

A STUDY ON THE IMPACT OF AFTA ON MYANMAR

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ABSTRACT

The economic rationale for Myanmar joining AFTA is to enjoy greater trade and investment links within the region, hence increased attractiveness to foreign firms from outside the region and more secure access to the larger ASEAN market. The purpose of the study is to analyse the impact of AFTA on Myanmar economy in terms of trade and investment.

Myanmar's export structure is shifting toward resource-based sector from its traditional agro-based sector. The importance of agro-based has declined mainly due to low competitiveness of the sector in comparison with neighboring countries although it has comparative advantage. While Myanmar's exports are mainly based on natural resource-intensive sectors, Cambodia has an upward movement by shifting from agriculture and primary producing activities to manufacturing industry.

FDI inflows, both from intra-ASEAN and extra-ASEAN, dramatically fell since the onset of the Asian economic crisis in 1997 and then, severely affected by economic sanctions imposed by the US and other Western countries. Several weaknesses in the economy including existence of dual exchange rates, lack of infrastructure, poor telecommunication services, frequent changes of rules and regulations and lack of consistency and transparency have also hampered the FDI inflows to Myanmar.

The study highlights the important measure that Myanmar needs to accelerate its foreign trade liberalization, financial sector reforms, and private sector development especially the promotion of small and medium enterprises, privatization of state-owned economic enterprises, and improvement of infrastructure and intensification of domestic savings mobilization. Thus, Myanmar participation in AFTA and possible AEC is expected to lead economic growth of Myanmar based on its comparative advantage of abundant natural resources, its cheap but literate labour and other strategic advantages like its location between China and India.

Key Words: Economic Integration, ASEAN, AFTA, AEC

I. Introduction

Myanmar became a full-fledged member of ASEAN in July 1997 and signed the agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area (AFTA) in January 1998 with the prospect of greater trade and investment opportunities within ASEAN as well as outside the region. As expected, within one decade, Myanmar's trade with ASEAN countries increased almost double from 34.01 percent of total trade in 1998 to 51.64 percent in 2005. On the other hand, the share of Foreign Direct Investment (FDI) inflow of ASEAN countries to Myanmar declined from 30.41 percent in 1995 to 2.79 percent in 2005. Thus, the purpose of the study is to analyse the impact of AFTA on Myanmar economy in terms of trade and investment.

II. Trade and Investment Flows of Myanmar

Since its reform to market-oriented economy in late 1980s, Myanmar has partially liberalized economic activities and reduced obstacles to foreign trade and investment. As a result, exports and imports grew rapidly since economic reforms were introduced in the early 1990s. Exports of Myanmar increased over four-fold from US\$864 million in 1993 to US\$3648 million in 2005 while imports increased by almost three times, from about US\$1280 million to about US\$3616 million. Asian countries have been the most important trade partners for Myanmar. In 2005, the largest export destinations of Myanmar are Thailand, India, and China and the largest import sources are China, Thailand, and Singapore, in order.

Since trade and FDI act together as facilitators for economic growth of a country, Myanmar sought to promote foreign investment by introducing Foreign Investment Law in 1988 combined with streamlining rules and procedures and infrastructure development. As a result, FDI inflows rose nearly three-fold from US\$318 million in 1995 to US\$879 million in 1997. However, since the onset of the Asian economic crisis in 1997, FDI inflows into Myanmar gradually declined to US\$71.8 million in 2005.

According to the statistics of CSO (Myanmar), total approved FDI as of 31 March 2005 was US\$7750 million. Of that total, 50 percent was from ASEAN countries, followed by the European countries, the United States and NIEs with 29 percent, 8 percent and 5 percent, respectively. Until 2002, the United States and EU countries were major sources of FDI for Myanmar economy, but after 2002, the FDI sources changed significantly since most of FDI inflows were from Asian countries, mainly ASEAN, China and Korea.

Mining and quarrying especially oils and gas sector has the most significant development potential and could attract the largest share of FDI, accounting for over 41 percent of the total investment, as of 31 March 2005. FDI in manufacturing was 22 percent of the total, followed by real estate development and hotel and tourism sectors, with 16 percent and 13 percent, respectively. Recently, a hydroelectric power project with the project cost of US\$ 6 billion has been approved to be invested by Thailand. However, since not all approved FDI were actualized, some care is needed in interpreting FDI figures of Myanmar.

