Evolution of Myanmar Trade Structure and Foreign Direct Investment

KHIN MAR THET

Contents

Introduction

The objective of this study was to investigate the evolution of Myanmar's trade sector and foreign direct investment (FDI) inflows into Myanmar. The qualitative analysis based on descriptive studies uses secondary data from Myanmar governmental organizations, international organizations and other relevant publications. This study contains five sections; exploring the historical background of Myanmar trade structure, explaining trade flow and structure from 1988 onwards, presenting an overview of trade patterns and policy, reconciling the relation between Myanmar trade policy and politics, and finally describing foreign direct investment in Myanmar.

Myanmar is located in mainland Southeast Asia and also situated on the dynamic crossroads linking Southeast Asia, Western China (Yunnan) and the Indian sub-continent. Myanmar has a potentially vast market and is a sub-regional economic nodal link progressing towards international integration. At the beginning of the sixteenth century, during the times of Burmese kings, Myanmar traded with neighboring Southeast Asian countries and exported mainly rice to European countries (Myan Than (1992), p 6). When the British annexed Myanmar in 1886, the country adopted a laissez-faire system with free trade. After the Revolutionary Council took power in 1962, the government introduced an import substitution industrialization (ISI) policy to encourage foreign investment.

In 1998, under the market-oriented economics system, government liberalized trade and set three basic categories of trade: trade, transit trade, and barter trade (Myat Thein (2004)). Though the government stated that export promotion and import substitutions would be the main planks of trade policy, export rules and regulations were revised during 1998-99. After the 2010 election, the democratic government adopted an open-door policy to create more economic opportunities. At the same time, Myanmar passed trade liberalization and had a strong desire for free and fair trade with the rest of the world. Myanmar has adopted bilateral trade policies as well as testing multilateral trading policies in practice. The composition of both export and import changed after 2010 onwards.

Historically, Myanmar has been familiar with foreign investment and external business operations since the seventeenth century. Foreign direct investment has played a significant role in the recently industrializing countries of Southeast Asia. Singapore, Malaysia, Hong Kong, China, and Thailand have been large recipients of FDI inflow since 1985. Myanmar's FDI inflow has greatly increased since 1988. Most of the investment come from Asia Pacific and Association of Southeast Asian Nation (ASEAN) countries. Most of the FDI was in the primary (mostly agricultural) sector, the secondary (manufacturing) sector was second and the tertiary (services) sector was third during the SLORC government period between 1988 and 1997. After several burdensome trade restrictions were lifted in 2016, the business environment is set for dramatic improvement. The resultant new environment has substantially eased the way for international trade and investment and has provided a better selection of business partners. Myanmar is now encouraging an export-driven growth strategy through promoting FDI inflows. This study seeks to highlight the evolution of Myanmar's trade structure and foreign direct investment to promote economic development.

1. Historical Background

After the British annexation of Lower Burma in the early 1850s, Upper Burma controlled foreign trade, and Lower Burma adopted a free trade policy. Mali (as cited by Myat Thein (2004)) said, "Laissez-faire and competitive enterprise, two adjuncts of Anglo-Saxon liberalism, were the basic principles of commercial policy of British rule in Burma. As the Suez Canal opened in 1869, Myanmar had some experience in foreign trade as an export economy and the largest rice exporter in the world at the time. The general trade patterns of Myanmar and other Southeast Asian countries were the same at the time.

In 1957, U Nu welcomed the active participation of private enterprises in the national economy by guaranteeing them against nationalization for ten years and the government discouraged all economic activities of foreigners. Myanmar's trade sector flourished considerably with 11 agricultural products accounting for about 44% of total import, and an estimated 50% of GDP being related to export in parliamentary democracy period. As for the composition of export, rice products became more prominent in the post-war years than in the pre-war period. Rice was the major earner of foreign exchange and accounted for more than 50% of export earnings and forest products, mainly teak, came to be the second most important export. In 1957-58, the trade surplus disappeared or became minimal level due to the declining unit value of export. Many studies mentioned that the commercial policy of the government to levy very low tariffs on the import of industrial raw materials and machinery led many entrepreneurs to set up small-scale factories to evade the relatively higher tariffs on finished goods and these industries were very import dependent import substituting industries. Table 1.1 compares the composition of trade between 1938-39 and 1962-63. Rice and rice products were by far the largest portion of trade.

Table 1.1 Composition of Trade (1938-1962, %)

Products	1938-39	1962-63
Rice and Rice Products	46.7	67.3
Other Agricultural Products	6.7	17.2
Oil	22.8	-
Timber	6.9	10.5
Metals and Ore	11.9	3.3
Others	5.0	1.7
Total	100	100

Source: Myat Thein (2004) Economic Development of Myanmar, p 31

After the Revolutionary Council took over power in 1962, the government adopted the "Burmese Way to Socialism" as its political ideology and pursued a self-reliant socialist economy. The government controlled the trade sector as a monopoly handled by state producers. Export were indirectly taxed by maintaining national buying prices of commodities below their international prices by State Owned Economic Enterprises (SEE). Import were managed under government priorities and the availability of foreign exchange. However, rice export fell sharply, and this decline directly led to a drastic decline in export earnings and indirectly led to a decrease in import, savings, investment, and growth in GDP. The value of import was mainly determined by export revenues due to the government neither eager to take official development assistance (ODA) nor to borrow substantially from abroad. The shortage of foreign exchange limited the amount of consumer goods that could be imported, and a black market appeared. External trade by the private sector was conducted by market-determined parallel exchange rates (Mya Than and Myat Thein (2004)). In the early 1980s, Myanmar's external trade direction changed slightly. The economic situation in the country had worsened, and it gave rise to three distinct economies: the nominal official economy, and two *hmaung-kho* (literally: "taking refuge in the dark") black-market economies in 1967 (Myat Thein (2004)).

