Introductory Chapter
Myanmar's Integration with Global Economy: Outlook and Opportunities

Hank Lim and Yasuhiro Yamada

Abstract

The first phase of BRC Research Report was published in 20013 entitled "Economic Reforms in Myanmar: Pathways and Prospects". The book was very well received and widely circulated throughout the region. This is the second phase of BRC Report entitled "Myanmar's Integration with Global Economy: Outlook and Opportunities" To report and analyse further Myanmar's integration with global economy, BRC commissioned eight chapters written by well-known regional scholars who are very familiar with updated development in Myanmar, to assess the outlook and opportunities facing Myanmar of the second phase of its strategy. What is the prospect for Myanmar in developing export-driven growth strategy after the lifting of sanctions by major Western countries? Would foreign direct investment (FDI) come to Myanmar following the introduction of new Foreign Investment Law to generate a much needed capital and technology to stimulate economic growth and employment? Equally important are the analyses of high-valued food production and supply chains and the role of Myanmar business conglomerates in the context of economic, trade, and investment liberalization. Would FDI and competition from multilateral companies in Myanmar domestic economy create the necessary economic benefits to generate economic competition and efficiency necessary to accelerate the rate of economic development and employment? Chapters are intended to provide clear explanations and analyses of various interrelated changes that may have perceptible implications to the second phase of Myanmar economic reform. A chapter on transition from informal to formal foreign exchange transactions was analysed based on evidence from export firm survey data. It is a bold attempt to provide clear implications to Myanmar's fragile financial and banking sector as a result of liberalization and deregulation of foreign trade and stabilization and the measured de-regulation of foreign exchange market. Two chapters were written on Myanmar's changing external political and economic relations with China and India which would have important implications to the process of Myanmar's economic reforms and development.

On June 19, President Thein Sein declared that the government had started the second phase of Myanmar’s reform strategy. The second phase of economic reform are the development of agriculture and all round development, balanced and proportionate growth among regions and states, inclusive growth and the emergence of reliable statistics and improvement of the statistical system. The strategy is the continuation of the first phase which was basically the opening of Myanmar economy and the following stabilization measures. The focus of this second phase of JETRO Bangkok Research Center (BRC) Report is on Myanmar’s Integration with global economy resulting from its economic opening and reform. With this objective, there are eight chapters in this BRC Research Report that are intended to provide important description and relevant analysis of the second phase of economic reforms in Myanmar.

Since the success of economic reforms is critically dependent on Myanmar’s policy measures to provide incentives for Foreign Direct Investment (FDI) and its export-oriented growth strategy, it is pertinent in the first chapter to examine the complex issues of FDI and export-based growth strategy. Two prominent economists who specialist on Myanmar, Toshihiro Kudo and Satoru Kumagai of Institute of Developing Economies (IDE) in Chiba, Japan, wrote an excellent article on this policy aspect. The authors rightly asserted that following the lifting of sanctions by major Western economies, Myanmar has an excellent opportunity to approach its economic development based on FDI-driven export-oriented growth strategy through East Asia’s production networks as adopted by Vietnam in the past two decades. This argument was based on a vast empirical evidence to indicate that no single country in East Asia has achieved rapid economic development without adopting this strategy. The positive effects of export-oriented growth strategy, however, are dependent on other critical policy elements such as gradually improving administrative and infrastructure, diversification of export products, employment creation, gradually depending less on imported intermediate inputs, transfer of technology and to spread their benefits to the national economy. It is the consistency and sustainability of export-oriented growth strategy that often having the negative spill-over implications that Myanmar government has to be constantly guard against of such possibilities. Experiences from other neighbouring countries are useful to learn from but as a late comer in development process, Myanmar has to base its economic policy on its unique country-specific and political, social and economic realities. For example, following the 2007-08 global financial crisis, export markets of major Western countries are not as open and liberal as in the past decades due to the existence of enormous public debts and financial stringency of these countries. It would make economic sense to have industrial policy that diversify its market for export and domestic market through balanced and proportionate growth among Myanmar's regions and states as embodied in the second phase of Myanmar's growth strategy.