III. Impact of AFTA on Myanmar

The main economic rationale for Myanmar joining AFTA is to enjoy greater trade and investment links within the region, hence increased attractiveness to foreign firms from the outside the region and more secure access to the larger ASEAN market. Based on its competitive advantage in labor- and land-intensive activities, Myanmar anticipates that the participation in AFTA would intensify this advantage and contribute to Myanmar's economic growth.

3.1 Share of Intra-ASEAN Trade

Myanmar's trade with ASEAN has been growing since participating in AFTA. The share of Myanmar's exports to ASEAN market grew from about 19 percent of the total in 1993 to 50 percent in 2005. Among ASEAN partners, Thailand has been the largest market for Myanmar's

exports and has become increasingly important since 1999. In 2005, Thailand accounts for about 80 percent of total exports to ASEAN. The share of export to Singapore drastically declined from 60 percent in 1993 to 5 percent in 2005. Similarly, the shares of Malaysia and Indonesia, which were the third and fourth largest export market of Myanmar, gradually fell by around 25 percent and 7 percent respectively during 1993-2005.

Singapore has been the major source of Myanmar's imports among ASEAN countries but its share declined from about 70 percent in 1993 to about 40 percent in 2005. Thailand has been the second largest source of imports until 2004 and in 2005, it has the largest share of Myanmar's imports, which accounted for 45 percent. As for Malaysia and Indonesia, similar with the pattern of exports, the third and fourth largest import sources of Myanmar, their share fell by 10 percent and 3 percent respectively after one decade. Trade with other ASEAN partners is not significant since the share of each country is less than one percent.

3.2 Export Specialization Index

To measure the export performance of Myanmar in ASEAN market and outside the region, Export Specialization Index (ESI) is calculated and presented in Table (1). ESI is given by the ratio of the composition of exports of one country to a certain market and the composition of total exports that are absorbed by this market. An ESI considerably higher than one indicates that a country has a strong export specialization in this product. A value of less than one means the opposite. Export Specialization Index of Myanmar is calculated for both ASEAN and non-ASEAN markets for the fourteen product sectors at the 2-digit HS (Harmonized System) code for the period of 1999 to 2003.

The formula for the index is:

$$ESI_{ik} = \left[\frac{X_{ik}}{X_{it}} \right] / \left[\frac{X_{ak}}{X_{at}} \right]$$

Where:

ESI_{ij} = Export specialization index of product k of country i ;

X_{ik} = Exports to specific market of product k of country i ;

X_{it} = Total Exports to specific market of country i ;

X_{ak} = ASEAN exports to specific markets of product k ;

X_{at} = Total ASEAN exports;

Table (1)

Export Specialization Index of Myanmar by Product Sector (1999 – 2003)

| | Product Sector | ASEAN | | | | | Non-ASEAN | | | | |
|----|-------------------------------------|-------|------|------|------|------|-----------|------|------|------|------|
| | | 1999 | 2000 | 2001 | 2002 | 2003 | 1999 | 2000 | 2001 | 2002 | 2003 |
| 1 | Live Animal | 12.3 | 10.1 | 2.7 | 3.1 | 2.8 | 8.1 | 6.7 | 4.6 | 6.8 | 6.0 |
| 2 | Vegetable Products | 16.4 | 14.1 | 7.5 | 6.2 | 4.2 | 21.0 | 20.3 | 20.8 | 20.4 | 17.8 |
| 3 | Mineral Products | 0.0 | 2.7 | 5.4 | 6.6 | 6.6 | 0.0 | 0.0 | 0.1 | 0.4 | 0.0 |
| 4 | Plastic and Rubber-based Products | 1.1 | 0.7 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 |
| 5 | Hides and Leather | 3.2 | 3.7 | 1.9 | 0.8 | 0.3 | 1.4 | 0.2 | 0.4 | 0.2 | 0.3 |
| 6 | Wood-based Products | 8.0 | 12.6 | 10.4 | 14.2 | 9.2 | 4.5 | 10.2 | 8.2 | 7.2 | 7.3 |
| 7 | Textiles and Garments | 1.7 | 0.6 | 0.4 | 0.4 | 0.5 | 3.9 | 4.5 | 5.6 | 5.5 | 4.3 |
| 8 | Footwear | 0.1 | 0.2 | 0.1 | 0.2 | 0.0 | 0.4 | 0.4 | 1.2 | 1.7 | 2.0 |
| 9 | Stone, Cement and Ceramics | 2.8 | 0.6 | 0.0 | 0.0 | 0.0 | 0.4 | 0.3 | 0.1 | 0.0 | 0.0 |
| 10 | Gems & Jewelry | 1.0 | 1.2 | 0.9 | 1.5 | 2.2 | 2.0 | 2.5 | 0.8 | 1.2 | 1.6 |
| 11 | Metal-based Products | 1.7 | 1.6 | 0.7 | 0.7 | 1.5 | 2.4 | 1.2 | 0.7 | 0.2 | 8.2 |
| 12 | Machinery and Electrical Appliances | 0.3 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 13 | Automobiles and Vehicles | 0.0 | 0.1 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 14 | Miscellaneous Manufactured articles | 1.8 | 0.4 | 0.4 | 0.1 | 0.1 | 0.6 | 0.7 | 0.4 | 0.4 | 0.3 |