2. Trade Flow and Structure from 1988 onwards

2. 1 Trade Flow and Structure in Market-Oriented Period

After the State Law and Order Restoration Council (SLORC) government took over political power in 1988, it introduced a market-oriented economic system and became outward-looking in orientation. The

SLORC government set encouraging private investment and entrepreneurial activity, opening the economy to foreign direct investment and promoting export as the main objectives of economic reforms. In 1989 foreign trade was liberalized to allow private participation and an "open-door" policy towards FDI and foreign trading firms. The state monopoly on both domestic and foreign trade was abolished, making way for private trading (Tin Maung Maung Than (2007)). Exporters and importers had permission to be registered and getting permission for foreigners to set up companies, opening the economy to direct foreign investment and promoting export were key points for trade development.

The government introduced an "import first and export later" system, allowing foreign companies to import commodities for sale on a consignment basis, In 1996, the government decided on three basic principles to guide trade policy: Trade activities 1) should be in the interest of the State and the people, 2) should not be a burden on the people, and 3) should envisage a long-term stable trading system rather than gaining short-term profit. The "Import first and export later" scheme has varied over time due to various economic and political situations. Some export products such as agricultural products, forest products, petroleum products, and precious stones and minerals are controlled by SEEs. Importers can import all the same products that are controlled by importing SEEs and the Ministry of Commerce. The official exchange rate only applies to within the public sector, and the private sector has no chance for any allocation of foreign exchange at the official exchange rate. It was difficult to conduct normal trade and economic relations with the outside world at the official exchange rate. However, the open-door policy generated significant changes and trade volume with neighboring countries expanded.

2. 2 Trade Flow in the Democratic Government Period (2011-2015)

While adopting a free trade policy, the new democratic government made many reforms to all sectors of the economy including trade. To promote the external sector and accelerate integration into the world economy, the government tried to open the economy more freely and revised trade-related legislation such as preparing a competition law, a consumer protection law, and comprehensive intellectual property legislation. To develop trade, the government set four main objectives: 1) To support internal and external trade activities for the economic development of the country, 2) To upgrade the commercial efficiency of public and private trading houses, 3) To increase the foreign exchange earnings of the country by export promotion, and 4) To encourage the trade-related activity of cooperative and private entrepreneurs. The government formalized border trade by designating official points of entry and setting up customs and banking facilities.

Table 2.1 shows import increasing over time and the trade balance shows a deficit consecutively from 2012-13 onwards. Export volume also increased considerably although import increased parallel to export and have generated a long-term trade deficit. Currently, import is steadily increasing, and the trade balance has been in deficit up to January 2018, although the deficit gap has slightly decreased compared to 2016-17. An export value smaller than import value for two years and a trade balance still in deficit shows Myanmar was still a high importer of capital goods and intermediate goods during those years.

Table 2.1 Myanmar External Trade (2011-12 to 2017-2018 January) US $ in millions

Years	Export	Import	Total Trade	Surplus/Deficit
2011-2012	9,135.6	9,035.0	18,170.6	Surplus
2012-2013	8,977.0	9,068.9	18,045.9	Deficit
2013-2014	11,203.9	13,759.5	24,963.4	Deficit
2014-2015	12,523.7	16,633.1	29,156.8	Deficit
2015-2016	11,136.9	16,577.9	27,714.8	Deficit
2016-2017	11,999.0	17,211.0	29,210.0	Deficit
2017-2018 (JAN)	11,912.0	15,398.0	27,310.0	Deficit

Source: Myanmar Customs Department

Table 2.2 Myanmar Export Structure (2013-14 to 2017-18 January) US $ in millions

Commodity	2013-14	2014-15	2015-16	2016-17	2017- 18 (JAN)
Agricultural Products	2661	2920	2616	2928	2525
Animal Products	15	8	8	11	34
Marine Products	516	421	469	582	562
Mineral Products	1339	1499	968	1011	1254
Forest Products	948	94	213	247	179
Manufactured Products	4638	6525	5734	5478	5469
Others	1087	1057	1129	1743	1891
Total Export	11204	12524	11137	11998	11912

Source: Myanmar Customs Department

Table 2.2 shows the share of manufactured products has increased to roughly 50% of total export volume. Agricultural products were the second largest export category during the listed period, and mineral products decreased sharply in 2015-16. The US released its sanctions, which gave Myanmar favorable trade conditions such as a considerable improvement in the industrial sector and an increase in FDI inflows, and manufactured products were the largest export category. However, agricultural products still dominated with the second largest share in Myanmar's export structure.

Table 2.3 shows capital good and intermediate goods import are higher than other categories due to

Myanmar's need to set up and develop the industrial sector and to promote export. capital goods and consumer goods import slightly decreased from 2016-17 to 2017-18 January and the total value of import also decreased.

Table 2.3 Import Structure of Myanmar (2013-14 to 2017-18 January, US $ in millions)

Commodity	2013-14	2014-15	2015-16	2016-17	2017-18 (JAN)
Capital Goods	5692	8038	8254	6920	5451
Intermediate Goods	5684	5682	4821	6165	6200
Consumer Goods	2384	2913	3503	4126	3747
Total Import	13760	16633	16578	17211	15398

Source: Myanmar Customs Department

2. 3 Trade Flow in the Current Democratic Public Government Period (2015 onwards)

After the November 2015 election, the National League for Democracy (NLD) become the country's first civilian government and has allowed for significant economic reforms in both domestic and external sectors. Trade and investment in Myanmar have soared, buoyed by ongoing efforts to liberalize the economy and a successful political transition. The export promotion policy of the government was the extension and exploration of foreign markets to promote the export of traditional and value- added products by utilizing natural and human resources effectively.