In chapter 2, Koji Kubo focused on the export potential of Myanmar's export after the lifting of economic sanctions. By using gravity equation regressions using data from 10 Asian countries, the empirical results indicated that Myanmar's actual non-resource exports were one-fifth of their actual potential during 2005-2010. Kubo's study implies that the lifting of sanctions by Western countries could potentially enhance Myanmar's export, particularly on apparel export. There is no question about the potential increase of Myanmar's non-resource export as most of its exports would be directed to the US and European Union member economies as exports to neighbouring countries are generally constitute of the same labour-intensive product categories. As indicated in the preceding paragraphs that the viability and sustainability of export-oriented growth strategy for Myanmar depends on its diversification of export products as well as in exploiting the comparative advantage of its vast resource endowment. In addition, the gravity equation regression as used by the author did not fully take into account of the capacity of Western economies to import labour-intensive goods from developing countries following the aftermath of global financial crisis in 2007-08. Therefore, the potential export increase even with the lifting of Western countries' sanction must be carefully calibrated overtime.

With a view to evaluate the implications on foreign direct investment, Masami Ishida of Bangkok Research Center analysed and evaluated the introduction of Myanmar new Foreign Investment Law in chapter 3. The new Law was signed by President Thein Sein after it was passed by the National Assembly on November 2, 2012. Is the new Foreign Investment Law market-friendly? The author discussed the new Law on several points such as a reflection of political reforms, the number of days needed for the investment application process and one-stop service and the reflection of financial reform on the new foreign investment law. Tax incentives, negative lists, orientation for environmental protection and attitude of securing resources are also important elements to be considered in assessing whether the new Law is market friendly. With a view to maintain objectivity, the author compared the new foreign investment law with the old one and through a comparison with the related laws in Cambodia and Lao PDR. Through this comparison, Ishida concluded that the new Foreign Investment Law has shown improvements compared with the old one and it has become more market friendly. However, improvement of Foreign Investment Law is only the first step forward in attracting much needed FDI to Myanmar. Equally important is the effective implementation of the Law through a seamless administrative coordination among various Ministries and agencies that are responsible in implementing FDI in Myanmar, such as the issue of infrastructure, availability of relevant workers and access to land use. Often, the failure of attracting FDI lies not in the Law itself but it is attributed to the implementation details with respect to the issue of transparency, accountability and sustainability of rules and regulations pertaining to FDI. In this respect, Myanmar as a latecomer in development process can learn a lot from neighbouring countries that have successfully attracting FDI over decades. Country-specific and time-specific are different but there are basic underlying elements of success in attracting, implementing and sustaining FDI among countries in the region. Notable among these countries are Singapore, Malaysia, Thailand and more recently Vietnam.

The authors of chapter 4 used the case of domestic market-oriented in the food supply chains in Myanmar as an alternative opportunity to attract foreign direct investment in Myanmar. The paper argues the potential of local market-oriented foreign investment in high quality agriculture production in Myanmar. Opportunities of such investment comprise contract farming, technological transfer, marketing and branding as the market for high quality and safe food products hardly exists presently in Myanmar. Prior to military rule in Myanmar, Myanmar then Burma in the early sixties was known as one of the largest food exporters in Southeast Asia. The country is blessed with rich agriculture lands, plenty of water and fertile soil and has border with China and India with their huge populations. Due to favourable natural endowments, Myanmar can produce a variety of high value-added agricultural products. What missing in the food industry food chains are the imperfection of the rural economy and the low level of production, marketing and branding. The production of high quality agriculture products, contract farming alleviates the problem of asymmetric information between farmers and processors and marketing agents. This is the economic function in which foreign investors can play a very valuable role in providing high quality food production chains in Myanmar. For example, Thai agriculture conglomerate CP Group has extensively invested such undertaking in Myanmar. With opening of the economy and the influx of foreign direct investment, investment in high value-added agriculture products would become more viable and competitive. Attracting FDI is often interpreted as attracting foreign capital and know-how to invest in manufacturing sector. In the case of Myanmar, it is often considered investing in mining, oil, natural gas and other energy-related sectors. This chapter opens up a new outlook and opportunities for FDI to invest in Myanmar. The conclusion of this chapter is that the potential of foreign investment in contract farming of high quality agriculture products is favourable and promising.