Source: Author's calculation using data from ASEAN Secretariat (2005)

As shown in Table (1), by comparing with the exports of ASEAN as a whole, Myanmar's exports is concentrated on live animals, vegetable products, wood-based products, gems and

jewelry, and metal-based products in both ASEAN and non-ASEAN markets since ESI for those product sectors is found to be greater than one. Among them, the exports of live animals and vegetable products are more concentrated in non-ASEAN market while the exports of wood-based products are mainly concentrated in ASEAN market. These facts reflect the exports of marine products to European countries and a variety of beans to India and Middle-East countries. Moreover, the high ESI of textile and garment products in non-ASEAN market reflects the Myanmar's exports of those products to Japan and European countries. It is notable that there is significant increase in ESI of mineral products and it certainly reflects the gas exports to Thailand.

Table (2)

Comparison of Export Specialization Index between Myanmar and Cambodia

| | Product | Myanmar | | | | Cambodia | | | |
|----|-------------------------------------|---------|------|------|------|----------|------|------|------|
| | | 2000 | 2001 | 2002 | 2003 | 2000 | 2001 | 2002 | 2003 |
| 1 | Live Animal | 7.3 | 3.7 | 4.8 | 4.5 | 0.4 | 0.5 | 0.2 | 0.1 |
| 2 | Vegetable Products | 18.3 | 15.1 | 13.3 | 11.6 | 0.1 | 0.2 | 0.2 | 0.2 |
| 3 | Mineral Products | 0.9 | 2.5 | 3.5 | 3.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| 4 | Plastic and Rubber-based Products | 0.3 | 0.1 | 0.1 | 0.2 | 0.6 | 0.4 | 0.4 | 0.4 |
| 5 | Hides and Leather | 0.6 | 0.6 | 0.4 | 0.3 | 0.4 | 0.3 | 0.2 | 0.0 |
| 6 | Wood-based Products | 10.4 | 7.9 | 6.9 | 6.8 | 1.2 | 0.8 | 0.4 | 0.2 |
| 7 | Pulp and paper | 0.0 | 0.0 | 0.0 | 0.0 | 13.9 | 9.5 | 15.7 | 12.2 |
| 8 | Textiles and Garments | 3.6 | 3.9 | 3.3 | 2.8 | 12.4 | 12.9 | 12.6 | 14.9 |
| 9 | Footwear | 0.3 | 0.9 | 1.1 | 1.3 | 3.4 | 3.5 | 3.5 | 3.2 |
| 10 | Gems & Jewelry | 2.1 | 0.8 | 1.2 | 1.7 | 0.4 | 0.7 | 0.6 | 0.9 |
| 11 | Metal-based Products | 1.5 | 0.8 | 0.7 | 1.9 | 0.1 | 0.0 | 0.0 | 0.0 |
| 12 | Machinery and Electrical Appliances | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 13 | Automobiles and Vehicles | 0.0 | 0.0 | 0.0 | 0.1 | 0.2 | 0.2 | 0.3 | 0.2 |
| 14 | Miscellaneous Manufactured articles | 0.6 | 0.3 | 0.3 | 0.2 | 0.0 | 0.1 | 0.1 | 0.1 |

Source: Author's calculation using data from ASEAN Secretariat (2005)

To have a comprehensive picture on Myanmar's position among new member countries of ASEAN, the comparison of export specialization index between Myanmar and Cambodia is

shown in Table (2). As shown in table, the concentration of Myanmar's exports are on live animals, vegetable products, mineral products, gems and jewelry, and metal-based products while Cambodia's export mainly concentrates on pulp and paper, textiles and garments and footwear sectors. Apart from these, none of the other sectors seem to have a distinct advantage in both countries.

