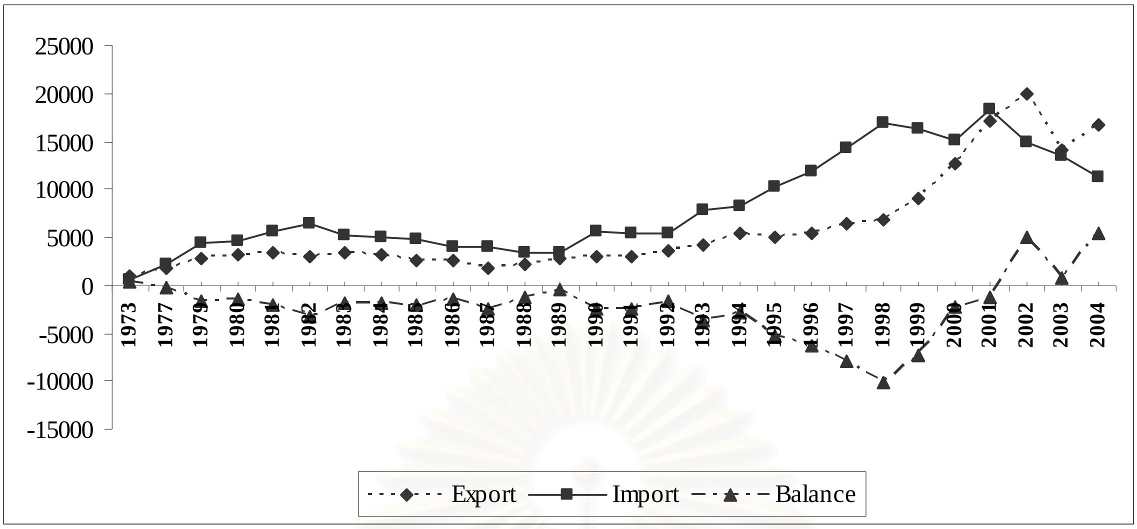
5.3 Recommendations

Myanmar has implemented three economic plans. The first short-term five-year plan achieved an average annual growth rate of 7.5%, the second short-term five-year plan achieved 8.5% and the third five-year plan achieved an average annual grpwth rate of 12.8%. The economy expanded 1.34, 1.5 and 1.83 times respectively. It can be judged from these figures that Myanmar economy has grown gradually the growth of the second plan is better than the first plan and the third plan is far better than the second.

The agriculture sector achieved an average annual growth rate of 6.4%, 7.3% and 9.3% during the first, second and third short-term plans respectively. The industry sector realized an average annual growth rate of 11.6% during the first short-term plan, 11.4% during the second short term plan and increased sharply to 23.5% during the third short-term plan. The services sector realized an average annual growth rate of 7.3% during the first short-term plan and grew to 8.5% and 13.9% respectively during the second and third short-term plans. Thus, Myanmar's economy is developing wroth nothing with accelerated growth in all 3 main sectors.

When look at figure 5.4 external trade position, there was deficit for selective years starting from 1973. However, Myanmar trade has improved that situation and now have surplus in external trade since 2002. Current account balance was also negative for more than 2 decades. Necessary measures have been undertaken thereby Myanmar have achieved surplus in current account since 2002. The improvement in balance of trade and current account is one of the importance factors to bring about sound economy.

Figure 5.4 The Balance of Trade (selective years of 1973-2004)



Source- Government of the union of Myanmar, Ministry of National Planning and Economics Development

For the purpose of promoting foreign investment and bringing in more foreign capital into the country, it offers investment incentives and guarantee to foreign investor. Regarding tax incentives an enterprise covered by the Foreign Investment Law is entitled to an income-tax holiday period of three years including the year in which its commercial operations are first launched and also to a further reasonable period provided by the Commission on application. In addition, the enterprise may enjoy any or all of the following exemption and relief;-

(a) exemption or relief from income-tax on reinvested profits within one year;

(b) accelerated depreciation rates approved by the Commission;

(c) fifty percent relief from income tax on profits acquired from exports;

(d) right to pay income-tax on behalf of foreign experts and technicians employed in the business and the right to deduct such payment from the assessable income;

(e) right to pay income tax on the income of foreign employees at the rates applicable to Myanmar nationals;

(f) right to deduct Research and Development expenditures from the assessable income;

(g) right to carry forward and set off losses up to three consecutive years from the year the loss is sustained;

(h) exemption or relief from customs duty or other internal taxes or both on;

(1) imported machinery, equipment, instrument, machinery components, spare parts and materials used in the business during the period of construction; and

(2) imported raw materials for the first three of commercial operation after completion of construction.

