YANGON UNIVERSITY OF ECONOMICS

MASTER OF ECONOMICS

A STUDY ON FOREIGN DIRECT INVESTMENT IN THILAWA SPECIAL ECONOMIC ZONE (2014-2018)

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ABSTRACT

Foreign Direct Investment is a vital role not only for economic development but also for social and other sectors development. It is recognized as important potential sources for needed capital, managerial, ethnical, and marketing know- how in manufacturing, services and resource based industry. This study is focused on FDI in Thilawa Special Economic Zone over the period of 2014 to 2018. The main objectives are to examine FDI flow into Thilawa SEZ, and to explore SWOT conditions of Thilawa SEZ. According to this study, all necessary infrastructures for investors are made available in the Thilawa SEZ. Services for liquid waste, solid waste and industrial waste management are also readily available. International logistic centers are also located in the Thilawa SEZ that makes investors easy for domestic and international logistic arrangements, imports and exports. Myanmar needs to provide better infrastructure to be incentive more FDI which can accelerate the economic development by bringing foreign technology and necessary finance.

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List of Abbreviations

AMS	ASEAN Member States
CD- OGM	Community-Driven Operational Grievance Mechanism
CIPC	Central Industry Park Centre
DICA	Directorate of Investment and Company Administration
EPZs	Export Processing Zones
ERI	Earth Rights International
FDI	Foreign Direct Investment
FTZs	Free Trade Zones
GDP	Gross Domestic Product
IPA	Information-Technology Promotion Agency (Japan)
IRP	Income Restoration Program
IZs	Industrial Zones
JICA	Japan International Cooperation Agency
JTSC	Thilawa SEZ Company Ltd. of Japan
MCRB	Myanmar Centre for Responsible Business
MTSH	Myanmar Thilawa SEZ Holdings Public Ltd
MJTD	Myanmar Japan Thilawa Development Co., Ltd
MNCs	Multinational Corporation
MNEs	Multinational Enterprises
MOC	Memorandum of Corporation
MSAG	Multi stakeholder Advisory Group
OECD	Organization for Economic Co-operation and Development
PAPs	Project Affected Persons
PEZA	Philippines Economic Zone Authority
REM	Resource in Environment Myanmar Ltd
RWP	Resettlement Work Plan
SBMA	Subic Bay Metropolitan Authority
SEE	South Eastern Europe
SEZ	Special Economic Zone

SMEs	Small and Medium- sized Enterprises
TSEZMC	Thilawa Special Economic Zone Management Committee
UNCTAD	United Nations Conference on Trade and Development

CHAPTER 1

INTRODUCTION

1.1 Rationale of the Study

Myanmar, with the population of approximately 54millions, has abundant natural resources and the largest landmass in South East Asia. In addition, the country has a long coastline which can support the international trade in terms of deep- sea port and port related industry. However, the economy is still in the transitional stage and Myanmar is still an exporter of agricultural and other primary products. The situation of Myanmar is doing cooperation with foreign countries in restoring natural resources because of the insufficient capital and technology. Moreover, trade with neighboring countries, access to economic cooperation, and border actions are carrying out. According to the comparison of export and import trade, the trade deficit has always occurred. As a result, export promotion and import substituting production of industrial estates were established in order to reach as high power industrial.

Although Myanmar had been one of the best performing economies in both social and economic terms in the 1950's, its long isolation and intermittent civil wars have created an enormous backlog and deficit in most areas of life. Public capital and also private capital is lag behind comparing with neighboring nations. There are few firms both in the private and public sector, which are truly competitive. New technology and modern management system have not been incorporated effectively in Special Economic Zones. (THIDA, 2010)

Myanmar needs to study Special Economic Zones of the emerging countries in the Asian region. China flourished economic opportunities from the establishment of Special Economic Zones. Vietnam also improves the economy from the influx of foreigninvestments by establishing of Free Trade Zoneand Industrial Estates.As a large country, foreign direct investment opportunities, foreign earnings, human resources development and due to the establishment of the Special

Economic Zone that became successful. This success is due to the countries' economic reforms and people's participation. Myanmar will need to be implemented the example of successful countries for the development of the country.

The Export Processing Zones are the origin of Special Economic Zones and are providing special incentives to attract foreign investors and are the updating place to reach the level before exporting the import products to the rest of the world. The policies of Export Production Zone and SEZ policies were gradually changing over a longer period.

Myanmar is now going toward a modern and developed nation. So export promotion programs were serving to get an important foreign priority for the country’s economic development. In order to increase exports, domestic and foreign investment and to attract foreign direct investment, Special Economic Zone can be set up as trade policy tools. If FDI flows into the country, there will be grow in export, create new job opportunities, gain access to new technology transfer, foreign exchange benefits, as well as international management. These enable to promote the economic development of the country. (Htay, 2016)

The purpose of Special Economic Zones and Export Processing Zones is to invest from foreign countries. The major factor to attract foreign direct investment is to create jobs, get foreign currency, to promote exports in order to receive technology and skills, to develop the Zone that is located in the local and to promote the national economy as a whole.

Thilawa, KyaukPhyu, and Dawei Special Economic Zones are implemented in Myanmar. Thilawa Special Economic Zone out of three Special Economic Zones is already being implemented effectively. This could also be aware of physical as well as the internationally successful SEZs father several lessons that can be applied to the country's interests.

1.2 Objectives of the Study

The objectives of the study are;

(a) To examine the FDI flow intoThilawa SEZ, and

(b) To explore SWOT conditions of Thilawa SEZ.

1.3 Method of Study

The descriptive and tabular and graphic illustrations are used. Required data and information are collected from secondary sources. The data are collected from libraries, various publications of government, books and newspapers, directorate of investment and company administration (DICA), and relevant websites.

1.4 Scope and Limitation of the Study

This study is focused on inflow of FDI in Thilawa Special Economic Zone. There are three SEZs in Myanmar, this study focuses only onThilawa SEZ. The study was based on the secondary data of Thilawa SEZ over the period of 2014 to 2018.

1.5 Organization of the Study

This paper is organized by five chapters. Chapter (1) is an introductory chapter and Chapter (2) explores literature review. Chapter (3) presents FDI and Special Economic Zone in Myanmar. Chapter (4) represents the significance of Thilawa Special Economic Zone. Last of all, Chapter (5) concludes with findings and suggestions.

CHAPTER 2

LITERATURE REVIEW

2.1 Definition and Concepts of FDI

Organization for Economic Cooperation and Development defines Foreign Direct Investment (FDI) is to obtain a lasting interest by a resident entity (“direct investor”) in one economy other than that of the investor (“direct enterprise”). The lasting interest implies the existence of a long- term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transaction between them and among affiliated enterprise, both incorporated and unincorporated.

The International Monetary Fund defines FDI as “an investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the investor’s purpose being to have an effective voice in the management of the enterprise.”

According to UNCTAD definition, FDI is defined as an investment involving management control of a resident entity in one economy by an enterprise resident in another country.

According to Economy Watch, FDI is a type of investment that involves the injection of foreign funds into an enterprise that operates in a different country of origin from the investor.

According to Lindert and Kindleberger, foreign direct investment is any flow of lending to or purchase of ownership in, a foreign enterprise that is largely owned by theresidents ofthe investing countries. (AYE, 2011)

Foreign private investment as well as foreign aid seen as a way of filling gapsbetween the domestically available supplies of savings, foreign exchange, government revenue, and human capital skills and the desired level of these resources necessary to achieve growth and development targets.

First contribution of private foreign investment to national development is its role in filling the resource gap between targeted or desired investment and locally mobilized savings. A second contribution is its contribution to filling the gap between targeted foreign-exchange requirements and those derived from net export earnings plus net public foreign aid. The third gap said to be filled by foreign investment is the gap between targeted governmental tax revenues and locally raise taxes. By taxing profits and participating financially in their local operations, LDC governments are thought to be better able to mobilize public financial resources for development projects. Fourth there is a gap in management, entrepreneurship, technology, and skilled presumed to be partly or wholly filled by the local operations of private foreign films. That can be transferred to their local counterparts by means of training programs and the process of learning by doing.

Through FDI, the investing countries and host countries attain political, social and economic advantages. Even the developed countries care for FDI flows as it can reflect the economic weight of countries. US has been the largest recipient and outward investor over the last decade. ASEAN countries took 3-4 % of world FDI inflows and China occupied 2-3 %. Whereas Myanmar grasped only 1-2 % of ASEAN share for FDI inflow, FDI in the developing countries have remained a small fraction of these countries' total investment. (THIDA, 2010)

2.1.1 Functions of Foreign Direct Investment

Important features of FDI are that the investing country not only owns the enterprises but also controls the operations of the business. According to the functions of investment in the host country, it is categorized as follows;

(a) Export oriented investment

(b) Market development investment

(c) Government initiated investment

With increasing economic liberalization and resulting globalization, governments of developed countries encourage to invest abroad in order to remain globally competitive and developing countries enhance the capacity and attractiveness of FDI to strength the home economy and ability.

On the supply side, FDI occurs because of developed countries have high economic growth, high saving and cost of production caused by high wages and land cost. According to the push factors, they have to look for market access. Instead of exports, production in the host countries can yield greater profit because of cheap labor and raw material. On the demand side, developing countries need FDI to overcome the vicious cycle of low income, low saving, low investment, low productivity, lack of technology and skilled labor.

From the view of FDI, the pull factors exerted by inward recipient countries can be distinguished as natural endowment, institutional structures and practices, and policy permissive. The push factor determining the extent of transnational corporations, desire to make outward investment is the need to take advantage of and also to safeguard, certain capital and technological advantages.

The destination sectors of FDI are varied and FDI has evolved from focusing primary and manufacturing to covering banking, retail and other services sectors. World FDI flows into Primary Sector(agriculture, hunting, forestry, fishing, mining and quarrying and petroleum), Manufacturing Sector (all kinds of manufacturing and processing such as food, textiles, publishing, printing, petroleum products, chemicals, rubber, metal products, electronic equipment, machinery), Services Sector (electricity, construction, trade, hotels and tourism, transport and communications, finance, education, business, health and social services activities) respectively.