Overall, for agro-based sector of Myanmar, although it has comparative advantage, the competitiveness of this sector is relatively low compared with neighboring countries particularly Thailand and China. Although there is much potential in the wood-based sector, due to the abundance of teakwood in Myanmar, the ESI of this sector declined slightly possibly due to conservation of forest resources. While textile and garment used to be an important sector for Myanmar, the importance of the sector has declined due to economic sanctions imposed it by Western countries. On the other hand, the rising trend of ESI in mineral products reflects the increasing reliance on gas exports of Myanmar economy.

The most significant change in Myanmar's export structure is the shifting of its traditional agro-based sector toward resource-based sector as highlighted by the decreasing trend of ESI in agro-based products and increasing trend of ESI in resource-based sectors. . Another important issue highlighted by the study is that while Myanmar's exports are mainly based on natural resource-intensive sectors, Cambodia has an upward movement by shifting from agriculture and primary producing activities to manufacturing industry.

3.3 Intra-ASEAN Export and Import Index

To measure the importance of ASEAN to Myanmar's exports and imports, the intra-ASEAN export and import index are shown in Table (3). The index is given by the ratio of the share of Myanmar's intra-ASEAN exports (or imports) to its total exports (or imports) to the world and the share of ASEAN as a group to the region's total world exports (or imports) for the fourteen

product sectors at the 2-digit HS (Harmonized System) code for the period of 1999 to 2003. An index value of greater than one means that intra-ASEAN exports (imports) is relatively more important than they are for ASEAN as a group. A value of less than one means the opposite.

The formulas for the index are:

$$IXI_i^k = \left[\frac{IAX_i^k}{TX_i^k} \right] / \left[\frac{IAX_a^k}{TX_a^k} \right]$$

Where:

- IXI_i^k = Intra-ASEAN export index of product k in country i ;
 IAX_i^k = Intra-ASEAN exports of product k in country i ;
 TX_i^k = Total Exports of product k in country i ;
 IAX_a^k = Intra-ASEAN exports of product k of ASEAN as a whole;
 TX_a^k = Total exports of product k of ASEAN as a whole;

$$IMI_i^k = \left[\frac{IAM_i^k}{TM_i^k} \right] / \left[\frac{IAM_a^k}{TM_a^k} \right]$$

Where:

- IMI_i^k = Intra-ASEAN import index of product k in country i ;
 IAM_i^k = Intra-ASEAN imports of product k in country i ;
 TM_i^k = Total imports of product k in country i ;
 IAM_a^k = Intra-ASEAN imports of product k of ASEAN as a whole;
 TM_a^k = Total imports of product k of ASEAN as a whole;

In general, ASEAN has been a more important source for Myanmar's import than its export destination. However, according to the indices, ASEAN has been increasingly important for Myanmar's exports while its importance as a source for imports of Myanmar has slightly decreased. The value of the index for all product sectors, except for exports of fats and oils, chemicals, and textiles and garment products, is more than one, which highlights the importance of intra-ASEAN trade for Myanmar.

The export index of mineral products has the largest value, which reflects the importance of ASEAN market for gas exports of Myanmar. Similarly, the wood-based products and plastic and rubber-based products have been the second and third important export sector for Myanmar. While ASEAN market is increasingly important for the exports of metal-based products, its importance for the exports of machinery and electrical appliances has declined.

Table (3)

Intra-ASEAN Export and Import Index of Myanmar by Product Sector (1999-2003)