Table 2.4 Top Ten Trade Partners (2015-16 to 2018 January) US$ in millions

Country	2013-14	2014-15	2015-16	2016-17	2017-18 (Jan)
China	7033	9712	10992	10805	9684
Thailand	5666	5711	4866	4288	4074
Singapore	3604	4895	3696	2967	3100
Japan	1809	2305	1846	2032	1558
India	1636	1340	1712	1943	1257
Malaysia	948	1009	750	980	931
Indonesia	499	636	742	827	840
Korea	1570	863	657	866	635
Usa	104	544	197	691	618
Vietnam	281	321	347	494	592

Source: Myanmar Ministry of Commerce

Import policy emphasized the importation of capital goods as a priority, raw materials for production, other essential products to provide for public health and export promotion. The business environment was set for dramatic improvement after several heavy trade restrictions were lifted in 2016. Myanmar was added to the US's Generalized System of Preferences (GSP), which exempted US-bound export from high import taxes, which were another significant trade restriction. Although China has been the largest trade partner for Myanmar for a long time, its overall significance has decreased compared to previous years. Thailand is the second and Singapore is the third largest trading partner at present. Bilateral trade with Japan increased in 2017-1018. (see Table 2.4).

3. Overview Trade Pattern and Policy

The importance of foreign trade in Myanmar can measured by the "trade openness ratio", which estimates how an economy is open to attract foreign trade. Foreign trade did revive during the parliament regime overthrown in 1962. With the collaboration of some enlightened socialist scholars, the government drafted an economic plan that strongly advocated an "outward-looking" development strategy, in part inspired by the strong free trade views of Dr. Hla Myint. This plan was, however, rejected. Until 1988, Myanmar adopted an inward-looking and self-reliant pattern of development policy, all the vital means of production and distribution were nationalized, and foreign trade became a monopoly of the state. Since foreign trade came to be a monopoly of the state in 1962, export volume and value declined significantly from 1964-65 to 1970-71. Myanmar's evolution of trade policy and structure from 1990 onwards is shown in Table 3.1 with some facts to compare each period's policy and structures.

The long-term plan began with a Four-Year Plan in 1974 which was together comprised the Twenty-Year Plan (1974-75 to 1993-94). Although it emphasized industrialization, it allowed spending on the agricultural sector and addressed inefficiency in public sectors (Mya Than and Joseph L.H. Tan (1990)). Another reason for export volume decreases in that period was the 1973 world oil price shock, which hit the Myanmar economy and external sector. Export volume rapidly decreased from US$113 million in 1973-74 to US$53 million in 1974-75. In the early 1980s, the direction of Myanmar's external trade showed little change from the past. (see Figure 3.1 and Table 3.2).

After 1988, the Myanmar government undertook reforms intended to enhance the transparency of trade-related policies and regulations, thereby increasing public accountability. A Foreign Exchange Certificate (FEC), equivalent to the US one-dollar value, was introduced in February 1993. In April 2012, the government formally abolished the dual exchange rate system, which had hindered foreign trade and investment. The current exchange rate is a managed "float regime" that closely reflects the true market rate.

Nevertheless, the private financial sector, foreign exchange market, and regulatory framework remain significantly underdeveloped.

Table 3.1 Evolution of trade policy in Myanmar (1990 onwards)

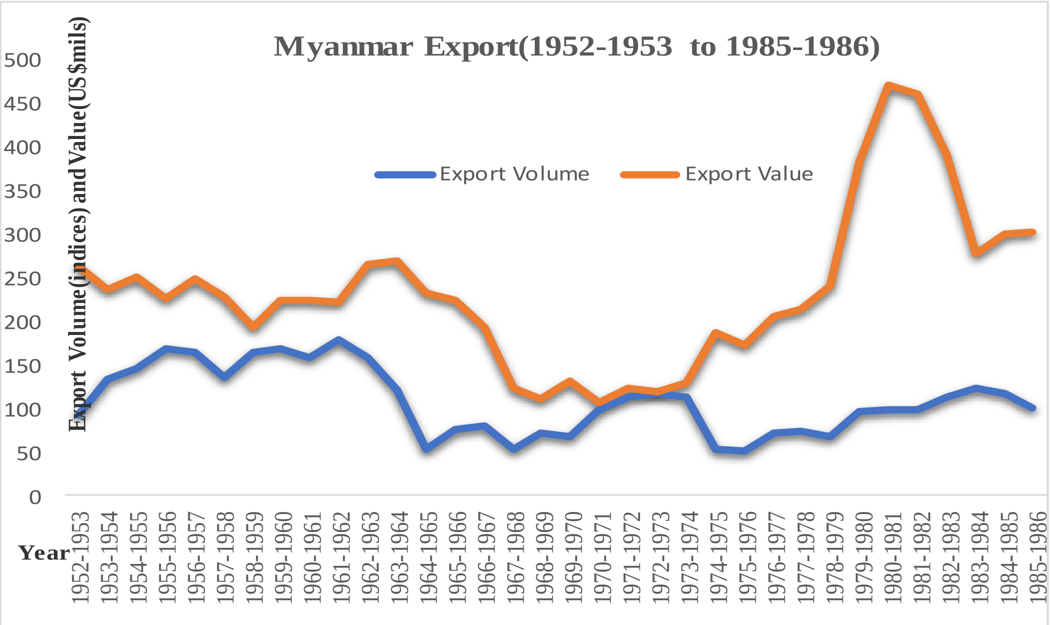
Years	Economic System	Trade policy	Instruments of Trade	Sanctions
1990-2010 Military Regime	Market oriented economic system	Liberalization of domestic and foreign trade, active participation of private business in foreign trade	"Import first and export later" scheme, export and import on a consignment basis	EU-US sanctions
2011-2015 Democratization	Market economic system	Export promotion free trade policy (open-door policy) Inviting foreign direct investment to develop trade to promote export	Reduction and exemption of commercial tax on export, income tax on income from CMP export, state trading monopolies abolished	EU reinstated GSP, US allows resumption of the GSP
2016 to present Democratic Public Government	Market economic system	Free trade policy export driven growth strategy	To promote exporting value-added goods and finished goods instead of exporting raw materials	Sanction release