The share of FDI directed to the services sectors continued to increase both the developed and developing countries. Nevertheless manufacturing still accounts for a significant share of FDI inflows.

FDI today is increasingly market seeking rather than efficiency seeking, and there is a general misconception that market-seeking FDI in domestic sectors such as retail yields little development impact. The opposite is true. FDI in retail has been a key driver of productivity growth in Brazil, Poland, and Thailand, resulting in lower prices and higher consumption. Large-scale foreign retailers are also forcing wholesalers and food processors to improve. And they are now becoming important sources of exports. (THIDA, 2010)

2.2 Relationship between FDI and Economic Growth

There is a large amount of literature analyzing two linkages between economic growth and FDI. Whether FDI is an important determinant of economic growth, especially in the host developing countries, is still debated among the economics. The role of FDI in promoting economic growth has been viewed different economic growth theories.

According to the neoclassical theory, FDI inflows into developing countries are viewed as a way to meet the requirements of capital as well as to transfer new technologies during their transitional economies.

FDI has been seen as a major tool to promote growth through learning by doing and knowledge spillovers. Blomstrom and Kokko (1998) argued that multinational corporation (MNCs) bring modern technologies into host countries in order to allow them to compete successfully with other MNCs and local enterprises. This forces local firm to look for, as well as to imitate, new and more effective technologies. The role of FDI in promoting human capital in host developing countries is better understood in the endogenous growth theory.

According to the endogenous growth theory, FDI contributes significantly to human capital such as managerial skills and research development (R & D). MNCs can have a positive impact on human capital in host countries through the training courses they provide to their subsidiaries' local workers. Research and development activities financed by MNCs also contribute to human capital in host countries and thus enable their economies to grow in the long term.

Thus the relationship between FDI and economic growth is twofold: FDI

stimulateeconomic growth, but also reacts to economic growth and progress of transformation. Growth is generated by FDI through imported means of investment, new technologies and capabilities transferred by foreign multinationals and international networking. On the other hand, foreign investors react positively to the consolidation of market- economy rules, technical know- how, management resource and marketing know- how and the resumption of economic growth. (LAILAI, 2016)

2.2.1 The Advantages and Disadvantages of FDI

Attraction of FDI is becoming increasingly important for developing countries. However this is often based on the implicit assumption that greater inflows of FDI will bring certain benefits to the country's economy. FDI, like ODA or any other flow of capital, is simply that, a source of capital. However the impact of FDI is dependent on what form it takes.

The arguments for the positive impacts of FDI center around three prevalent that benefits an economy – inflow of physical capital, technology spillovers and employment. Inflow of physical capital in the form of FDI could also increase the rate of economic growth particularly for weak economies where capital is scare. The leakage of technology spillovers from MNEs enables domestic firms to improve their productivity and that allows the host country to enhance its long term economic development. The growth enhancing ability of FDI also depends on the chosen mode of FDI. Greenfield FDI can result in an increase in the host country's stock of capital whereas the Brownfield FDI can only result in positive externalities of technological spillover.

The effect of FDI on the host country in the form of employment is particularly true in labor intensive industries like garment. However, in capital-intensive industries such kind of investment has a minimal effect. Other benefits of FDI frequently cited in the academic papers are as follows:

Revenue effect: FDI widens the local tax base and contributes the government revenue.

Positive impact on local investment: FDI inflows tend to lead to improve investment on infrastructure and increased domestic investment as local companies gain access to distribution channels opened by larger foreign companies.

Improved labor skills: Foreign firms usually carry out more training than local firms, and they also engage in activities that use relatively high levels of skilled worker. These skills can be transferred to other sectors and activities when employees seek new or establish their own business.

Better working conditions and pay: FDI normally carries better working practices to improve working conditions and environment.

Improve export: FDI into developing nations are associated with high levels of exports since most of the foreign investors are export- oriented industries.

Improved competitiveness of local firms: The opportunity to sell inputs or supplies to foreign firms encourages local companies to raise their quality levels and delivery reliability.

Enhances backward and forward linkages: Local sourcing and contracts from foreign firms bring considerable economic benefits to a location in terms of job opportunities, improved sales and favorable impact on management and organizational methods of local firms.

Weakened domestic monopolies: FDI can eat up the inefficient and monopolized local business with its more efficient strategies that may lead to better result for consumers' welfare.

The adverse effect of FDI inflows to the host country are larger foreign firms may dominate market shares, thereby reducing competition. Their economic strategies and investment power create opportunity to monopolize the local market and exploit resource with lower rate than the market prize. Secondly, large foreign firms lead to negative effects on local firms and employments because they can crowd out small domestic firms. Thirdly, export and import activities of foreign owned firms may lead to balance of payment volatility. Fourthly, when such investment- profits and capital of MNEs – are repatriated, will cripple the value of local currency and market balance. But such costs can be corrected through appropriate policies and strategies designed by the host nation.

According to the OECD report on foreign direct investment for development, the benefits of FDI do not bring success in every case. The policies, strategies and blueprint of both host countries and home countries have much to do with the success of such an investment. It may be difficult for some governments, particularly low income countries, to regulate and absorb rapid and large FDI inflows, with regard to regulating the negative impacts of large- scale production growth on social and environment factors (WWF 1999). Also a high proportion of FDI inflows in developing economies are commonly aimed at primary sectors, such as petroleum, mining, agriculture, paper- production, chemicals and utilities. Primary sectors are typically capital and resource intensive, with a greater threshold in economics of scale and therefore slower to produce positive economic “spillover” effects (OECD).(AYE, 2011)

2.3 Definition and Types of Special Economic Zones

According to OECD (2013), a special economic zone represents a designated area in which special fiscal and business laws differ from other areas are applicable. This dovetails with the definition by Cole (2011) which defines a special economic zone as an area in which laws and regulations that promote business growth are promulgated mainly through the relaxation of a number of business regulation.(Munyoro, 2017)

Special Economic Zones (SEZs) are a policy instrument that has been used by governments all over the world to promote trade and FDI in the host countries. These policy instruments, referred to as SEZs, have become increasingly common as countries have shifted from import substitution policies to export-led growth policies.

There are many definitions for an SEZ. However, the most broadly used definition defines a special economic zone as “being part of the territory of a contracting party where any goods introduced are generally regarded, insofar as import duties and taxes are concerned, as being outside the customs area”. The main aim of these SEZs is to attract FDI to the host country. SEZs can take on any form that is required to attain the host countries’ specific goals

SEZ is a term used to classify a diverse number of specialized industries generally within the broad framework of the SEZ concept. There are various types of SEZs which accommodate a wide spectrum of working conditions, country infrastructure, government oversight and geography. It is therefore essential that the right type of SEZ should be established within the right geographical area. What follows will be an outline of the different types of SEZ and their functions.

2.3.1 Free Trade Zone

Free trade zones (FTZ) are the most commonly used SEZ, and are generally characterized as being a geographically fenced-in, tax-free area that provides warehousing, storage and distribution facilities for trade, shipping and import/export operations in a reduced regulatory environment, meaning they generally have less stringent customs controls and sometimes fewer labor and environmental controls. These zones generally focus on the tangible operations of international trade. Because many SEZs attract labor-intensive manufacturing such as assembly-oriented production of apparel, textiles and electrical goods, FTZs are a very popular type of SEZ.

2.3.2 Export Processing Zone

Export processing zones (EPZs) are similar to FTZs in that they encompass land estates that focus on foreign exports, but they differ in that they do not provide the same degree of tax benefits or regulatory leniency.

Instead, they provide a functional advantage to investors seeking to capitalize on the economies of scale that a geographic concentration of production and manufacturing can bring to a trade region. If they are successful, these zones are beneficial to a host country because the host country does not have to provide reduced tariffs or regulations but it still benefits from increased trade to the region.

2.3.3 Enterprise Zones

What makes enterprise zones so unique is that, apart from providing manufacturing or production benefits like other SEZs, they also provide the benefits of local, centralized development efforts. They are generally created by national or local governments to revitalize or gentrify a distressed urban area. These zones use greater economic incentives than EPZs, like tax incentives and financial assistance, to revitalize an area by bringing trade into the zone that will spur organic, localized development and improve local inhabitants' quality of life. The implementation of enterprise zones follows the philosophy that improvement of a region's industry and trade begins at the individual neighborhood level.

2.3.4 Single Factories

Single factories are a special type of SEZ that are not geographically Delineated, meaning they do not have to locate within a designated zone to receive trade incentives. This type of SEZ focuses on the development of a particular type of factory or enterprise, regardless of location. When a country decides to establish a single factory as a type of SEZ, its intention is to create specialization in a specific industry. A country that desires to create an export concentration in a specific industry would use a single-factory model to promote trade and growth in just that industry, giving each factory specializing in that trade economic incentives.

2.3.5 Freeport's

Freeport's are typically expansive zones that encompass many different goods and service-related trade activities such as travel, tourism and retail sales. Because of the variation of products and services available to a Freeport, they are generally regarded as being more integrated with the host country's economy. Movements of these imported goods from the Freeport to a non-free trade area in the country are subject to import duties.

2.3.6 Specialized Zones

Specialized Zones have been established to promote highly technical products and services unique to an industry. Many of these zones focus on the production and promotion of science and technology parks, petrochemical zones, highly technical logistics and warehousing sites, and airport-based economies.

2.3.7 Industrial Parks

Industrial parks are facilities (buildings) that are set aside for production and business services in order to attract new businesses by providing integrated infrastructure in one location and localized environmental controls that are specific to the needs of an industrial area.

2.3.8 Spatial Development Corridors

Spatial development corridors connect two or more economic nodes by means of transportation networks, and accommodate various economic activities along the corridors.

2.3.9 Industrial Development Zones

An industrial development zone is a purpose-built industrial estate linked to an airport or sea port that leverages domestic and foreign fixed direct investments in value-added and export-oriented manufacturing industries and services.(Scheepers, 2012)

2.4 The Role of SEZs in Economic Development

The nature of Special Economic Zone is that economic exemptions are offered in doing businesses in a certain country by the firms from other countries. In other words, it is a place where some economic exemptions are offered in doing businesses in the country. The businesses include Industrial Zones (IZs), Export Production Zones (EPZs), Free Trade Zones (FTZs) and Special Economic Zones (SEZs). Industrial Zones and Industrial lands use the natural resources of the country to produce raw materials, and carry out improving and processing the goods and produce export substitute goods.