| | Product Sector | Intra-ASEAN Export Index | | | | | Intra-ASEAN Import Index | | | | |
|-------------|-------------------------------------|--------------------------|------|------|------|------|--------------------------|------|------|------|------|
| | | 1999 | 2000 | 2001 | 2002 | 2003 | 1999 | 2000 | 2001 | 2002 | 2003 |
| 1 | Live Animal | 2.0 | 2.0 | 1.4 | 1.4 | 1.5 | 3.6 | 4.1 | 4.2 | 3.6 | 4.3 |
| 2 | Vegetable Products | 1.2 | 1.1 | 0.9 | 1.0 | 0.9 | 1.6 | 1.9 | 1.7 | 1.7 | 1.2 |
| 3 | Fats and Oils | 5.9 | 0.0 | 0.0 | 0.0 | 0.0 | 1.3 | 1.4 | 1.4 | 1.2 | 1.2 |
| 4 | Mineral Products | 2.7 | 4.1 | 4.1 | 4.1 | 4.6 | 3.5 | 2.3 | 2.7 | 4.1 | 4.0 |
| 5 | Chemical Products | 0.6 | 0.4 | 1.0 | 0.5 | 0.2 | 3.9 | 3.0 | 2.8 | 2.8 | 2.9 |
| 6 | Plastic and Rubber-based Products | 3.7 | 3.0 | 2.8 | 3.3 | 2.0 | 2.9 | 2.8 | 2.8 | 2.4 | 2.2 |
| 7 | Wood-based Products | 2.3 | 1.7 | 2.5 | 4.6 | 3.3 | 1.8 | 1.5 | 0.9 | 1.5 | 1.1 |
| 8 | Textiles and Garments | 0.8 | 0.2 | 0.2 | 0.3 | 0.5 | 2.2 | 1.9 | 2.3 | 2.8 | 1.8 |
| 9 | Footwear | 0.4 | 0.8 | 0.3 | 0.3 | 0.0 | 3.1 | 3.2 | 2.4 | 1.8 | 1.7 |
| 10 | Stone, Cement and Ceramics | 3.1 | 1.9 | 0.7 | 0.7 | 2.8 | 3.5 | 3.5 | 3.2 | 3.2 | 2.9 |
| 11 | Metal-based Products | 1.1 | 1.6 | 1.7 | 2.4 | 2.0 | 2.7 | 3.1 | 2.8 | 3.6 | 3.5 |
| 12 | Machinery and Electrical Appliances | 3.3 | 3.2 | 2.8 | 1.1 | 3.4 | 1.8 | 2.0 | 1.0 | 1.3 | 1.5 |
| 13 | Automobiles and Vehicles | 0.6 | 3.5 | 2.0 | 3.0 | 2.4 | 3.0 | 4.3 | 2.0 | 1.4 | 1.0 |
| 14 | Miscellaneous Manufactured articles | 3.6 | 0.9 | 2.2 | 1.0 | 1.6 | 3.1 | 2.4 | 1.6 | 2.4 | 2.4 |
| All Sectors | | 1.5 | 1.4 | 1.9 | 2.2 | 2.5 | 2.7 | 2.4 | 2.2 | 2.6 | 2.5 |

Source: Author's calculation using data from ASEAN Secretariat (2005)

On the other hand, ASEAN is the important source for the imports of agro-based products, mineral products, chemical products, stone, cements, and ceramics, metal-based products, and automotive and vehicles. While the ASEAN market is also increasingly important

for the imports of textiles and garments and metal-based products, its importance for imports of chemical products and automotive and vehicles has fallen. The high index values of both intra-ASEAN export and import of mineral products indicate the importance of ASEAN as an export destination for Myanmar's gas exports and as a source for refined mineral oils and crude oil imports of Myanmar. The increasing index of metal-based products also reveals the greater importance of ASEAN market for exports and imports of these products.

Although the high index values of both exports and imports in same product sector indicate the existence of specialization on a particular stage of the regional production network, Myanmar engages mostly in inter-industry trade and hence, forgoes the trade and economic benefits associated with intra-industry integration. Since the vertical specialization of production across the region is driven by differences in factor endowments, particular skills of the workforce, and high research and development, indeed Myanmar has long way to develop physical infrastructure, human resources, and macro economic environment in order to integrate in the value chain of ASEAN.

3.4 ASEAN's FDI Inflows to Myanmar

As discussed above, ASEAN's share in Myanmar's total FDI is very significant, accounting for more than 50 percent as of March 2005. The annual inflow of ASEAN's FDI in Myanmar was around 30 to 40 percent of total FDI inflow up to the Asian economic crisis, but, after that period, its share drastically declined to around 4 percent in 2004 and 3 percent in 2005.

During the period of 1993 to 1997, ASEAN's FDI inflows to Myanmar increased nearly three-fold from about US\$96.7 million to US\$323.3 million, but, after Asian economic crisis, it dropped to US\$41.2 million in 1999. Because of the global boom of FDI in 1999-2000 and general downturn of world FDI starting in 2001, ASEAN's FDI flow to Myanmar again rose to US\$74.02 million in 2000 and US\$67.36 million in 2001, but it declined to US\$9.5 million in 2004 and US\$1.9 million in 2005.