Further detailed research works need to be done to identify more specific agriculture products, the local imperfect market structure in terms of production techniques, marketing, financing characteristic and legal aspects of land ownership which is a very important part of the new Myanmar Government economic policy. Moreover, policy focus on agriculture is an integral part of President Thein Sein's second phase of economic strategy within the framework of Myanmar Comprehensive Development Vision (MCDV).

As Myanmar is opening its economy and gradually entering into international trade, it is important to understand its transition from informal to formal foreign exchange transaction. To study this important issue in Myanmar's monetary sector, the author uses empirical evidence from export firm survey. Before economic opening in March 2011, Myanmar has a prevalent informal foreign exchange market and informal international funds transfer system. This system prevailed due to foreign exchange control regime and the high costs involved for transaction through a formal channel of banking system. This informal norm of financial and banking transaction is inefficient and incurred higher transaction costs. Arising from this study, the author suggests policy makers must provide adequate pecuniary incentives during the transition period by increasing the costs of informal transaction with taxes and other options. Of course, such policy option does require a shift from a fixed exchange rate system to a managed floating exchange rate which was officially adopted in April 2012. Once the new exchange rate system is introduced, Central Bank of Myanmar started to fix the daily exchange rate which is based on the contract prices of Central Bank's daily foreign exchange auctions with authorized dealer banks. These banks are then authorized to trade foreign exchange with retail authorized foreign exchange dealers at the prices under the regulation and supervision. Following this financial and banking reforms, a formal channel was established for the private sector to exchange currencies required for foreign trade and other transactions. Nonetheless, after one and a half years of operation, the informal foreign exchange market has remained active and pervasive as the Central Bank appears to be following the parallel foreign exchange market, rather than managing them. Through a questionnaire survey of export firms, this chapter aims to identify the determinants on firms' transition to the formal channel. The empirical analysis indicated that firms taking loans from Myanmar private banks are more likely to move to the formal channel of currency exchange with banks. It was inferred in the study that cost incentives such as banks' preferential buying rates of foreign exchange would encourage exporters to switch to the formal channel. In addition, it was suggested by the author that a policy option for the government of Myanmar to include increasing the transaction costs of informal currency exchange by tax on domestic account transfer of foreign exchange currency deposits. The persistent informal currency transaction signifies decentralized and inefficient holdings of foreign exchange and the inability of Central Bank to accumulate foreign exchange reserves that are necessary for an open economy against external shocks and ineffective saving mobilization in the country. Indeed, this chapter has contributed to the understanding that reducing informal foreign exchange transaction is an important agenda to Myanmar's economic reforms in the process of its integration with global economy. Part of this problem could be in the ongoing process the Myanmar government undertook legislative and other measures designed greater independence to the country's central bank. As it is constituted now, the new Central Bank of Myanmar (CBM) is a body autonomous to the Ministry of Finance and Revenue, with a policy-making board of directors headed by a Governor with Cabinet authority. Significantly, the new CBM is supposed to cease being a financing vehicle for State spending, but an institution tasked with price and currency stability, and financial sector supervision. Theoretically, the CBM will not be able to achieve de facto independence unless Myanmar gets its fiscal house in order. Progress has been made in recent times, but not yet enough for the CBM to be free of government financing role. Presently, Myanmar's new central banking arrangements are a necessary but not sufficient condition step towards the reform and rehabilitation of its financial sector. Urgently needed still are changes to the regulatory structure governing Myanmar's financial institutions that, at present, greatly inhibit the role that they could play in the Myanmar's economic transformation and specifically in transiting from informal to formal foreign exchange transaction.