These businesses are mostly conducted by domestic entrepreneurs. In Export Production Zones, the domestic and foreign investor taking advantage of economic incentives and prioritize in producing export goods in order to restrict the goods from Export Production Zones flowing into the country. Special Economic Zones include the activities of Industrial Zones, Export Production Zones and the business activities can be carry out more freely and smoothly. In other words, Special Economic Zones are foreign investments that are involving in Export Promoting which is exempted from regulations, foreign direct investment law and mechanisms, Macroeconomic policies and principles of recipient country.

The nature of Special Economic Zone is establishment of separate zone that has the standards Market- oriented Economy which were acknowledged by the international community to attract foreign investments before the recipient country cannot implement the Market- oriented Economy effectively. In many countries, the amount of the export processing zones always improves the country’s exports. Using SEZ direction can assist the country's economic development. In 1980, China is now reaching as the world’s leading economic nation that have been gradually developing from setting it up the Special Economic Zones. Conducted in China, is a Western-economic freedom style that has expanded slowly and steadily carried out testing in the Special Economic Zones haven’t been developed. However, in establishing a Special Economic Zone, the host country is lack of direct access to benefits in early stage while creating new jobs, access to technology can enjoy indirect benefits.

Special Economic Zones attract foreign direct investment for the country’s economic development. The host country needs to have political stability invest money in SEZ as the international investors. Whenever the government changes, there will have a change in economic policies and they will be invested that the next government will continue to respect the agreements associated with SEZ. Therefore, the government depends on the solid support, separate free action on SEZ to get the respect of international investors. Moreover, the government will have to arrange requirements such as drawing and enacting the Special Economic Zone Laws, protection the investment with Law, infrastructure such as water, electricity, fuel, sewage system, road, bridge, airport, and port with international standards. Likewise, the respective government will need to introduce the incentives such as reducing the tax rates, ensuring the right to transfer the benefit to country of origin, facilitation of procedure. By doing so, the international investors will come and make investment in Special Economic Zones.

The investors in the SEZ have a chance the entire project up to 100 per cent ownership, while profits are sent back without any time restrictions. Those businesses were given guarantee without taking as a state- owned and also the land rent was ensured 50years. SEZs were the freely investment of economic investors from other country and foreign enclave. That’s why the rights given by SEZs and the rights given by domestic industrial firms were not matched. A Special Economic Zone law must be issued for the successful establishment of "special economic zone".

The export must be updated in the country’s economic development for the essential access of foreign currency. Whether domestic and foreign investments were important in order to increase exports, SEZs were established as Trade Policy Tool to attract foreign investors. The facts that are export growth, getting a new job, gaining the transfer of new technology, and receiving foreign currency can be achieved by flowing the foreign direct investment into SEZ. The country's economic development will be able to contribute in one way because of the benefits obtained from that. (HTAY, 2016)

2.5ASEANSpecial Economic Zones (SEZs) Development and Collaboration

Most ASEAN Member States (AMS) – if not all –opt for special economic zones (SEZs) to attract investors, create jobs and increase export earnings. Common features of SEZs include a geographically defined area, streamlined procedures – such as for customs, special regulations, tax holidays – which are often governed by a single administrative authority. A zone-based strategy may be effective in attracting investors in the short-run by offering efficient and expedited administrative services, adequate infrastructure, services and duty-free access for capital goods and other inputs.

In Viet Nam, SEZs play a key role in the government's FDI attraction strategy. There are currently 295 industrial parks, 3 technology parks and 15 economic zones, which concentrate over 50% of total FDI and 80% of manufacturing FDI. A master plan approved in 2015 provides for the creation of a total of 400 industrial parks and 18 economic zones by 2020. SEZs currently contribute to 40% of GDP and 45% of export value. They employ approximately 2.5% of the workforce, which is rather high compared to the region (e.g. 1.25% in the Philippines and 1.1% in Thailand). SEZs are under the responsibility of provinces, with the central government only having a coordinating role. All 58 provinces have at least one zone.

In Lao PDR, SEZs have been developed since the early 2000sbut remain a relatively new concept. Ten zones have been created, and two seem to be fully operational. Savan-Seno in Savannakhet, the first SEZ established in 2002, is particularly appealing to companies wishing to locate on the East-West economic corridor linking Viet Nam, Lao PDR and Thailand. These incipient zone developments have the potential to attract investors from a broader range of economic sectors, thereby contributing to the diversification of the economy, currently strongly driven by natural resource development. The government is preparinga new SEZ law to ensure that zones have their own regulatory framework which reflects good international practice.

Some countries in Southeast Asia increasingly adapt their SEZ strategy to a more elaborate and comprehensive strategy of cluster development, providing a less trade-distorting framework for the support of strategic sectors. A stronger emphasis is given to SME development in an attempt to link industrial and enterprise policies. An interesting example is Penang, which is hosting one of Malaysia’s most developed technology clusters in the manufacturing of semiconductor-based electronic components. The Penang SME Centre was established to act as an incubator for SMEs, providing them with rental subsidies to help them take advantage of the facility. Johor and Klang Valley follow a similar approach to industrial cluster development.

SEZs are well developed in Indonesiaand employ about 2.5% of the workforce. Batam Free Trade Zone attracted over 150 major international maritime companies, contributing to a booming shipbuilding and shipyard industry, also facilitated by the advantageous position of the Riau Islands Province. Batam is also becoming an electronics manufacturing hub and benefits from the presence of global leaders such Panasonic, Sanyo and Siemens. This is in part due to the quality of its infrastructure, which is higher than inthe rest of Indonesia.

The Philippines hosts well over 300 economic zones administered by the 18 different investment promotion agencies which have contributed significantly both to FDI inflows and to exports. The Philippines Economic Zone Authority (PEZA) alone owns three eco zones and administers the incentives for over 300 privately-managed zones. These include 21 agro-industrial economic zones, 216 IT parks and centers, 64 manufacturing economic zones, 19 tourism economic zones, and two medical tourism zones (as of May 2015). PEZA has a good reputation among investors for its one-stop, non-stop service. Other major zones include Subic Bay Metropolitan Authority (SBMA) and Clark Development Corporation, which all form part of the country’s network of IPAs. The SBMA was the overall winner for Asia in 2015 of the FDIGlobal Free Zones Award, owing in part to its performance in encouraging reinvestment.

In Cambodia, the legal framework for SEZs was established in 2005. There are currently 34 approved SEZs, of which 14 were operational as of September 2015. These zones are nevertheless relatively small and account for a low share of total investment and employment: 68000 as of 2014 or less than 1% of total employment and 3.7% of total secondary industry employment (Warr and Menon, 2015, Cambodia's SEZ). Most are located along the borders with Thailand and Viet Nam, particularly in Sihanoukville and Phnom Penh. In thecase of the Philippines, these SEZs are often privately owned. These zones have helped to start diversifying the industrial base away from garments towards electronics and electrical products, as well as household furnishings and car parts.

Myanmar opted early on in its reform process to develop SEZs to attract foreign investment. The first SEZ in Myanmar, the Thilawa Special Economic Zone, began operation in late 2015. Majority of the roughly 60 businesses to set up at Thilawa are Japanese, although investors from China, the United States, Thailand and other countries are also present. Sectors include manufacturing of garments and toys, steel products, radiators, Aluminum cans, packaging and waste management. As in other AMS, the SEZs in Myanmar could be used as effective pilot schemes for testing new approaches to boost the investment climate, such as in thearea of building capacity for monitoring the environmental, social and economic impact of investments in the zones, streamlining registration and licensing procedures, effectively managing incentives, and promoting linkages.

SEZs in ASEAN have been at the heart of export-led development strategies of Asian economies over many decades. They have attracted significant FDI, boosted exports and created millions of jobs – including for women –and have assisted economic diversification. At the same time, these zones have often failed to sustain innovation and competitiveness over time, with little technological upgrading or new firm creation. Most of the jobs created are low-skilled and concentrated in low-technology manufacturing operations. With few exceptions, zones tend to work in enclaves and generate few backward linkages with domestic companies. In some countries, decentralized policy making for developing zones tends to lead to excessive competition between provinces and a misuse of resources and land when zones are only partially occupied.SEZ development needs to be firmly embedded in a wider development agenda, including appropriate connectivity to the rest of the economy and reduced barriers to investment, to be able to generate stronger linkages with domestic firms.(ASEAN Guidelines for Special Economic Zones (SEZs) Development and Collaboration)

2.6 China Special Economic Zone

China's economic reforms began in 1979 by establishing Special Economic Zones. Among the economic freedom, the first step of the reform, Special Economic Zones have included an important role. During the past years 1970, China's economy was troubling by facing many difficulties. According to its development strategy, the effect was low from the implementation of a centralized planning system to fulfill the needs by establishing heavy industries.

The outside world and restore strategies were done by starting the market forces for the achievement of growth from that condition. Time and effort were required to learn for the change of strategy or policy. As China's leaders, reforms are conducted in some areas by already noticing that a change can be happened in order to get the experience and avoid economic and social instability. In the year 1979, China’s State Council granted permission to set up Special Economic Zone in Guangdong and Fujian provinces. In processing like that, Trail and error based on non-conventional export products were to develop the economy by establishing with the market- based system.

The main objective of the Special Economic Zones in China is to test for the development of export- priority market- based system, to get a good base and a door, and the country’s economy, and to contact with the outside world from that door. The way for the development of a centralized planning system to be tested in laboratories has been established as a Special Economic Zone. New ideas and ways that emerged from the market- based environment of external world were to use a test by touching first in Special Economic Zone. Processing like this showed success and effectiveness and SEZ could be expanded to other suitable location. In this way, SEZs were opened China’s economy as a whole and progressing step- by- step. The wide benefits such as the use and attraction of foreign capital, the production of advanced foreign equipment, the use of managerial techniques, the development of an economic image, the promotion of foreign trade by achieving the regional advantages, terms of international standards, and gaining the experiences of economic reforms with the procedures of market- based economy were got from the SEZ that was tested in the experimental management techniques.