Among ASEAN countries, the largest foreign direct investor in Myanmar is Singapore, which accounted for about 39% of total FDI, mainly focuses on real estate and service sectors including hotel and tourism. The next largest investor is Thailand with a share of almost 34%, mainly in trade and commerce and service sectors, followed by Malaysia, in manufacturing sector largely in electronic appliances, and Indonesia, in mining and quarrying sector, by 17% and 6% respectively. Even though ASEAN is the main investor of Myanmar, by comparing with other ASEAN countries, Myanmar's share of intra-ASEAN FDI is relatively low. Myanmar's share of intra-ASEAN FDI is about 3 percent, which is much lower than the share of Vietnam, which accounts for 10 percent.

IV. Findings and Recommendations

Myanmar's integration into ASEAN is anticipated to bring significant benefits to its economy: greater trade and investment links within the region, increased attractiveness to foreign firms from outside the region and more secure access to larger ASEAN market. However, the results are still considerably limited. During one decade, Myanmar expanded its trade with ASEAN partners double, while its total trade value has been raised by 1.2 times. Among ASEAN countries, Thailand has been the largest destination of Myanmar's exports and second largest source of its import after China. Apparently, Thailand has been an entrepôt in trade with Myanmar; raw and semi-finished exports are reprocessed and produced as finished products and then re-export to other countries including the countries imposing economic embargo on Myanmar.

Myanmar's export structure is shifting toward resource-based sector from its traditional agro-based sector. Although Myanmar's exports used to concentrate on agro-based sector and the importance of the sector has declined mainly due to low competitiveness of the sector in comparison with neighboring countries even though it has comparative advantage. Moreover, other important export sectors like textile and garment has been affected by economic sanctions

of Western countries while mineral products mainly natural gas are increasingly important as a major source of Myanmar's exports. Another important issue highlighted by the study is that while Myanmar's exports are mainly based on natural resource-intensive sectors, other new member countries like Cambodia have an upward movement by shifting from agriculture and primary producing activities to manufacturing industry.

At the same time, ASEAN has been a major source of FDI inflows to Myanmar, accounting for about half of total FDI inflows, although China, Korea and India have been increasingly important in recent years. In fact, FDI inflows both from intra-ASEAN and extra-ASEAN dramatically fell since the onset of the Asian economic crisis and then, severely affected by economic sanctions imposed by the US and other Western countries. Indeed, FDI is mainly driven by cost consideration as well as the openness of the market of the final destination to the host country. In the case of Myanmar, these economic sanctions are particularly crippling to its FDI inflows because most investment by ASEAN are for the purposes of exporting to another external regional markets usually the United States and EU countries. Moreover, several weaknesses in the economy including existence of dual exchange rates, lack of infrastructure, poor telecommunication services, frequent changes of rules and regulations and lack of consistency and transparency have also hampered the FDI inflows to Myanmar.

The outcomes of the study highlight the need for a set of development and reform policies for Myanmar. Since Myanmar has comparative advantage in natural resources and its economy still mainly depend on agriculture sector, the export promotion strategy based on agriculture sector should be set up. Moreover, since most of the agricultural exports are unprocessed products, there is an urgent need to develop agricultural industry by government support and private sector participation.

In addition, given comparative advantages and increasingly importance of resource-based sectors such as wood products, mineral products, and metal-based products, the competitiveness

of such exports to ASEAN market as well as outside the region need to be improved by providing technology and financial assistance, strengthening research and development programs and encouraging and creating environment for the formation of strategic alliances among local firms or between local firms and foreign counterparts to integrate into the regional value chain.

As overall, industrialization process in Myanmar should focus on the production of primary products and labor-intensive manufactured goods for export in order to conserve on capital and provide as much employment as possible in the short term. However, since technology-intensive structures offer better prospects for future growth, Myanmar should move upward in the development ladder by shifting from agriculture and other primary producing activities to manufacturing and technology and knowledge based industries in the long term. For this purpose, Myanmar needs to carry on foreign trade liberalization, financial sector reforms, and private sector development especially the promotion of small and medium enterprises, privatization of state-owned economic enterprises, and improvement of infrastructure and intensification of domestic savings mobilization.

In addition to all of the measures suggested above, Myanmar has to prepare for potential impacts of AEC, which is characterized with free flow of goods, services, investment and skilled labor by 2015. AEC is expected to bring significant benefits to member countries, but all benefits will be realized by sufficient preparations to integrate that community. Hence, with full preparations for further challenges, Myanmar participation in AFTA and possible AEC is expected to lead economic growth of Myanmar based on its comparative advantage of abundant natural resources, its cheap but literate labour and other strategic advantages like its location between China and India.

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