The Foreign Investment Law provides an irrevocable State guarantee that an enterprise permitted by the MIC under the Foreign Investment Law shall not be nationalized during the period or the extended period. It also provides repatriation of profit. In the case of termination or dissolution of the business, repatriation of foreign capital can also be transferable. In appointment of personnel, though preference should be given to citizens there is no restriction for the appointment of experts and technicians from abroad.

Foreign investors can set up their business either in the form of a wholly foreign-owned or in a joint venture with any partner (an individual, a private company, a cooperative society or a state-owned enterprise). In all joint ventures, the minimum share of the foreign party is 35 percent of the total equity capital.

5.4 Limitations of the Study and Recommendations for Future Study

5.4.1 Limitations of the Study

This paper examines, within a new growth theory framework, the contribution of direct foreign investment and international trade on economic development used time series data from Myanmar's economy. The study conducted FDI interactively of three alternative trade policy regimes. The model is estimated using annual data for the period 1980-2004. In this paper, including data are 8 variables, there are labor, gross domestic product (GDP), manufacturing output, gross domestic capital formation , FDI net flow and three trade openness . In this study, we use three alternative proxies; **(*a*)** the ratio of total products trade (import + export) to goods GDP (that is, total GDP net of value added in construction and services sectors) **(*OPEN 1*)**., **(*b*)** is the ratio of export to gross output in manufacturing sector **(*OPEN 2*)** and **(*c*)** the ratio of world price (converted to domestic currency) to domestic price indexes of manufactured products **(*OPEN 2*),** .

5.4.3 Recommendations for Further Study

a) Recommendations for Further Study due to Limitations in the Scope and Methodology

There are many recommendations for further study to produce the foreign trade regime and FDI-Growth nexus in case of Myanmar. In this paper, used Bhagwati hypothesis, that the theory of the effect of trade policy regime on gain from FDI in a given host country. It postulates that FDI inflows coming into a country in the context of a restrictive, IS regime can retard, rather than promote growth. The model to investigate the interaction of FDI and trade policy regime in economic growth is derived by using the production function framework. FDI and trade policy interaction are three alternative proxies.

Our econometric model is derived from a production in which the level of a country’s productivity depends on FDI, trade, domestic investment and three alternative trade policies. In the further we can test from production function in which the level of a country’s productivity depends on FDI, trade, domestic investment, human capital ,the inflation rate, the tax on income ,profit , government consumption and initial gross domestic product (GDP) per capital. The purpose of this empirical investigation is to analyze the effects of FDI and trade on economic growth and to examine how FDI interacts with trade, human capital and domestic investment in advancing economic growth in developing countries.

b) Recommendations for Further Study to successfully implementing the foreign trade regime and FDI-Growth nexus in Myanmar

As the present study found that the effect of trade policy regime on FDI contribution to economic growth, it is important that export substation regime in Myanmar economy. Using three alternative trade openness, two openness are providing strong support for the Bhagwati hypothesis but not support one openness. It is the ratio of world price (converted to domestic currency) to domestic price indexes of manufactured products . It is important to further study on the factors that could link between trade policy and FDI. Studies on following aspects are important in this regard.

- Finding compare with other developing countries trade and investment policy
- Building complementary foreign trade and foreign investment structure in the region
- Product and market diversification
- Enhance value addition of traditional commodities in the region through upgrade technology and innovation
- Trade facilitation and economic integration
- Establishment of common investment area in the ASIAN

5.5 Summary

This chapter presented the conclusions and recommendations on contribution of foreign trade regime and FDI on economic growth for Myanmar. The study concluded that the Myanmar's experience during the period under study makes a strong case for simultaneous liberalization of trade and investment policy regimes. Moreover, based on the analysis it could be concluded that the new FDI firms are more export-oriented relatively to those in the after 1988s.