Industrial sector were placed as the center of SEZ. According to the objectives of the local industries, governmental organizations, non-governmental organizations are allowed to participate with foreign invested enterprises. The enterprises in Special Economic Zone have been allowed to communicate with domestic economic environment and get business contacts with economic growth and technology. Since the foundation of Special Economic Zone, China focused on the development of foreign trade and liberal economic model. There was a trade surplus. Foreign investment is the main point for SEZ. Attracting and using foreign investment and technology, Applications are the most important factors that assess the SEZ's performance and the open position.

Before 1980, farm lands were existed in Xinjiang region and pesticide factory and farm equipment factory were existed. At that time, 80 percent of Xinjiang population lives by doing agriculture and fishing. There were fewer industrial firms and job hiring capabilities also don’t have even a quarter of labor force. Some of the items were produced. The infrastructure is virtually non-existent and electricity is not easy. In the initial phase of before operating firms, SEZs were established that need to build the mass infrastructure. That’s why in the year 1979, central government began supplying 24 percent in 1980 in Xinjiang among the 48 percent of foreign investors. When local and foreign fund increased for the construction of SEZ, the government lessened the addition. Foreign investments are likely to be good during the early years that established SEZ.

China include the lightly handling of popular programs, managerial economy, employment and wage rate related to tax exemption, tax rate the project period, the size of the business, investment sector, location, the form of ownership to attract foreign investors. The availability of FDI in Xinjiang SEZ was increasing rapidly due to the infrastructure, law, administrative firms and transparent attitude-friendly policies. China’s government that served multiple practical plans for foreign investors include the product repair and update, installation, co-production, the joint venture production, and the fully foreigners- owned. The flexible arrangements dispose risk- taking and uncertainty for foreign investors.

The economy of Xinjiang Special Economic Zone had grown in 1980. With the Chinese economy as a whole, from 1980 to 1995 during estimated at 1 percent increase in annual year Xinjiang SEZ increased up to 35.5 percent. Small enterprises in Xinjiang SEZ had 87 percent of industrial products during the early years 1980 while it had 75 percent in the past years 1980. Although the ratio of small enterprises was reduced in the past years 1990, it is still dominated in Xinjiang SEZ now. Small enterprises were more involving in electronics, garment, food, equipment and construction materials from taking the advantage of Special Economic Zone.

Foreign investment is roughly higher than production. As if China's Special Economic Zones were growing during 198 over 1993, employment increased rapidly almost 25times. The growth is equivalent to 30 percent regular progress per year. Employment is contented in both non-state sector and state-sector. The state- owned organizations increased 23 percent during this duration. The employment of non-state- owned organization increased 60 percent annual average. The employment of foreign- owned organizations is 70 percent of the employment of non- state- owned organization. The remaining non-state-owned organizations were enterprises that are collectively- owned, joint venture owned and stock-owned enterprises. The enterprises of non- state- owned organization has emerged as a significant force in the employment of Xinjiang SEZ. While these institutions increased up to 50 percent of total employment in the year 1962, it increased up to 69 percent in the year 1995.

The employment in Xinjiang SEZ is depending on the availability of FDI. During the year 1980 to 1993, the facts that are foreign capital, foreign direct investment, total employment and non-governmental sector employment. Government operations expand and become involved in their foreign investments. Due to the expansion of the state-owned enterprises, the employment improved and foreign investment was improved in the zone. In this foreign investment, the employment increased the expansion of the firm that borrowed foreign funds. In other words, the employment was increasing due to the foreign investment in SEZ. Increasing production would lead to the economic development of Xinjiang SEZ. The labor of Xinjiang SEZ as measured by GDP per Worker is equivalent to the standard to Shanghai that has most industrial firms and is more than China as a whole. As for the coverage of SEZ, this is estimated with the average production of a labor.

When the industries in Xinjiang SEZ were measured in 1993 by dividing into four groups such as state- owned, collectively owned, foreign-owned and Hong Kong / Macau / Taiwan owned as the production of having foreign and Hong Kong / Macau / Taiwan-owned enterprises, Better Performance with having fairness that already have technology transfer in Xinjiang SEZ, domestic enterprises in SEZ received the benefit by doing business together with foreign firms. In evaluating the performance and visually of the SEZ, not only foreign capital and technology transfer but also the expansion of trade must be studied. Foreign trade is important to the success of the Special Economic Zones and is directly related to the production development.

The expansion of trade is measured with the ratio of export in GDP and the free serving ability is the highest rates in the country. The development of free style economy is the essential goal of SEZ. The economy in the zones improved due to the connection between the Special Economic Zones, the improvement of international marketing and communications. However, the role of Special Economic Zones in China's economy, not only a window and a base but also the relation of SEZ and the rest of local economy is crucial for the transformation of China's economy.

Special Economic Zones that impact immediately on China's economy is the activities of the zone. The work began when federal and state authorities have begun with the least support. SEZ's strong economic growth was able to identify new and better-paying jobs. The high productivity in Special Economic Zone indicated China to use more effectively natural resources, physical resources and human resources. Rapid exports growths, regular trade surplus is going to quickly improve the availability of foreign currency and it gave support to import the required capital. Also the payable amount of tax as a state budget was large. The benefits from the operation of the Special Economic Zones could expand to reach up to nationwide with a high rate.

As soon as the economy of SEZs improve, demand increase, the relationship of SEZ and local economy was became and the firms and regions associated with SEZ improved economy with the rate that have never got. On the other hand, the emergence of new jobs and domestic products can be used fully. The majority of labors on SEZ were from the rural area that is facing with the unemployment. The extension of SEZ not only happens giving jobs to surplus workers, income, improving, and the welfare but also benefits the region as a whole by exporting some of their earnings to the homes area. The growth of Special Economic Zones represents China’s economic reform. It can be tested in SEZ for the operation of market- based economy, free economy and reform and instilled in the national economy. This operation is associated with economic and social life and it consist of the definition of the role of government in the organization.

SEEs were allowed to compete directly with foreign firms in local markets by allowing the citizen status to operating firms with foreign investment in China. Whether reforms were done in other sectors, the private sector also improved the economy. The availability of FDI increased in Tertiary Sector as well as media industries and financial sectors such as banking, and insurance and stock, shares, the contract of sale and the market was also developing. The use of foreign investment has also tested.

The involvement of government associated with administration was less and the bureaucratic process doesn’t also have. The rules are more clear, and easier and become transparent. Also business management ways can respond rapidly indirectly and is related to markets. The direct control of administrative method was losing. The result was becoming more rapid, wide, deep reform and become transparent country by expanding continuously this reform from SEZ to the rest of the country’s economy.

Although there are many problems in China, economic transition is smooth and has no position to turn back. The establishment of SEZ is a fact that paves the economic growth and changes the thinking policies. The current China’s economic Blossom can’t be without having achievements of SEZ. The impact on the China’s economy of Special Economic Zone was large. (HTAY, 2016).

CHAPTER 3

FDI AND SPECIAL ECONOMIC ZONES IN MYANMAR

3.1 Development of SEZs in Myanmar

Myanmar is a developing country that ranks among the most difficult markets in the world to operate a business. Since 2010, the Myanmar government has implemented political and economic reforms aimed at spurring growth and increasing the country's participation in the global economy. One objective of these reforms is to bring about structural change that makes Myanmar more reliant on the manufacturing sector. (Teachout, 2016)

Whether it was concern over a too close relationship with China or a genuine desire to improve the lives of its country's citizens, it is clear that, whatever its initial intentions, the government has seen the benefits of forging closer ties with economic powerhouses like the US, the EU and even Japan, all who see huge potential in Myanmar's strategic location on the cusp of Southeast Asia, as well as rich natural resources and an abundant and cheap workforce. Those countries, and many others, have pumped much needed foreign investment into a previously stagnant economy, something that has been aided by the government encouraging foreign investment by implementing new laws and inviting business delegations from the world over.(Chit, 2014)

One area that is seen as particularly key in proving the country can attract future foreign investment is in the area of Special Economic Zones. A Special Economic Zone (SEZ) is a geographic area that makes laws and practices favorable to the production and export of products, in turn creating new jobs, usually in the dozens of thousands, and pushing the economy further forward. Efforts to advance this objective center on the creation of Special Economic Zones (SEZs),designatedenclaves that facilitate imports, exports and foreign direct investment. (Chit, 2014)

Myanmar's manufacturing sector is characterized by low levels of productivity and attracts only a fraction of the foreign investment into the country. Myanmar's recent SEZ policy has the potential to reduce high import and export costs, trigger productivity improvements, and jumpstart manufacturing activity. While the use of SEZs appears quite sensible in theory, they are costly for governments and success does not come easily. Although, SEZs are common throughout the world, particularly in Asia, they have not always had a positive transformative effect on developing country business climates. In the short run, the objective of SEZs should be to create a favorable business climate to attract foreign and domestic investors. In the long run, SEZs should encourage experimentation with rules and regulations in order to understand which policies can best spur growth and be scaled up. It is also important that SEZs generate externalities to justify the pecuniary incentives governments offer firms to relocate. These externalities are important for ensuring that SEZs are not isolated islands within the economy, simply shifting employment from other parts of the economy. (Teachout, 2016)

While other areas are being spoken about around the country, three key SEZs are currently being implemented within Myanmar. In Rakhine State, work has begun on the Kyaukphyu SEZ, and in the south of the country, Dawei in the Thanintharyi Region, could be a key to growing Myanmar's economy in the future. The third SEZ is that of Thilawa.(Chit, 2014)

In the early days of the reforms, Dawei was seen as the most important SEZ in the country, but that has been beset by major issues from the initial investors and it is now the Thilawa SEZ, located a few hundred miles up the coast from Dawei and just 20 kilometers from Yangon that looks likely to be the first major project to go live, with a start date for Phase 1 possible as early as 2015.(Chit, 2014).