As in the case of many Southeast Asian economies, the role of local business conglomerates is very important in the development process of these economies. The purpose of Chapter 6 is to identify the role of conglomerates in the context of Myanmar economic reform process. In the past, Myanmar business conglomerates had a very close relation with the ruling regime and they thrived by being part of the political and economic cronies of the military regime. After opening of Myanmar and following radical political and economic reforms, what would be the nature and the role of business conglomerates in Myanmar? Will they become the growth engine of economic reform or just continuing as political cronies? The selection of conglomerates for this study is based on top taxpayer list and business establishments and popularity as released by Internal Revenue Department of the Ministry of Finance in which list of top 100 income tax payers and top commercial tax payers were declared. In the past, the sources of growth and key success factors of conglomerates were connection with government, foreign partners contact and their competency in managing diversified business activities. As a result, the conglomerates would not have found rapid business success without the support and encouragement and also the provision of special rights by the military regime. It is obvious in the past that Myanmar conglomerates were highly dependent on the ruling military regime's patronage. Following political, social and economic reforms, the new government creates constraints for conglomerates as most government projects have to be transparent and some projects requiring international tenders. However, conflicting reports from Western media indicated that a great majority of public projects and lucrative foreign investment projects were still dominated by previously well-connected conglomerates with the past military regime. It is true the reform process encourages good governance in the public and private sectors and the rule of law. Based on past experience with other Southeast Asian countries, the transition period will not be easy and will take much longer of time to really consolidate and strengthen policy measures to create a more competitive and level playing field for small and medium enterprises to compete with conglomerates. Policy reforms must be constantly accompanied with the establishment of institutions and legal reforms implemented by efficient public administration in order to effectively enforce and monitor the reform process in competition policy. A level-playing field between local and foreign players is necessary as the latter generally would become a powerful constraint to local conglomerates in the transition period of economic reforms. As indicated in this chapter that conglomerates will continue to play very strategic and important roles as engines of economic growth but their special character as political and economic cronies to the new regime would gradually diminish. Increasingly, conglomerates have to compete among themselves and with multinational companies over public and private projects. Those conglomerates that profited from the past regime's patronage will lose access to windfall profits and guaranteed monopolies resulting from economic reform process and strong political leadership. Nonetheless, many will find new alliance with multinational companies in the form of joint ventures and production sharing. The authors of this chapter suggested that conglomerates should concentrate investment in manufacturing and service sectors, rather than in trading as in the past and create a level-playing field for all market players both local and foreign in order to make Myanmar economy competitive and export-driven as part of regional production network. In addition, they should cooperate with local SMEs as supporting industries to create value-added local production network manufacturing process. In short, conglomerates would continue to be useful as an important part of Myanmar's engine of growth and the government should harness their potential to adhere to corporate social responsibility (CSR) and new form of engine of growth in the framework of open and competitive Myanmar economy. Such changes by conglomerates under new economic framework and environment would take time and effort to materialize. Nonetheless, Myanmar government should make all efforts possible to take advantage of this strategic opportunity to work in concert with the local conglomerates as they constitute a vital component to accelerate Myanmar economic restructuring and development.

The final two chapters deal with Myanmar's external political and economic relations with China and India. Myanmar is the only ASEAN countries that have borders with these rapidly growing Asian "Giants". Major changes in Myanmar's external relation with these countries would have profound implications to Myanmar economic reforms and the prospect of its overall economic development. In the past during the period of self-imposed economic isolation, Myanmar was greatly dependent politically and economically on China's assistance and support due to Western countries' sanctions. After the new government came into power in March 2011, Myanmar's political and economic reforms have opened up wider and more opportunities with all countries, including China and India. What would be the nature and characteristics of the emerging relations with Myanmar's two biggest neighbours? The author Bi Shihong analysed Myanmar and China new economic relations while Amar Yumnam wrote the last chapter on Myanmar and India economic relations with emphasis on the political economic roadblocks.