In addition, recommendations had been made to the trade and investment sector to make effective strategies to cope up with implementation of the Myanmar. Finally, limitations of the study and recommendations for further study had been presented to make use of the results of the present study for future academic research in Myanmar economic integration.

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

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APPENDICES

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

Table A.1 Structural Change of GDP by Major Sectors , 1988- 2004

Sr. No.	year	Value(Kyat in Million)			Share (percentage)		
		Agriculture	Industry	Services	Agriculture	Industry	Services
1	2	3	4	5	6	7	8
		(At 1985-86 Constant Prices)					
1	1988	22595	5409	19137	47.9	11.5	40.6
2	1991	23451	6683	19799	47	13.4	39.6
3	1995	30072	10348	26286	45	15.6	39.4
4	2000	42836	17834	39605	42.8	17.7	39.5
		(At 2000-01 Constant Prices)					
5	2001	1588268	301385	952661	55.9	10.6	33.5
6	2002	1684056	406820	1093241	52.9	12.8	34.3
7	2003	1881659	491235	1251922	51.9	13.6	34.5
8	2004	2061808	594832	1424802	50.5	14.6	34.9

Agriculture sector includes Agriculture, Livestock and Fishery and Forestry sectors.

Industry sector includes Processing and Manufacturing, Energy, Mining, Electric Power and Construction sectors.

Sevices sector includes Services sectors and Trade sector.

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

Table A.2 **Exports by type of commodity**

(Kyat in million)

(Quantity in thousand)

Sr. No		Type of Commodity	A/U	2000	2001	2002	2003
1		2	3	4	5	6	7
1		Agricultural products	Kyat	2313.8	3021.4	2808.2	2343.4
	1	Rice and broken Rice	Kyat	207.6	754.1	632.6	130.5
			M/T	251.0	939.0	793.0	168.0
	2	Maize	Kyat	91.6	58.9	138.6	92.5
			M/T	148.0	90.0	219.0	151.0
	3	Pulses and Beans	Kyat	1658.0	1898.1	1760.2	1731.3
			M/T	831.0	1035.0	1038.0	1211.0
	4	Animal Feed	Kyat	0.3	0.2	6.5	10.9
	5	Rubber and other	Kyat	356.3	310.1	270.3	378.2
2		Animal products	Kyat	37.2	41.7	22.0	13.4
3		Marine products	Kyat	934.5	861.3	1115.8	965.9
	1	Fish/Prawn	Kyat	889.4	828.3	1068.4	916.8
			M/T	64.0	87.0	99.0	67.0
	2	Other marine products	Kyat	45.1	33.0	47.4	49.1
4		Forest products	Kyat	1861.8	2388.9	2272.9	2247.0
	1	Teak Log	Kyat	607.5	1099.0	975.1	1143.4
			Cu/T	204.0	168.0	166.0	243.0
	2	Teak conversion	Kyat	43.5	323.6	412.3	349.0
			Cu/T	14.0	33.0	40.0	38.0
	3	Hardwood Log	Kyat	151.8	374.5	433.6	517.2
			Cu/T	329.0	243.0	286.0	374.0
	4	Hardwood conversion	Kyat		82.8	49.8	39.4
			Cu/T		42.0	22.0	17.0
	5	Other forest products	Kyat	1059.0	509.0	402.1	198.0

Table A.2 **Exports by type of commodity**

(Kyat in million)

(Quantity in thousand)