3.2 Types of Special Economic Zones in Myanmar

There are currently three SEZs in development: KyaukPhyu in RakhineState, Dawei inThanintharyi Region andThilawa in Yangon Region. In order to carry out the implementation, the Central Body, Central Working Body and Management Committee were formed under the SEZ Law in Special Economic Zone.(DICA, Special Economic Zones, 2018)

3.2.1 Kyaukphyu Special Economic Zone

Kyaukphyu Special Economic Zone is located in Kyaukphyutownship, Ramreetownship, Manaungtownship and the project is being allocated as below:

Deep Sea Project (1) - The area of sea is located at the North of Maday Island (North latitude 19 degree 22 minute 36.6 second, East Longitude 93 degree 38 minute 40.8 second).

Deep Sea Project (2) - The area is located at the North of Ramree Island (North latitude 19 degree 22 minute 43.3 second, East Longitude 93 degree 36 minute 57.4 second).

Industrial Zone Project - The area is located at the South of Kyauktaw and it includes Kandee village tract, Theikyaung village tract, Kyatkein village tract, Katthapyay village tract and Chaungwa village tract.

High Standard Housing Project - The High Standard Housing Project is located at 12 Km from the South of Kyauktaw and it includes Chaungwa village tract and Minpyin village tract.(DICA, Kyaukphyu Special Economic Zone, 2016)

3.2.2 Dawei Special Economic Zone

` The area and width of Dawei SEZ was designated as 50535 acres but later, it was changed to 48432.4512 Acres. The total land acres of 31620.9612 from Yayphyu Township and another 765 acres from Launglon Township, with a total of 32385.9612 acres were confiscated by the approval from the Ministry of Home Affairs on 12th June 2015 after announcement has made. Then, Regional Department of General Administration dispatched the case to the District Department of General Administration and the necessary tasks are being carried out. The notifications have been made to the Yayphyu Township and Launglon Township on 28th December 2015 from Dawei SEZ to commence the case so as to facilitate the process as it received the approval to use the farmland in accord with the mechanism of the Central Management of Farmland.(DICA, Dawei Special Economic Zone, 2016)

3.2.3 Thilawa Special Economic Zone

The Thilawa Special Economic Zone - located on the outskirts of Yangon - is the first Special Economic Zone (SEZ) built in Myanmar, and had become fully (commercially) operational in September 2015. Inside Thilawa SEZ, where both the hard and soft infrastructure - from roads and utilities to supporting services such as maintenance - are developed up to the international standard. It is located at around 20 km South-East of Yangon, which is the biggest commercial city of Myanmar.(SEZ, 2015)

3.3 Myanmar's Foreign Investment Law

Myanmar first introduced a foreign investment policy in 1988. The policy aimed to attract foreign investment to energize the private sector. However, because sanctions from the US, EU and other developed countries have limited trade with Myanmar, the majority of the investment it has received has been from other developing countries. The lack of capital from more developed countries limited investments in Myanmar to smaller capital projects or large projects that involved the government and therefore lacked transparency. Though Myanmar has been limited in the amount of foreign capital it received, neighboring countries such as China and Thailand have been investing in Myanmar for quite some time. For instance, Thailand imports much of its natural gas from Myanmar and China has been logging much of the northern region.

Prior to the most recent investment law of 2012, Myanmar put in place the Special Economic Zone Law of 2011 (SEZL) as well as the Dawei Special Economic Zone Law of 2011 (DSEZL) which provide foreign investors with further incentives such as tax reliefs and allow for a range of business activities providing the investors compliance with the specific regulations (Herbert Smith Freehill Myanmar Investment Guide). Myanmar enacted the Foreign Investment Law of 2012 (2012 FIL) on November 2nd, 2012.

Though Myanmar's investment policy reform is just one of many changes the government has concentrated on, it has certainly attracted the most international attention during this time of transition, Foreign investors are generally attracted to Myanmar because of the country's stock of natural resources. Myanmar was even the world's largest exporter of rice. While the natural resources and amount of usable labor has always been compelling to foreign investors, it has historically been the international sanctions and foreign investment policies that have had the largest effect on investors' ultimate decision, or ability, to invest in Myanmar. With sanctions currently suspended and likely discontinued in the near future, most of the attention has turned to its newly enacted foreign investment policy.

More recently, in addition to the 2012 FIL, the Ministry of National Planning and Economic Development (MNPED) issued the "FIL Rules" in January 2013. These rules provide further detail with respect to regulations broadly described in the 2012 FIL. For instance, it repeats the requirements related to foreign ownership with added detail clarifying sector- specific regulations (O'Shea, Platts, Austen, Nelson and Henderson 2013). The main areas to which this set of rules applies are restricted businesses, conditional investments, investment impact assessments, as well as many other details. In its explanation of restricted sectors, a key characteristic is the considerable length of restricted sectors for full foreign ownership compared with those involving joint ventures or minority holdings. Moreover, though the FIL does provide further detail and clarification, certain reports explain its repetitiveness of the 2012 FIL therefore some uncertainty still remains.(Tretter, 2013)

3.3.1 FDI Law Reforms

The noticeable reforms were made three times by the following phases: the State Law and Order Reconciliation Council in 1988, Union Solidity Development Party in 2012 and National League for Democracy in 2016 renewed the FDI Laws under the “Myanmar Investment Law” at 2016.

Table (3.1) Reforms of FDI Law in Myanmar

Government	Law	Year
State Law and Restoration Council (SLORC)	Myanmar Foreign Investment Law (SLORC Law No. 10/1988)	1988
Union Solidarity and Development Party	Foreign Investment Law (the PyidaungsuHluttaw No. 21/2012)	2012
Union Solidarity and Development Party	Myanmar Citizens Investment Law (the PyidaungsuHluttaw Law No. 18.2013)	2013
National League for Democracy Party	Myanmar Investment Law (the PyidaungsuHluttw Law N0. 40/2016)	2016

Source: Directorate of Investment and Company Administration (DICA)

Myanmar introduced “Myanmar Foreign Investment Law” in November 1988 (the 1988 FIL) and market- oriented economic policy in March 1989 was officially adopted. The policy aimed to attract foreign investment to energize the private sector. However, sanctions on Myanmar from the US, EU and other developed countries have limited the trade and as a result, the majority of the investments received were from other developing countries.

In 2012, Myanmar government renewed the “Myanmar Foreign Investment Law” with “Foreign Investment Law” as shown in Table (3.1). The Foreign Investment Law was proposed by Myanmar government, while the “Myanmar Citizens Investment Law” was initiated by PyidaungsuHluttaw. In addition to the 2012 FIL, the Ministry of National Planning and Economic Development (MNPED) issued the “FIL Rules” in January 2013. These rules provided further detail with respect to regulations broadly-described in the 2012 FIL.

Myanmar government may allow investment permits with corresponding incentives and benefits continued to be issued under the new Myanmar foreign direct investment as well as investment permits issued under the 2014 Special Economic Zone (SEZ) law in table (3.1). According to the new foreign investment law in 2014, Myanmar government's purpose was to support the country's development by allowing investment in each individual sector which needed to be developed and for the proportionate development of the region or state.

The Investment laws have combined the previous Myanmar Citizen's Investment Law with the Foreign Investment Law, ending separate investment laws for citizens and foreigners.

Myanmar's least developed areas will be classified as "Zone 1", allowing income tax exemptions of up to seven years. "Zone 2" refers to areas at the middle stage of development, which carry exemptions up to five years. The most developed areas are "Zone 3", and have tax exemptions lasting up to three years. Additionally, the government can offer tax incentives in promoted industries, which tend to be labor-intensive such as manufacturing, infrastructure development, agriculture, and food processing.According to Trading Economics Journal, Foreign Direct Investment in Myanmar increased by 176.02 USD Million in January of 2018.(Kyaw, 2018)

3.4 Policy and Enactment of SEZs Laws

The Special Economic Zone Law was enacted in 2014, and its implementing Rules were published in 2015. The law has paved the way for Special Economic Zones (SEZ) in Myanmar. On 27 January 2011 the government enacted The Myanmar Special Economic Zone Law (SEZ Law) to regulate the development and running of Special Economic Zones in Myanmar (SEZs). The law is aimed at helping the country develop economic momentum and to bring about improvements in the goods processing, trading and services sectors. It is also hoped that the development of SEZs will facilitate technology transfer and workforce education and training.

Pursuant to the SEZ Law the Government may, by notification, establish a variety of SEZs in Myanmar, including high tech industrial zones, information and telecommunications technology zones, export processing zones, port area zones, logistics and transportation zones, scientific and technological research and development zones, service business zones and sub-trading zones. The SEZ Law provides for the establishment of a Central Body a Central Working Body and a Management Committee who are collectively responsible for the implementation of the SEZ Law.((Charltons))

3.5 Contributions of Myanmar's SEZs

Investors who invest and operate businesses located in Myanmar SEZs can avail of certain privileges including, among other things:

(a) Tax holidays for the first five years

(b) 50% income tax relief on revenue from products sold overseas for the next five years (years 5 – 10)

(c) 50% income tax relief on reinvestment obtained from export sales for the following five years

(d) Exemption on customs duty for certain goods (e.g. machinery and vehicles) for five years. A 50% exemption applies for the next five years.

Tax exemptions on the proceeds of overseas sales for the first five and ten years respectively from the day of commencement of the production or service. If profits generated by exports are re-invested, an SEZ based company may apply for up to 50% relief on income tax for an additional five years. In respect of goods produced for export in Myanmar SEZs, an exemption from commercial tax and value-added tax may also be applied for.((Charltons))

3.5.1 Benefits of Investors

According to SEZs Law 2014, Free Zone shall be deemed to be situated outside the country. Free zone is mainly focused on export-oriented markets and includes manufacturing, transportation, and wholesale areas that are entitled to custom duty and other taxes exemption relating to the goods in the SEZs and the goods imported to this Zone. The followings are the benefits of investors for Free Zone.

(a) Income tax exemption for the first seven years;

(b) After seven years, 50% relief of current legal income tax rates for five years;

(c) After 12 years, 50% relief of current legal income tax for profit that is reinvested within one year as a reserve fund for the next five years;

(d) Exemption from commercial tax or value- added tax;

(e) Exemptions from customer duties and other relevant taxation on imports of raw materials for production machinery instrument and necessary spare parts for production; construction material for building such as factories, warehouses and own offices and motor vehicles.