Source: Author's creation

Dunn and Mutti (2004) stated that a country's terms of trade (i.e. the ratio of an index of a country's export prices to an index of import prices) are determined in the world markets for its export and import. Myanmar is a primary products exporter and manufactured and investment goods importer at unfavorable terms of trade. Many developing countries experience that their terms of trade are unstable because they export large volumes of a small number of primary products into highly competitive markets. Moreover, sometimes, the home country cannot be offset by a nominal depreciation or devaluation of money due to rapid inflation.

From 1980 to 1985, Myanmar's export volume and values roughly followed this trend. After the military government took power in 1988, export values were larger than the export volume.

Figure 3.1 Myanmar Export (1952-1953 to 1985-1986)



Sources: Myat Thein (2004) Economic Development of Myanmar, page

Table 3.2 External Trade (1948-49 to 1985-86)

Year	Export Volume	Export Value	Import Value	Balance Of Trade
	Indices (base year 1985=100)	US $ in millions	US $ in millions	(+, -)
1948-1949		229	176	53
1949-1950		222	113	109
1950-1951		139	91	48
1951-1952		212	137	75
1952-1953	93	264	192	72
1953-1954	134	238	178	60
1954-1955	147	251	204	47

1955-1956	169	227	181	46
1956-1957	165	250	198	52
1957-1958	136	229	297	-68
1958-1959	166	194	204	-10
1959-1960	170	224	223	1
1960-1961	159	224	259	-35
1961-1962	179	222	215	7
1962-1963	158	265	219	46
1963-1964	122	270	234	36
1964-1965	54	233	271	-38
1965-1966	77	225	247	-22
1966-1967	80	194	158	36
1967-1968	53	124	124	0
1968-1969	73	111	114	-3
1969-1970	67	132	165	-33
1970-1971	98	108	155	-47
1971-1972	114	124	168	-44
1972-1973	118	120	133	-13
1973-1974	113	130	106	24
1974-1975	53	188	176	12
1975-1976	51	173	197	-24
1976-1977	73	206	177	29
1977-1978	75	214	241	-27
1978-1979	67	242	307	-65
1979-1980	97	383	319	64
1980-1981	98	472	353	119
1981-1982	99	462	373	89
1982-1983	114	391	409	-18
1983-1984	124	278	268	10
1984-1985	118	301	239	62
1985-1986	100	303	283	20

Sources: Myat Thein (2004) Economic Development of Myanmar, page -75.

Table 3.3 External Trade (1980-2017)

Year	Export Volume		Import Volume		Export Value	Import Value	Balance of Trade
	Change (%)	Indices Base year 1985=100	Change (%)	Indices Base year 1985=100	US $mils	US $mils	US $mils
1980	17.041	100.29	4.094	100.79	415	785	-370
1981	1.596	101.92	11.043	113.30	446	823	-377
1982	-0.17	101.74	11.954	128.69	391	409	-18
1983	15.579	120.52	-18.702	108.41	378	268	110
1984	-10.593	108.98	-3.005	105.25	301	239	62
1985	-8.975	100.00	-5.249	100.00	303	283	20
1986	19.564	119.56	-18.513	81.49	288	304	-17
1987	-18.677	97.23	0.281	81.72	219	268	-50
1988	10.701	107.64	-20.77	64.74	147	244	-97
1989	27.734	137.49	-8.459	59.27	215	194	20
1990	14.456	157.37	47.997	87.71	409	668	-259
1991	-2.774	153.00	-8.642	80.13	527	1,068	-541
1992	37.068	209.71	-0.478	79.75	684	1,046	-362
1993	15.751	242.75	41.806	113.09	864	1,280	-416
1994	-2.663	236.28	11.846	126.49	940	1,538	-598
1995	-2.479	230.43	29.536	163.85	1,198	2,342	-1,144
1996	16.268	267.91	8.038	177.02	1,183	2,678	-1,495
1997	27.731	342.20	29.123	228.57	1,132	2,862	-1,729
1998	28.34	439.19	25.462	286.77	1,139	2,358	-1,220
1999	54.634	679.13	-2.607	279.29	1,393	2,528	-1,134
2000	30.39	885.52	-10.065	251.18	2,174	3,221	-1,047
2001	40.772	1246.56	21.467	305.10	2,901	2,799	102
2002	9.799	1368.71	-15.563	257.62	2,956	2,856	100
2003	-3.054	1326.91	-6.412	241.10	2,656	2,780	-123
2004	-2.16	1298.25	-16.748	200.72	2,896	2,741	155

2005	17.46	1524.93	-2.9	194.90	3,765	2,707	1,058
2006	41.535	2158.30	44.598	281.82	4,415	2,887	1,528
2007	15.38	2490.25	81.707	512.09	5,146	3,790	1,356
2008	0.285	2497.35	21.133	620.31	6,650	4,652	1,997
2009	13.116	2824.90	2.334	634.79	7,006	3,669	3,337
2010	8.958	3077.95	12.711	715.47	7,704	4,278	3,426
2011	8.597	3342.57	23.005	880.07	8,208	8,712	-504
2012	1.008	3376.26	18.071	1039.10	9,160	8,004	1,156
2013	10.747	3739.11	17.258	1218.43	11,543	12,200	-656
2014	-5.318	3540.26	-13.705	1051.45	11,551	16,459	-4,907
2015	-3.02	3433.34	14.028	1198.94	12,247	17,132	-4,885
2016	2.72	3526.73	6.143	1272.59	11,725	15,921	-4,196
2017	10.444	3895.06	10.015	1400.05	11,158	18,051	-6,893