The changes of Myanmar's political and economic policy and the improvement of Western countries relations with Myanmar is a challenge to China. However, the author argued that the fundamental economic relations between the two countries remain strong as decades of long-standing relation has contributed to mutually beneficial political and economic relations. It is imperative that China has to modify and adjust its bilateral relation with Myanmar in view of rapid changes taking place in Myanmar. The possible bilateral changes have two sides. On one hand, economic liberalization has provided more economic opportunities for the two countries to cooperate as Myanmar economy develops. On the other hand, economic liberalization has created some uncertainties. At this early stage, it is not clear where the policy direction would move forward. If Myanmar government adopted a radical shift of "one-sided" policy towards Western countries, then China's national interests will be adversely affected by Myanmar political and economic development. The process of democratization in Myanmar inevitably has certain impacts on Myanmar and China economic relations, especially on some of Myanmar-China cooperation projects. However, the author correctly argued that Myanmar's national interests would dictate future bilateral relations, and not the differences in ideology and political philosophy when discussing the future economic relations of the two countries. It is equally important to note that if the speed of Myanmar political reform were too fast, it would not only affected the interests of the still powerful military group but also would certainly have negative implications in resolving the important problems of economic restructuring and national reconciliation with restive ethnic minorities. It is therefore in the best interest of Myanmar and China to have a smooth political transformation and a balanced economic restructuring and development that would result in political and social stability and rapid economic development. Simply stated, a democratic, open, growing and stable Myanmar poses more opportunities than challenges to China. In this chapter, the author discussed and explained in details the dynamic of bilateral trade along the common borders between the two countries that has contributed to the present status that China is not only the largest investor and the second largest trade partner but at the same time it is the most important creditor and donor to Myanmar. The author correctly concluded that the geo-politics and geo-economics considerations of both Myanmar and China dictate that the fundamental national interests of both countries far exceed possible policy and structural challenges facing a democratic Myanmar. In addition, the author proposed that China should diversify its investment away from mineral extraction and power generation into manufacturing and other productive sectors and taking into account environmental and local people's welfare in joint cooperative projects. Such changes would enhance strong positive perception and attitude of Myanmar toward China to counter Western media's accusation that bilateral relation with China is at the expense of Myanmar's natural resources, environment and social welfare. Politically, there is no evidence that Aung San Suu Kyi and her National League for Democracy (NLD) tend neither to lean on Western countries completely nor to confront with China. In addition, Myanmar has a long tradition of having adopted foreign policy based on neutrality, active and balance of powers. Based on Myanmar's present and past experience in dealing with China, it is expected that China would continue to play an important and positive role in Myanmar's economic reform and development.

The last chapter deals with Myanmar and India economic relations with focuses on the political economic roadblocks. The author touched upon the historical context of the political economic roadblocks in discussing Indian policy discontinuity in regard to its relation with Southeast and East Asia. There is a policy discontinuity and policy gap between the national government's perception and Northeast India, including Manipur region, when it comes to regional engagement with Myanmar and other Southeast Asian countries. From the Indian national government's perspective, the policy issue of North East Indian States has always been driven by security of territory, rather than anything else. This inherited policy discontinuity has not been allowed to evolve due to the long continuation of policies based on singularity of policy objective rather than diversity. The author asserted that unless the internal economic dynamics are addressed, the Myanmar and India economic relations overland (border) trade would not evolve into shared economic visions of the ethnic and geographic discontinuities in the region. Nonetheless, it is also true that India provides important external economic and political leverage to Myanmar in its reform process, including "Look East" policy of India in connecting to ASEAN countries through Asian East-West Highway Corridor and India-Mekong Economic Connectivity Initiative. In this respect, the author would have discussed in more details the underlying policy and perception of the national government in New Delhi in regards with overall India's strategy and approach in engaging Myanmar and other Southeast Asian countries.

This second phase of Bangkok Research Center (BRC) Project on Myanmar provides a valuable intellectual contribution to understanding further process of Myanmar economic reforms and economic development. All the eight chapters fit well with the title of the book "Myanmar's Integration with Global Economy: Outlook and Opportunities". The quality of contribution defers from chapter to chapter but all are relevant to the overall theme and objective of this publication. As mentioned earlier in the first phase of BRC Report that ultimately the success of economic reforms will depend to a great extent in calibrating the implementation of economic reform to domestic political and economic circumstances. In other words, initial successes in economic reforms are vital as the more successful in implementing economic and structural reforms, the more policy space for the government to initiating and implementing more vigorous and wide ranging political and economic reforms in subsequent stages.