(f) The exemptions of customs duties and other relevant taxation on the import of trading goods, consignment goods, motor vehicles and other materials which are essential for a business's free- tax wholesale trading, export trading and services of provision and transportation; and

(g) The option to apply for exemption on import tax or value- added tax for goods imported from a local or Promotion Zone to a Free Zone for the investor of Free Zone.

Promotion Zones are mainly based on the domestic market and the market in SEZs. In this zone, investment can be made in manufacturing, housing, departmental store, banking, insurance, school, hospital and recreational places. The followings are the facts that benefit the investors in Promotion Zone.

(a) Income tax exemption for the first five years;

(b) Five years, 50% relief of current legal income tax rates for the second five years;

(c) After 10years, 50% relief of current legal income tax for profit that is reinvested within one year as a reserve fund for the next five years;

(d) For the first five years, exemptions from customs duties and other relevant taxation on production machinery and replacement parts; and construction materials for building the business's own facilities, such as factories, warehouses and offices;

(e) For the resources listed above, 50% relief of the custom duties and other taxation the next five years;

(f) The customs and other taxation shall be paid for the importation of raw materials and other goods for production;

(g) For the resources listed above for the option to apply for a refund of customs duties and other taxation paid on importing them, if the goods they help produce are exported abroad or into a Free Zone;

(h) Exemption of commercial tax and value- added tax during the relevant relief period provided in the Special Economic Zone Law; and

(i) In all other cases, businesses shall regularly pay the customs and other taxes upon importing raw materials and other goods for production.(DICA, Special Economic Zones, 2018)

CHAPTER 4

THE SIGNIFICANCE OF THILAWA SPECIAL ECONOMIC ZONE

4.1 Overview of Thilawa SEZ

The Thilawa SEZ, located 23 km southeast of Yangon, is the first large-scale SEZ in Myanmar. It is located in Thanlyin, Kyauktan Township and has an area of 23.422148442 square kilometers (5787.718 acres). The Zone, which is 2,400 hectares (ha) in total, is being developed in phases under Myanmar Japan Thilawa Development Ltd. (MJTD), a public-private partnership joint venture initiated by Myanmar and Japan. The first Zone A development, 400ha for mainly industrial use, started in late 2013, and over 30 factories are now operational.

The second Zone B, 262 ha for industrial use, has been split into several areas for gradual development. An updated joint venture agreement of MJTD which includes the first area of Zone B was signed in October 2016, and construction started in early 2017. Negotiations with stakeholders are currently underway for the next area in Zone B. Manufacturing and services investors in the SEZ are offered certain tax and export privileges, superior infrastructure and a 'one-stop service center' that provides services ranging from company incorporation to visa applications. (DICA, 2016)

There are nearly 90 investors in the Thilawa SEZ, with many more anticipated for Zone B. Investments to date come mainly from Japan, China, USA, and Thailand in sector that include manufacturing of garments and toys, steel products, radiators, aluminium cans, packaging and waste management. The Myanmar Government estimated 30,000-50,000 direct employment opportunities in Zone A and B.

The legal framework for SEZs, and its relationship to other Myanmar law, is still evolving, but the Government's stated intention since the beginning has been that the Thilawa SEZ should be developed in accordance with international environmental and social safeguard standards. Thilawa SEZ Management Committee (TSMC) is incharge of governance of the entire Zone and Myanmar Japan Thilawa SEZ Development Ltd. (MJTD)is in charge of developing ZoneA. (Bo Bo Aung, 2015)

To successfully implement the project, a Memorandum of Incorporation (MOI) was signed between the Union Minister for Ministry of National Planning and Economic Development and Union Minister for Ministry of Commerce and Industry of Myanmar and the Ministry of Foreign Affairs of Japan in Tokyo on 21st April 2012. Similarly, the Memorandum of Corporation on Development of the Thilawa Special Economic Zone (MOC) was signed by the Chairman of Thilawa SEZ Management Committee and Deputy Minister of National Planning and Economic Development of Myanmar and Vice Minister of Minister of Ministry of Economic, Trade and Industry of Japan on 21st December 2012 in Yangon.(DICA, 2016)

The role of the Thilawa SEZ Management Committee is to ensure

(a) that favorable, predictable and friendly investment climate is created,

(b) that investors in the Thilawa SEZ are responsible investors, and

(c) that the Thilawa SEZ would not pose any environmental threat to the surrounding areas and communities.

Hence, the Thilawa SEZ Management Committee plays the multiple roles as a facilitator, a coordinator, a regulator and a monitor. It also cooperates very closely with the Developer, the Myanmar Japan Thilawa Development Co., Ltd. (MJTD).

The investors or locators having any kind of difficulty during their business operations are welcome to consult with the Thilawa SEZ Management Committee at the Industrail Park Center in the Thilawa SEZ. The online enquiry system is also available through which any difficulty or complaint can be reported.

The One Stop Service Center under the Thilawa SEZ Management Committee is also ready to provide investors or locators with necessary licenses, permits and other services required. The investors or locators requiring any services are welcome to the Front Office of the One Stop Service Center. The online applications are also available for some services so that investors do not even need to come to the One Stop Service Center. (SEZ, Role and Function of the Thilawa SEZ Management Committee, 2015)

4.2 Implementing Programs in Thilawa SEZ

The Zone is being developed in cooperation with the Japanese Government in two phases: Zone A, 400 hectares, for mainly industrial use; and a further 2000 hectares to be developed in phases for industrial and other uses. Announcement was made through the daily newspaper in Thanlyin and Kyauktan townships and tenders were invited.

Myanmar Thilawa SEZ Holdings Public Co. Ltd was formed to implement the SEZ with the Myanmar- Japan investment. The Joint- Partnership Agreement of Thilawa SEZ was signed between Thilawa SEZ Company Ltd. of Japan (JTSC) and Myanmar Thilawa SEZ Holdings Public Ltd. (MTSH), Myanmar- Japan Thilawa Development Co. Ltd (MJTD) which consists of Thilawa Special Economic Zone Management Committee (TSEZMC) and three Japanese companies which involved with the name of MMS Thilawa Development Co, Ltd. such as Mitsubishi, Sumitomo and Marubeni has been registered on 10th January 2014.

Sub- Committee for the Relocation and Resettlement Sub- Committee for relocation of the households and compensation, Supervision Committee to supervise implementation program on regular income for the Project Affected Persons were formed. Moreover, the Resettlement Work Plan (RWP) was drawn based upon the information collected in April 2013 and subsequent information collected in July the same year and invite the advice from the international experts interested in RWP online.

The Thilawa SEZ Management Committee, JICA and Resource in Environment Myanmar Ltd. (REM) assessed and scrutinized each household on 3rd and 4th July 2013 and the circumstances of the household and survey of 90 houses within 400 hectares in Section (a) using sky map. The subsequent collection was made from 18th to 21st August 2013. As the estimation was conducted to provide the compensation to the Project Affected Persons by the experts from JICA and Thilawa SEZ Management Committee in accord with the policy of natural environment and social protection of the World Bank and mechanism of the international financial institutions, a total of Ks. 700 million was given to 81 households as compensation up to 31st December 2013 by the Relocation and Resettlement Sub- Committee.

Tenders were invited for building Infrastructure Works of Thilawa SEZ in the daily newspaper on 2nd June 2013, and Penta- Suntac which combined with Penta Ocean of Japan and Suntac of Myanmar won Company Permit to construct the Infrastructure.(DICA, 2016)

Land Lease Agreement for Section (a) with 400 Hectares was signed between Thilawa SEZ Management Committee and Myanmar Japan Thilawa Development Co, Ltd. on 5th June 2014. According to the agreement, the period of the Lease is 75 years which is initially 50 years and it can be extended another 25 years. It costs $ 5 for one square meter as Land Lease for initial 50 years and the combined Lease is $ 19803100. However, the development will charge the investors $ 70 for one square meter as Land Lease.

The Ceremony of laying foundation of Section (a) of Thilawa SEZ was held 30th November 2013. It was agreed to implement the Thilawa SEZ by dividing into two Sections: Section (a) with 400 hectares and Section (b) with 2000 hectares. The Opening Ceremony for the First Phase of Section (a) was successfully held at Central Industry Park Centre (CIPC) on 23rd September 2015.

As the MJTD Co, Ltd. (Developer) has been implementing the Section (a) with 400 hectares, the First Phase of 200 hectares and the Second Phase of 2000 hectares were fully completed.(DICA, 2016)

4.3 Types of Business in Thilawa SEZ

As the Thilawa SEZ is a Special Economic Zone which is different from industrial zone or estate, any kind of businesses can be located except those that are prohibited. These business may include those that hold the goods on account of the foreign supplier for dispatches as per the owner's instruction and for trading with or without labeling, packing or re-packing without any processing, and also the businesses that undertake the refrigeration for the purpose of storage and assembly of Complete Knocked Down or Semi Knocked Down kits. For the sake of clarity, the types of businesses that are located in the Thilawa SEZ can be seen in table (4.1).

Table (4.1) The Types of businesses in the Thilawa Special Economic Zone

No	The businesses that may be located in the Thilawa SEZ
1.	Trading;
2.	Real estate development including housing, hotels, shopping malls;
3.	Engineering and design;
4.	Warehousing and logistics services;
5.	Research and development services;
6.	Computer software services;
7.	Information enabled services such as back-office operations, call centers, content development or data processing, human resource services, insurance claim processing, legal data bases, medical transcription, payroll, remote maintenance, revenue accounting support centers and website services, animation or graphic information system services;
8.	Distribution services including wholesale and retail services;
9.	Financial services;
10.	Professional services excluding legal and account services;
11.	Long term/short term rental/leasing services;
12.	Other business services including consultation; Construction and related services;
13.	Educational services;
14.	Environmental protection services;
15.	Hospital and other human health services;
16.	Tourism and travel related services;
17.	Recreational and entertainment;
18.	Cultural and sporting services;
19.	Transport services and services auxiliary to all mode of transport.