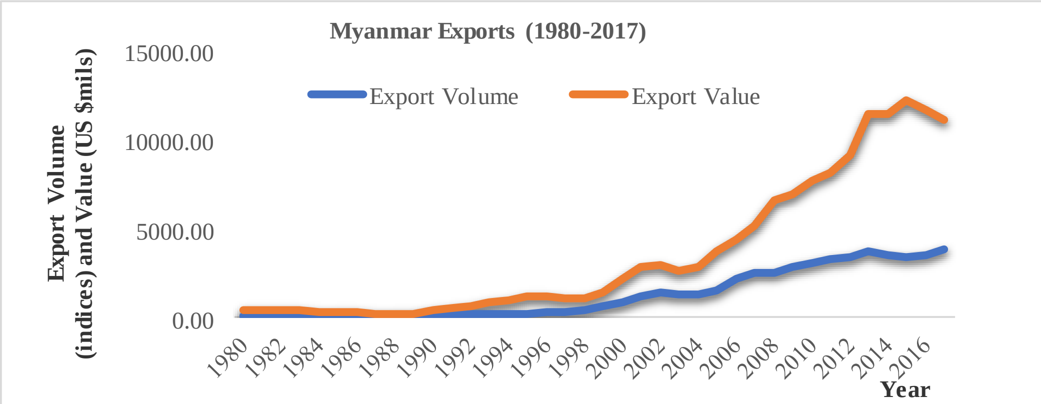
Sources: IMF, Direction of Trade Statistics (May 2018), World Economic Outlook Database (Sept, 2011) and World Economic Outlook Database (April, 2018). Following the *IMTS 2010* methodology, export is recorded on free-on-board (FOB) basis, and import are recorded on cost, insurance, and freight (CIF) basis. Reported by current price.

Table 3.3 shows Myanmar's export and import volumes from 1980-2017. This result in higher costs and lowers trade competitiveness for Myanmar's products generate that Myanmar's export are relatively low price primary products and import are high-price manufactured products. To have more favorable terms of trade, the government needs to encourage export processing and manufacturing industries or export promotion. Another weak point for exporters is that they are unsure of being able to get their goods into stable markets in Western countries due to the severe economic sanctions of the US and EU since 2003.

Basically, Myanmar's main export products are primary goods such as rice, pulse and beans; forest product like teak; and natural gas (since the 1990s). Garment export expanded significantly in 1999-2000 as well as natural gas export from offshore fields. Natural gas and garments together contribute over 40% of Myanmar's export earnings. Garment export have high import contents such as textiles, cloth, yarn and machinery. The main products exported in 2014-15 were gas, garments, base metals and ores. The main products imported were non-electric machinery, transport equipment, refined mineral oil and base metals. Myanmar's main manufactured product export are natural gas and textiles. Its largest mineral export is jade and is one of the world's largest producers of high quality, sought after jadeite. (see Figures 3.2 and 3.3.)

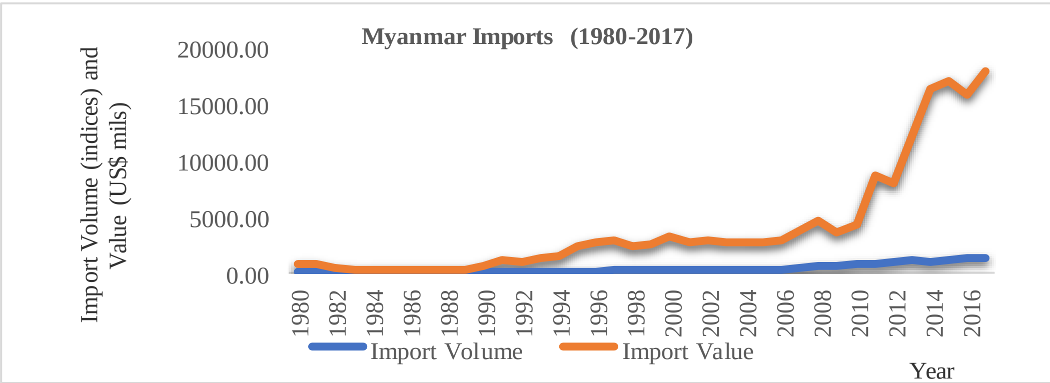
In 1990, the government imposed many restrictions on trade by controlling foreign exchange, called the "export first and import second" policy. This policy prompted traders to adjust misreporting of trade in accordance with the supply and demand for export earnings. Considering that a multilateral trading system can bring a wide range of opportunities for Myanmar's export and overcome its supply-side constraints, Myanmar's trading policy was based on ASEAN. The Democratic government adopted an export promotion

Figure 3.2 Myanmar Export (1980-2017)



IMF, World Economic Outlook Database (2011, Sept) and (2018, April)

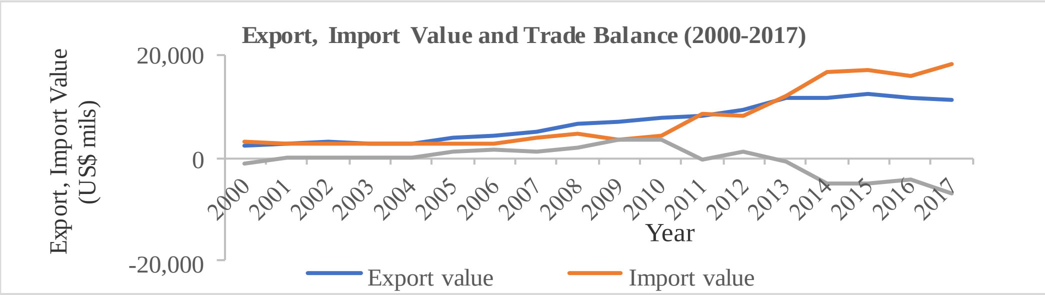
Figure 3.3 Myanmar Import (1980-2017)



Source: IMF, World Economic Outlook Database (2011, Sept) and (2018, April)

free trade policy and invited foreign direct investment to promote the trade sector. Trade volumes in Myanmar have soared over the past decades.