1		2	3	4	5	6	7
5		Minerals & Gems	Kyat	1867.4	4890.3	6659.3	4175.5
	1	Silver	Kyat	1.0	0.8		0.01
			OZ.	35.0	71.0		2.0
	2	Lead	Kyat	4.0	2.9	1.8	1.7
			M/T	1.5	2.0	3.0	0.3
	3	Zinc Concentrates	Kyat	3.9	15.0	4.9	0.3
			M/T	8.0	14.0	4.0	0.6
	4	Copper Concentrates	Kyat	301.0	255.1	262.7	325.5
			M/T	27.0	25.0	26.0	29.0
	5	Tin Metal	Kyat	14.7	14.5	10.8	12.7
			M/T	1.0	1.0	1.0	1.0
	6	Gems and Jewellery	Kyat	362.1	126.3	250.3	357.1
	7	Natural Gas	Kyat	1110.5	4247.1	5919.0	3478.1
	8	Other Minerals	Kyat	70.2	228.6	209.8	0.1
6		Other commodities	Kyat	5721.3	5927.1	7076.9	4374.0
	1	Ready Made Graments	Kyat	3785.3	2985.3	2976.2	1965.0
	2	Others*	Kyat	1936.0	2941.8	4100.7	2409.0
		Total Exports		**12736.0**	**17130.7**	**19955.1**	**14119.2**

Source- Government of the union of Myanmar, Ministry of National Planning and Economics Development

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

Table A.3 Imports by type of commodity

(Kyat in million)

Sr. No		Country	2000	2001	2002	2003
1		2	3	4	5	6
1		South East Asian Countries	7064.2	8820.0	8017.8	6525.6
	1	Singapore	3646.4	3918.0	4134.2	4048.0
	2	Malaysia	794.0	2434.1	1887.3	891.6
	3	Thailand	1970.7	1798.0	1502.5	1143.3
	4	Others	653.1	669.9	493.8	442.7
2		Other Asian Countries	6727.0	8013.4	5907.9	6102.2
	1	People's Republic of China	1855.2	2068.1	2350.0	2816.7
	2	Sri Lanka	0.6	0.3	0.3	0.2
	3	India	540.2	552.9	692.5	652.4
	4	Japan	1317.4	2390.4	1391.7	1579.3
	5	Pakistan	11.2	18.8	52.9	22.0
	6	Bangladesh	7.6	15.9	11.1	11.0
	7	Hong Kong	838.4	512.5	407.7	222.6
	8	Republic of Korea	1874.0	2261.1	898.4	660.0
	9	Others	282.4	193.4	103.3	138.0
3		Middle East Countries	95.1	79.5	119.4	109.0
4		North American Countries	160.4	225.1	159.5	144.8
5		South American Countries	2.4	2.5	5.7	1.4
6		European Union	736.2	707.8	407.4	323.2
7		Other North-West European countries	146.2	375.0	172.9	103.8
8		Other South European Countries	14.9	6.0	5.6	1.7
9		East European Countries	14.4	2.4	0.5	18.4
10		African Countries	0.1	13.0	0.2	1.8
11		Australia, New Zealand & other countries in the Pacific	111.7	128.8	110.2	63.9
12		Other	0.5	4.2	2.9	1.7
		Total	**15073.1**	**18377.7**	**14910.0**	**13397.5**

Source- Government of the union of Myanmar, Ministry of National Planning and Economics Development

Table A.4 Exports by Country

(kyat in million)

Sr. No		Type of Commodity	2000	2001	2002	2003
1		2	3	4	5	6
1		South East Asian Countries	3332.7	7694.4	8922.9	6265.3
	1	Singapore	737.3	1099.5	881.9	786.0
	2	Malaysia	471.1	785.2	485.4	412.0
	3	Thailand	1831.3	5391.8	7095.6	4676.1
	4	Others	293.0	417.9	460.0	391.2
2		Other Asian Countries	4559.4	5439.9	6856.8	5540.3
	1	People's Republic of China	1143.0	1545.2	3070.5	1343.2
	2	Sri Lanka	10.6	5.2	5.0	5.8
	3	India	1701.6	2323.6	2107.8	2166.5
	4	Japan	542.4	450.7	522.0	716.4
	5	Pakistan	145.4	164.2	90.6	117.0
	6	Bangladesh	343.5	414.8	497.5	470.2
	7	Hong Kong	531.3	377.2	389.5	475.5
	8	Republic of Korea	139.0	151.7	164.9	235.2
	9	Others	2.6	7.3	9.0	10.5
3		Middle East Countries	83.2	403.6	393.8	141.3
4		North American Countries	1684.1	1957.9	2184.1	640.1
5		South American Countries	14.9	12.3	18.5	19.8
6		European Union	908.7	1391.1	1346.4	1316.0
7		Other North-West European countries	56.4	38.5	32.8	43.0
8		Other South European Countries	5.6	1.2	1.9	2.2
9		East European Countries	55.8	52.2	100.0	79.1
10		African Countries	18.4	2.5	1.2	0.6
11		Australia, New Zealand & other countries in the Pacific	78.5	136.4	96.1	69.2
12		Other	1938.3	0.7	0.6	2.3
		Total	**12736.0**	**17130.7**	**19955.1**	**14119.2**