Source: Thilawa SEZ Management Committee

In the Special Economic Zone, the following types of Business shall not be allowed according to Myanmar Special Economic Zone Law,2014(2014, The PyidaungsuHluttaw Law No. 1/2014)

Table (4.2) Types of Business Not Allowed or Approved in SEZ

No.	Types of Business Not Allowed or Approved in SEZ
1.	Production, processing of munitions including arms, weapons, explosives for military use, etc. and services rendering for military-related purposes;
2.	Production, processing or services hazardous to the environment and ecology;
3.	Recycling industries that will render the waste management services to the industries outside Myanmar;
4.	Production, processing of psychoactive substances and narcotic substances;
5.	Importation or production, processing of poisonous chemicals, agriculture pesticide, insecticide and other goods by using chemical substances, prohibited by international regulations or by the World Health Organization, that affect the public health and environment;
6.	Business utilizing the industrial waste imported from abroad;
7.	Production, processing of prohibited substances which may destroy ozone layer;
8.	Production, processing and sale of the good made of asbestos;
9.	Production, processing of polluted substances hazardous to the human health and environment

Source: Thilawa SEZ Management Committee

According to Myanmar Special Economic Zone Law, 2014(2014, The PyidaungsuHluttaw Law No. 1/2014), the following is shown the proposal for the business activities are not approved in Thilawa Special Economic Zone:

Table (4.3) The Proposed business activities not approved in Thilawa SEZ

	The proposal for the following business activities shall not be approved
1.	Recycling of plastic scrap or solid waste if the proposed project does not comply with the international standard of recycling and waste management systems;
2.	Reprocessing of garments or used clothing or secondary textiles materials and other recyclable textile materials into clipping or rags or industrial wipers or shoddy wool or yam or blankets of shawls;
3.	Reconditioning, repairing and re-engineering of import of other used goods for recycling;
4.	Export of special chemicals, organisms, materials, equipment and technologies unless it fulfills the conditions indicated in the existing laws and regulations of the Union

Source: Thilawa SEZ Management Committee

4.4Physical and Geographic Advantageof Thilawa SEZ

All necessary infrastructures for investors are made available in the Thilawa SEZ. Once the location in the Thilawa SEZ is confirmed and the investment permit is issued, electricity, telecommunications including the Internet access, and purified water supply will be connected. Services for liquid waste, solid waste and industrial waste management are also readily available.

International logistic centers are also located in the Thilawa SEZ that make investors easy for domestic and international logistic arrangements, imports and exports. As one of the main ports is just next to the Thilawa SEZ, transportation time of cargos for exports and imports can tremendously be shortened. As the airport is located at around 30 kilometers away from the Thilawa SEZ, it is convenient for investors traveling frequently and also for the transportation of air cargos.

The commercial and residential area is also located in the Thilawa SEZ. In that area, villas and condominiums, office and residential apartments, banks, shopping centers, medical center, school, recreation centers, green areas and workers' dormitories are located. Hence, investors and workers find it easily accessible to everything inside the Thilawa SEZ. (SEZ, Physical Advantage, 2015)

The Thilawa SEZ is located at about 20 kilometers from Yangon, which is the biggest commercial city of Myanmar having more than 10 percent of Myanmar's total population. Hence, the human resources that widely range from high quality management staff to skilled and semi-skilled workers are readily available. As Yangon is the main gateway to international markets through seaports and airports, it is a strategic location for investors to have easy access to international markets. The Thilawa SEZ itself is located next to one of the main ports called Myanmar International Terminals Thilawa (MITT). The Yangon International Airport is just about 30 kilometers from the Thilawa SEZ. It is also easily accessible by public transportations such as buses and trains. The road to Thilawa SEZ is connected to the major road transport network across the whole country. Hence, both industries that focus on export markets as well as domestic market find it easy for expanding their distribution network. (SEZ, Geographic Advantage, 2015)

As for environmental protection for setting up a business and commencement of commercial operation by an investor in Thilawa Special Economic Zone (TSEZ), the following actions are requested in the three stages; “Preparatory stage for starting construction”, “Construction stage”, and “regular operation stage”. (SEZ, Environmental Protection, 2015)

4.4.1Employment Registration

The Investor which obtained the Investment Permit issued by the Thilawa Special Economic Zone Management Committee may employ foreign / local employees (citizens of Myanmar) working in the Thilawa Special Economic Zone. At the same time, each Investor is required to submit a list of employees with the Form of Recruitment Status which is provided in Notice No.02/2015 of Thilawa Special Economic Zone Management Committee dated 8 July 2015, and with the standard Employment Contract it uses, to the TSMC on monthly basis.

As for the employment registration for foreign employees, the Investor shall apply for the Foreign Worker Employment Registration for their foreign employees at the Labor Section of OSSC through the Front Office of OSSC. The Labor Section of

OSSC issues the Foreign Worker Employment Registration Cardafter reviewing the submitted documents based on the recruitment status which was submitted by the Investor to the TSMC in advance.

The Investor may recruit local employees freely through local labor recruitment agents, the labor recruitment office of the Thilawa Special Economic Zone in future, or by his own arrangement as per the Article 71 of the Myanmar SEZ Law. Related to local employment, each Investor shall comply with the exiting Myanmar SEZ Law and Rules, Labor Laws and Rules of Myanmar some of which are excerpted as follows;

(a) The employment agreement shall be signed by the employer (the Investor) and employees.

(b) The Investor shall arrange trainings for the improvement of the skill of the local employees.

(c) The Investor shall employ only the citizens of Myanmar for the work which does not require high technology and skill.

(d) Regarding the employment of skilled workers, technicians and staff, investors must have employed Myanmar citizens for at least 25 percent in the first two years, at least 50 percent in the second two years and 75 percent in the third two years.

(e) The investor may appoint the local employee who already has Worker Registration Card and in this case the Labor Section of the OSSC shall be informed regarding such employment.

In addition, the Investors may receive various kinds of consultation services such as report of employment, social security and labor dispute from the Labor Section of OSSC. The detailed procedures related to employment registration can be downloaded from the following link. (SEZ, Employment Registration, 2015).

4.4.2 Current Situation of Resettlement

Zone A affected 81 households, 68 of them relocated in late 2013 by the Myanmar Government to a site 4.5-8km away. Some members of the community submitted a complaint to the Japan International Cooperation Agency (JICA)'s

Independent Examiners in June 2014 concerning non-compliance with the 2010 JICA Guidelines for Environmental and Social Considerations. Concerns included in the complaint letter were: loss of farm land and/or access to farmland; loss of livelihood opportunities; impoverishment; loss of educational opportunities; substandard housing and basic infrastructure; loss of access to adequate clean water. While recognizing some of the concerns, the JICA Examiner's November 2014 reportdid not find non-compliance with JICA's Guidelines.

However it did recommend improved dialogue and communication among stakeholders and further improvements in living conditions at the relocation site. The report's findings were criticized by the Thilawa Social Development Group (see overleaf) although they welcomed the recommendation for more dialogue.(Bo Bo Aung, 2015)

Currently, the resettlement and relocation for the Thilawa SEZ Zone A project has been accomplished; however, the Income Restoration Program of the PAPs of the Zone A is being undertaken, forums with the major stakeholders are regularly held and improvements of the relocation area are regularly made as per the complaints/suggestions from the forums. The size of Thilawa SEZ Zone A area is around 400 hectares and there were 81 project affected households out of which;

(a) 65 households live inside the Class A project area (that is the first-phased development area having the size of 396.062 hectares),
(b) 5 households farm inside the Class A project area but live outside the Class A area (within the whole SEZ project area), and
(c) 11 households farm inside the Class A area but live not only outside the Class A area but also outside the SEZ project area.

The Thilawa SEZ Zone B will soon be developed so that the relocation and resettlement plan is being drafted by taking some weaknesses in the first relocation and resettlement process as lessons. (SEZ, Current Situation of Resettlement, 2015)

4.5Actual Investment Inflows in Thilawa SEZ

Myanmar is a country rich in natural and human resources. It has vast cultivableland, long coastlines, navigable river systems, abundant materials, gems, forests and aliterate population. These plus attractive incentives are expected to entice potentialforeign investors. Foreign investments from various counties have been coming into

Myanmar since 1989.The following table shows foreign direct investment permission into Thilawa SEZ from 2014 to 2018 by sector.

Table (4.4) Investment Permission in Thilawa SEZ by Sector (2014- 2018)

No.	Sector	2014		2015		2016		2017		2018	
		Qty	Amt US$	Qty	Amt US$	Qty	Amt US$	Qty	Amt	Qty	Amt US$
1.	Industry Sector	5	110.760	33	470.227359	18	301.234	9	119.462	9	189.000
2.	Good Trading Sector	1	13.908	1	23.800	3	63.500			1	10.140
3.	Service Sector	1	36.040	1	5.000	4	26.200	1	15.350		
4.	Trans-port and Logistic Sector			5	38.270	3	35.500				
5.	Housing Develop-ment Sector			1	30.000						
6.	Hotel Sector							1	12.000		
	Total	7	160.708	41	567.297359	28	426.434	11	146.812	10	199.140

Source: DICA (2018)

Table (4.4) shows investment permission of Thilawa SEZ by sector (2014-2018). According to Table, industry sector is the most investing sector among the other sectors. In 2014, the amount of investment is US$ 110.760 million in five enterprises in Thilawa Township. The invested amount is increased up to US$ 470.227359 million in 33 enterprises in 2015. After 2015, the invested amount is decreased to US$ 301.234 million in 2016, US$ 119.462 million in 2017 and US$ 189 million in 2018 respectively. FDI inflow to enterprises by several countries are also decreased to 18 in 2016, 9 enterprises in 2017 and again 9 enterprises in 2018 respectively.

The second most investing sector is good trading sector. The invested amount is US$ 13.908 million in 2014, is increased to US$ 23.800 million in 2015 and US$ 63.500 million in 2016. The enterprises are only one in 2014 and 2015, and 3 enterprises in 2016. In 2018, the enterprises is only one with the decreasing amount of US$ 10.140 million.

In service sector, the invested amount is US$ 36.040 million in 2014, US$ 5 million in 2015, US$ 26.200 in 2016, US$ 15.350 million in 2017. The enterprises are only one in 2014, 2015 and 2017, and 4 enterprises in 2016. Although the enterprises are increased in 2016, the investment amount is lower than 2014. Investors are invested in transport and logistic sector for two years 2015 and 2016. The amount and enterprises are decreased in 2016 comparing with 2015.