Figure 3.4 Export Value, Import Value and Trade Balance (2000-2017)

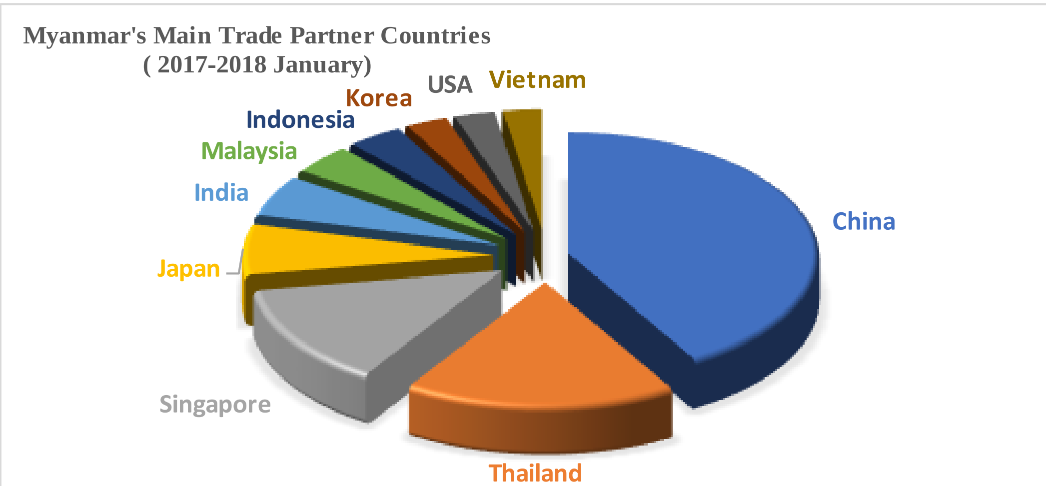


Source: IMF, World Economic Outlook Database (2018, April)

The European Commission (EC) (The Report: *Myanmar 2017*) reported the Myanmar's total trade rose by 32.8%, 28.1% and 24.5 % in 2010, 2011 and 2012, respectively. Trade continued recording double-digit growth in 2013-14. Import growth drove growing trade volumes, as well as an expanding trade deficit, and the EC reported that import to Myanmar rose significantly during that period. Manufactured product export increased in export share to roughly 50% of total export volume. Agricultural export was the second largest category in 2013-14, and mineral products decreased sharply in 2015-16 (Figure 3.4).

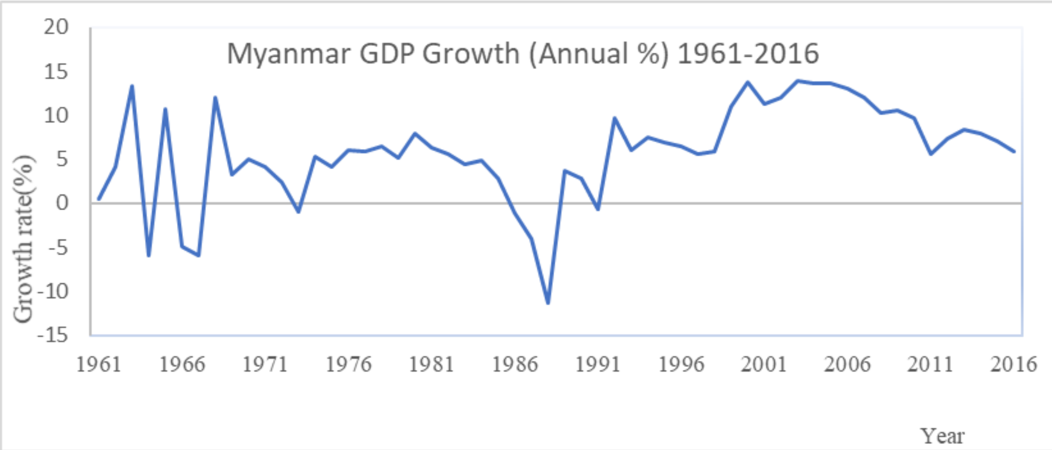
Myanmar's main trade partners are Asian countries, with China and Thailand being the most important export destinations. The EU has had sanctions in place since the 1990s. Japan did not follow the EU sanctions but limited the amount of assistance provided to Myanmar. US and EU sanctions strongly impacted and inhibited the economy and held back certain trade, investment and business activities. After heavy trade restrictions were lifted in 2016, the business environment was set for dramatic improvement. (Figure 3.5).