Source- Government of the union of Myanmar, Ministry of National Planning and Economics Development

Table A.5 Imports by Country

(kyat in million)

Sr. No		Country	2000	2001	2002	2003
1		2	3	4	5	6
1		South East Asian Countries	7064.2	8820.0	8017.8	6525.6
	1	Singapore	3646.4	3918.0	4134.2	4048.0
	2	Malaysia	794.0	2434.1	1887.3	891.6
	3	Thailand	1970.7	1798.0	1502.5	1143.3
	4	Others	653.1	669.9	493.8	442.7
2		Other Asian Countries	6727.0	8013.4	5907.9	6102.2
	1	People's Republic of China	1855.2	2068.1	2350.0	2816.7
	2	Sri Lanka	0.6	0.3	0.3	0.2
	3	India	540.2	552.9	692.5	652.4
	4	Japan	1317.4	2390.4	1391.7	1579.3
	5	Pakistan	11.2	18.8	52.9	22.0
	6	Bangladesh	7.6	15.9	11.1	11.0
	7	Hong Kong	838.4	512.5	407.7	222.6
	8	Republic of Korea	1874.0	2261.1	898.4	660.0
	9	Others	282.4	193.4	103.3	138.0
3		Middle East Countries	95.1	79.5	119.4	109.0
4		North American Countries	160.4	225.1	159.5	144.8
5		South American Countries	2.4	2.5	5.7	1.4
6		European Union	736.2	707.8	407.4	323.2
7		Other North-West European countries	146.2	375.0	172.9	103.8
8		Other South European Countries	14.9	6.0	5.6	1.7
9		East European Countries	14.4	2.4	0.5	18.4
10		African Countries	0.1	13.0	0.2	1.8
11		Australia, New Zealand & other countries in the Pacific	111.7	128.8	110.2	63.9
12		Other	0.5	4.2	2.9	1.7
		Total	**15073.1**	**18377.7**	**14910.0**	**13397.5**

Source- Government of the union of Myanmar, Ministry of National Planning and Economics Development

Table A.6 **The Balance of Trade**

(Kyat in million)

Year	Export	Import	Balance
1	2	3	4
1980	3225.1	4635.0	-1409.9
1981	3452.8	5611.3	-2158.5
1982	3036.3	6313.6	-3277.3
1983	3419.5	5197.3	-1777.8
1984	3194.5	5041.2	-1846.7
1985	2653.9	4802.0	-2148.1
1986	2513.9	3936.1	-1422.2
1987	1679.4	4065.7	-2386.3
1988	2193.0	3443.0	-1250.0
1989	2846.5	3395.0	-548.5
1990	2961.9	5522.8	-2560.9
1991	2931.8	5336.7	-2404.9
1992	3655.4	5365.3	-1709.9
1993	4227.8	7923.3	-3695.5
1994	5405.2	8332.3	-2927.1
1995	5043.8	10301.6	-5257.8
1996	5487.7	11778.8	-6291.1
1997	6446.8	14366.1	-7919.3
1998	6755.8	16871.7	-10115.9
1999	8947.3	16264.8	-7317.5
2000	12736.0	15073.1	-2337.1
2001	17130.7	18377.7	-1247.0
2002	19955.1	14910.0	5045.1
2003	14119.2	13397.5	721.7
2004	16697.3	11338.5	5358.8

Source- Government of the union of Myanmar, Ministry of National Planning and Economics Development

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