In housing development sector, the amount of investment is US$ 30.000 million only in 2015. In hotel sector, the invested amount is US$ 12 million only in 2017. It is found that the investment in Thilawa SEZ is gradually decreasing year by year. It is because of lack of skilled labor, lower internet system and not enough electricity. Infrastructure is the main point to improve FDI on Thilawa SEZ.

4.5.2 Investment Permission in Thilawa SEZ by country (2014 – 2018)

The following table shows foreign direct investment permission into Thilawa SEZ from 2014 to 2018 by country.

Table (4.5). Investment Permission in Thilawa SEZ by country (2014 – 2018)

(US$ in Million)

No.	Country	2014	2015	2016	2017	2018	Total
		Amt US$	Amt US$	Amt US$	Amt US$	Amt US$	Amt US$
1	Japan	98.760	176.78896	138.896	59.760	125.250	599.45496
2	Singapore	36.040	237.970	111.948	33.500	26.900	446.358
3	Thailand	-	17.209399	123.7	5.100	26.900	172.999399
4	Republic of Korea	-	-	31.900	31.702	-	63.602
5	Hong Kong	-	47.150	-	-	-	47.150
6	Myanmar	-	36.000	-	-	-	36.000
7	United Kingdom	-	-	-	-	20.000	20.000
8	UAE	-	-	19.160	-	-	19.160
9	Malaysia	-	15.929	-	-	-	15.929
10	Austria	-	-	-	15.350	-	15.350
11	Taiwan	-	14.000	-	-	-	14.000
12	Panama	13.908	-	-	-	-	13.908
13	China	12.000	-	-	-	-	12.000
14	Brunei	-	8.500	-	-	-	8.500
15	Vietnam	-	6.750	0.83	-	-	7.58
16	Australia	-	7.000	-	-	-	7.000
17	Netherland	-	-	-	1.400	-	1.400
	Total	160.708	567.297359	426.4344	146.812	199.140	1500.391359

Source: DICA (2018).

According to table (4.5), investors from seventeen countries invested in Thilawa SEZ are Japan, Singapore, Thailand, Republic of Korea, Hong Kong, Myanmar, United Kingdom, UAE, Malaysia, Austria, Taiwan, Panama, China, Brunei, Vietnam, Australia and Netherland. In 2014, Japan, Singapore, Panama and China invested US$ 160.708 million in Thilawa SEZ In 2015, total amount of invested by Japan and Singapore increased and Panama and China couldn't invest since 2015. Thailand, Hong Kong, Malaysia, Taiwan, Brunei, Vietnam and Australia were additional investing countries to Thilawa SEZ. Amount of invested increased to US$567.297 million in 2015.

The largest amount of total FDI to Thilawa SEZ is from Singapore and its invested amount was US $ 237.9 million in 2015. But, it decreased to US $26 million in 2018. It is found that FDI flow to Thilawa SEZ gradually decreased year by year because of insufficient infrastructure such as lack of skilled labor, not enough electricity. Also the investing countries keep watch to invest in Myanmar because of the changed government. Moreover, Japanese companies want to focus only on the existing firm to improve their investment.

4.5.3 Investment Permission of Thilawa SEZ by Different Zone (2014 – 2018)

The following table shows foreign direct investment permission into Thilawa SEZ from 2014 to 2018 by different zones.

Table (4.6) Investment Permission of Thilawa SEZ by Different Zone (2014-2018)

(US$ in Million)

No.	Type of Zone	2014	2015	2016	2017	2018	Total
		Amt US$	Amt US$	Amt US$	Amt US$	Amt US$	Amt US$
1.	Promotion Zone	122.308	385.18859	385.234	130.512	144.140	1117.3948
2.	Free Zone	38.400	182.1085	41.188	16.300	55.000	332.9965
	Total	160.708	57.297359	42.434	14.812	199.140	1500.39136

Source: DICA (2018)

Table (4.6) shows investment permission of Thilawa SEZ by different zone (2014- 2018). According to table (5.3), there are promotion zone and free zone in Thilawa SEZ. Investors are more interested in promotion zone. In promotion zone, the invested amount is US$ 122.308 million in 2014. In 2015 and 2016, the invested amount are US$ 385.18859 and US$ 385.234 respectively. After 2016, the invested amount is decreased to US$ 130.512 million in 2017 and US$ 144.140 million in 2018 respectively.

In 2014, the invested amount is US$ 38.400 million in free zone. In 2015, the amount is increased up to US$ 182.1085 million. The invested amount is decreased to US$ 41.188 million in 2016, US$ 16.300 million in 2017 and US$ 55 million in 2018 respectively. The investment is decreased after 2015. It is found that the FDI flow to Thilawa SEZ is gradually decreasing year by year because of not enough electricity and lack of skilled labor. Most of the firms aim to invest in manufacturing sector. Therefore, electricity is the main point in Thilawa SEZ.To meet increasing of power demand in Thilawa SEZ, 50MW dual fuel generators are already constructed in there. Because of the insufficient enough of supply gas, gas turbine generator (GT) are not operated in full efficiency.

4.6 SWOT Conditions of Thilawa SEZ

The following table showsthe strengths and opportunities identified by the Thilawa SEZ.

Table (4.7) TheThilawa SEZ's Strengths and Opportunities

Strengths	Good connectivity from Yangon	The Thilawa SEZ is connected to Yangon via the Kyauktan-Thanlyin Bridge and the Dagon Bridge Good alternative site from Yangon
	Good alternative site from Yangon	The Thilawa SEZ is located approximately 20 km from central Yangon; it will help to disperse congestion from the central area Proximity to manpower & ready labor
	Proximity to manpower & ready labor	The Thilawa SEZ will be able to obtain manpower (or potential manpower) from Kyauktan and Thanlyin Generally regular-shaped boundary
	Generally regular-shaped boundary	The Thilawa SEZ sits on a long, continuous stretch of land running north to south, so land plots can be developed
Opportunities	Future road and rail connectivity in the pipeline	Road networks are scheduled for an upgrade in the development plan for Yangon. Existing rail lines will also be upgraded in order to facilitate the transportation of passengers and freight to Thilawa Port and the Thilawa SEZ.
	UMRT system to be put in place	A UMRT system will be put in place in Kyauktan. This will improve connectivity between Kyauktan and the Thilawa SEZ.
	Existence of reservoirs	If developed properly, these could provide a green belt to Thilawa's industrial zones

Source: JICA Study Team

Moreover “weaknesses” and “threats” identified by the Thilawa SEZ can be seen in table (4.8).

Table (4.8) TheThilawa SEZ’s Weaknesses and Threats

Weaknesses	Landlocked location	The current location will not be able to meet demand for future expansion
	Bounded by existingdevelopments	This could impede integrated development and connectivitybetween the SEZ and outside
	Located in low-lying flood prone areas	Expensive retention ponds will need to be built to prevent flooding
Threats	Competition may pose some threat to business.	The Thilawa SEZ will face competition from Yangon’s pre-existing industrial zones

Source: JICA Study Team ((JICA), 2016)

CHAPTER 5

CONCLUSION

5.1 Findings

Myanmar is applying a market –oriented economy and democratic political system. Myanmar is located between China and India that are powerful neighbors. In 2018, Myanmar estimated population is 54046800. Myanmar owns the good assets of factors that are being a democracy country with the wish of many people, being an applied market-oriented economic system, and having many working population.

SEZs were implemented to create job opportunities, get a transfer of technology, and improve FDI in serving to develop the economy in Myanmar. This study finds that Thilawa SEZ contributes advantages such as good connectivity from Yangon, good alternative site from Yangon, proximity to manpower and ready labor, and generally regular-shaped boundary. As establishing Thilawa SEZ, many opportunities created for Myanmar citizens.

It also found that all necessary infrastructures for investors are made available in the Thilawa SEZ. Services for liquid waste, solid waste and industrial waste management are also readily available. International logistic centers are also located in the Thilawa SEZ that makes investors easy for domestic and international logistic arrangements, imports and exports.

As one of the main ports is just next to the Thilawa SEZ, transportation time of cargos for exports and imports can tremendously be shortened. As the airport is located at around 30 kilometers away from the Thilawa SEZ, it is convenient for investors traveling frequently and also for the transportation of air cargos. Myanmar present business circumstances are not sufficient to attractFDIin terms of economic and social infrastructure.

5.2 Suggestions

The internet system must be performed better to facilitate communications with foreign banks for SEZs. Given incentives must be continued carrying to strengthen for legal regulations, investors and friendly developers.Implementation of SEZ should be ensured priority in administering the access to FDI to get the economic development as Myanmar

The infrastructure such as road, bridge, port, airport and electricity are required in establishing SEZs. The state should implement for the necessary infrastructure. The environment should be worked with unaffected system for necessary electricity. The government should provide enough electricity for firms in Thilawa SEZ.

At the moment, there is no big water reservoir near Yangon City or Thilawa area. In the future,public support is needed to develop source of water supply with consideration of consistent development of The Great Yangon area.

Gradual development is required for the sewerage system in line with the water supplydevelopment. At the moment, SEZ and port are using individual water treatment residential housing area need to use septic tanks, but in the future, public support is necessary.

Solid waste must be managed by the public administration and local institutions as they aremanaged presently.In conjunction with the development of Thilawa SEZ and Thilawa Port, traffic volume to thenearby township is predicted to increase. Comfort and driving safety in the existing two-lane road from Thanlyin to Thilawa are major considerations. It is recommended to expand the existing road width.For rain drainage, prompt action by the public sector is needed to manage the rapidly growingurbanization.

Therefore, investment promotion requires the ability to maintain ongoing contacts with the private sector, the flexibility to adjust changing needs and the ability to establish long- term relationship with investors.Myanmar needs to prioritize two main areas: developing a targeted FDI strategy led by a high-performing agency and improving

Myanmar's business environment. In order to provide more specific guidance to potential foreign investors, some types of activities have been specified as open to foreign investment. A foreign investor may apply for and obtain a permit under the Foreign Investment Law for an economic activity not so specified, provided the foreign investor can explain how the activity would be mutually beneficial to Myanmar and the foreign investor.

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APPENDIX (A) Thilawa SEZ Map