Figure 3.5 Myanmar's Main Trade Partner (2018 - 2018 January) US$ in millions



Source: Myanmar Customs

Figure 3.6 Myanmar GDP Growth (Annual %) 1961-2016



Source: World Bank

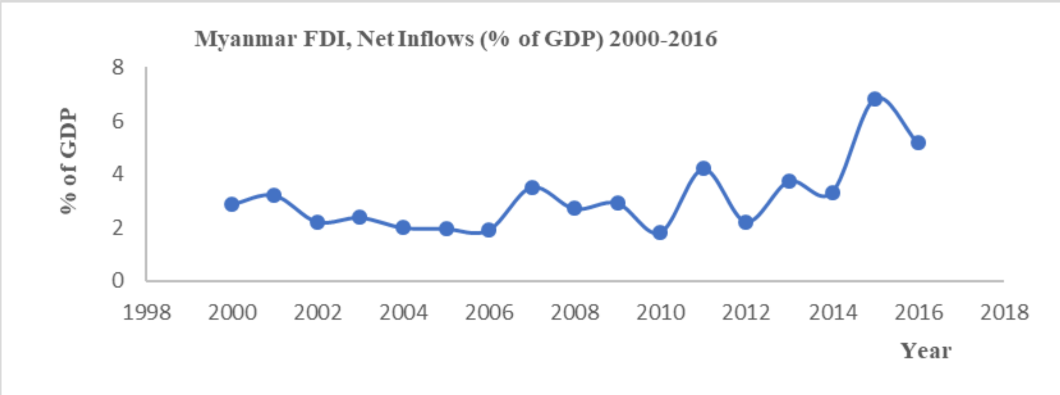
Export volumes are tied to explain business cycles, rising with expansions and declining in recessions. Myanmar's GDP growth rate substantially declined in 1964, 1967 and 1988. The import substitution industrialization policy not only inhibited the promotion of export, but imports as well. This may have had a strong impact on the nation's GDP growth but then recovered by 1968. Because of the political instability in 1988, the GDP growth rate seriously dropped. However, it recovered starting in 1989 although it slightly fluctuated throughout the 1990s. Export and import values have dramatically risen since 2000 and especially export values substantially increased during that period. In 2011, the GDP growth rate declined but after that slightly changed until 2016 (Figure 3.6).

5. Foreign Direct Investment in Myanmar

5. 1. Background

After the annexation of Lower Burma to British India, there was an extensive influx of foreign capital, business, and laborers. Famous Burmese teaks attracted European countries such as the Portuguese. Before the Second World War, Myanmar received a very high flow of foreign investment and operated a huge foreign trade sector compared with other Southeast Asian countries. In 1955, The Anti-Fascist People's Freedom League (AFPFL) government invited foreign and local private businesses to operate in designated industries, guaranteed against nationalization for a period of ten years. After enacted 1962 the Burma Investment Act, the policy of "going it alone" under the mistaken notion of self-reliance significantly limited the size of total investment and the rate of economic growth (Tun Wai, as cited by Myat Thein, 2004).

Figure 4.1 Myanmar FDI, net inflows (% of GDP) 2000-2016



Source: World Bank

Figure 4.1 shows Myanmar FDI net inflows (% of GDP) during 2000-2016. Net inflows as a percentage of GDP have been trending upwards with slight fluctuations during the democratic government period from 2011-2016. The government has striven for many economic reforms and has actively invited foreign investors to enter Myanmar, thus the FDI inflows have increased later in the period shown.

To shape the market-oriented economic policy, the government enacted the Foreign Investment Law (FIL) in November,1988. FIL aimed to bring in more foreign capital and offer investment incentives and guarantees to foreign investors. FIL was revised in 2012. To overcome infrastructure bottlenecks, attract FDI and increase export, the Myanmar Economic Zone Law was enacted in 2011. This law provided additional tax incentives for investment in several strategic locations along Myanmar's 1,300-mile-long coast.

4. 2. Recent FDI trends

FDI has increased based on the development and diversification of the economy from agriculture and natural resources into one oriented more towards manufacturing and services while reintegrating into the world economy. Not only local and domestic investment increased but foreign direct investment also surged. FIL was revised in 2016 to improve foreign capital and import technology required to improve the Myanmar economy. The Myanmar government is promoting and striving to implement a path of economic reform and is well placed to learn from the experiences of other ASEAN member countries about developing and facilitating investment in crucial sectors.

Recently, the civilian government of Myanmar promulgated the new Myanmar Investment Law (MIL), signed into law by the president on October 18, 2016. MIL combines the CIL with the FIL. The law aims to transform Myanmar’s current investment framework, merging regulations for foreign and domestic investors into a single law, as well as create a new project approval processes, tax incentives and land use regulations aimed at bolstering flagging foreign direct investment flows. The new law represented a critical component of economic liberalization, with Reuters reporting that major companies were waiting to see the legislation before committing funds to new projects.

Table 4.1 Permitted Foreign Direct Investment (1988-89 to 2017-18) US$ in millions

Investment	1988-1989 to 2010-2011		Up to 2017 (December)		Total	
	no.	amount	no.	amount	no.	amount
FDI	454	36,038	968	39,096	1422	75,134
SEZ	-		87	1,223	87	1,223
Total	454	36,038	1055	40,319	1509	76,357

Sources: Myanmar Directorate of Investment and Company Administration (DICA).

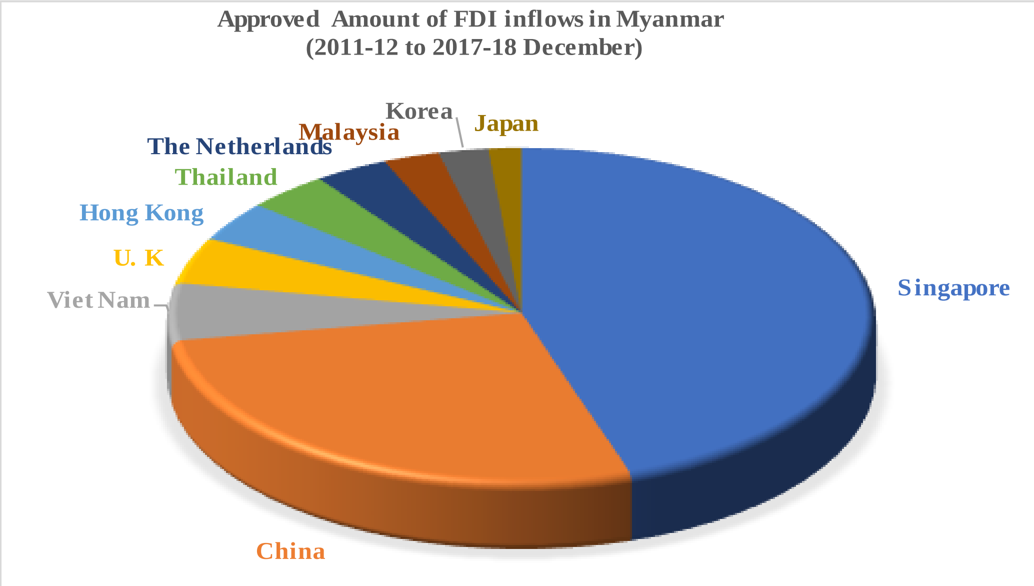
The Directorate of Investment and Company Administration (DICA) shows that the total permitted amount of FDI for the period from 1988 to December 2017 reached US$ 76.3 billion (see Table 4.1). A new strategy to attract investment along with a growing percentage of inward investment has gone towards Myanmar's new special economic zones (SEZs). The SEZ Law outlines investor incentives at three SEZs operating in Myanmar: Thilawa, Kyaukphu, and Dawei. As the permitted amount of foreign investment, oil and gas sector is the largest, manufacturing is the second, and power is the third largest position during 2011-12 to 2018(December) that shown in Table 4.2.

Table 4.2 Yearly Approved Amount of Foreign Investment (by Sector) US$ millions

Sector	2015-16	2016-17	2017-18	2011-12 to 2018 (Dec)
Manufacturing	1069	1180	1556.48	7568
Power	360	910	363	6428
Oil and Gas	4818	-	-	8595
Hotel and Tourism	288	404	154.44	1940
Mining	29	-	1.31	104
Agriculture	7	-	131.29	208
Livestock & Fisheries	8	97	23.81	257
Transport &Communication	1931	3081	653.1	8535
Real Estate	729	748	1062.44	3760
Industrial Estate	10	-	34.04	44
Other Services	236	231	804.42	1662
Total	9485.62	6649.81	4784.31	39101

Sources: Myanmar Directorate of Investment and Company Administration (DICA)

Figure 4.2 Approved Amount of FDI Inflows into Myanmar (2011-12 to 2017-18) US$ in millions



Sources: Myanmar Directorate of Investment and Company Administration (DICA)

With many changes of policy reform concerns with foreign investment, approved investment increased in current period. Figure 4.2 and Table 4.3 show the approved amount of FDI inflows in Myanmar from 2010-11 to 2017-18 by country. Singapore provided the largest FDI and Thailand was the second most invested country in Myanmar. The top 10 investing countries are Asian countries except the UK and the Netherlands.

Table 4.3 Yearly Approved Amount of Foreign Investment (by country) US$ millions

Country	2015-16	2016-17	2017-18	2011-12 To 2017-18 (Dec)
Singapore	4251	3821	1726	16854
China	3324	483	1291	10243
Viet Nam	5	1386	19	2075
U. K	75	54	209	1679
Hong Kong	225	214	212	1468
Thailand	236	423	108	1423
The Netherlands	438	5	533	1288
Malaysia	257	21	21	979
Korea	128	66	233	872
Japan	220	60	96	576

Sources: Myanmar Directorate of Investment and Company Administration (DICA).

4.3. Future FDI Trends

Myanmar has many favorable factors to attract foreign investors' attention. It is strategically located between two economic giants, China and India, borders growth markets like Thailand. Myanmar has access to the Bay of Bengal as well as she is the second largest land area in Southeast Asia and a relatively youthful labor populous country. Some massive obstacle to attracting investment in the manufacturing sector are insufficient power, communications, roads, railways, bridges and ports. Yangon and Mandalay are the top two cities regarding population and the accumulation of companies that continue to attract new investments. It is highly probable that economic activity in Yangon will spread out to the Bago and Thilawa Special Economic Zones. Japan has given assistance to support infrastructure for the SEZs and to operate a one-stop service center in Thilawa to compete with other SEZs in neighboring countries and to attract many foreign companies. Thilawa's image as an SEZ has been developing and the amount of FDI in the Thilawa SEZ increased significantly in 2018. Japan is the largest investor country in the Thilawa SEZ. Economic experts expect that investors from the US and some European countries will invest in the Thilawa SEZ in the future.

Conclusions

Because of unstable policy, complicated political situations, the encouragement of foreign trade was hindered in the late 1990s. Myanmar has had some failures of achievability, reliability, suitability, simplicity, and stability in implementing trade policy. A multilateral trading system i.e. the system which allows large number of countries to agree to trade with each other. The World Trade Organization (WTO) is part of this system and it can bring a wide range of opportunities for Myanmar's export and to overcome its supply-side constraints. However, Myanmar's trading policy was based on ASEAN in past. According to the several factors assess on 2018's investment position, Myanmar was depressed by global commodity prices and reduce India's agriculture import quotas although Myanmar trade and investment has expanded rapidly since 2011. However, according to the Myanmar Report (2018), the new opportunities created by China's Belt and Rod Initiative are set to play a significant role in supporting Myanmar's trade and investment growth over the medium term. The decision demonstrated Myanmar's commitment to the World Trade Organization (WTO) policies and boded well for future liberalization (The Report, Myanmar (2013), Oxford Business Group). Attracting and benefit from FDI is a key challenge for Myanmar. Myanmar need to set appropriate general policies to enhance the economic growth. These are stable macroeconomic policy, effective financial markets, better infrastructure facilities, more reliable trade, and investment policy, supporting skilled labors to develop human resource development and so forth.

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