



# Public Sector and Policy Reforms for National Development in Southeast Asia and Korea: Policy Formation and Implementation of Reforms

## **State owned Enterprises Reform in Myanmar (Case Study on Telecommunication Service)**

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# Introduction

- Many dramatic changes have been witnessed in economy after 2011, despite over two decades of transition from a central planning to a market-oriented economy in Myanmar since 1988
- With the support of the democratic government's initiation of strategic reforms particularly in **four phases**:
  - political reform,
  - economic development reform,
  - public administrative reform and
  - private sector development reform.
- For *economic development*, the government has invited more FDI, and encouraged the private sector participation in the country's economy
- new legal policy instruments were also initiated into the private sector

# Introduction

- To reduce state monopolies in economy... the privatization program has been introduced in public sector
- since most of the SOEs have been previously facing problems:
  - ❖ successive deficit in State budget,
  - ❖ shortages of funds for expansion,
  - ❖ heavy debts, and
  - ❖ inefficiency in production.
- To cope with these difficulties, SOEs have to be handed over to the private sector.
- There comes the implementation of *series of reforms* to remove economic distortions, .... floating the currency, new fiscal regulations to rationalize personal income tax and reduce consumption tax, liberalizing the tele-communication sector.

# Reforms of State owned enterprises

- During the time Myanmar adopted the centrally planned economy for 26 years from 1962 to 1988, State owned enterprises (SOEs) had solely been dominating all economic activities and contributed a large share (ownership) to GDP.
- Though the performance of SOEs was improved until the early 1980s, their productivities decreased significantly in the mid-1980s due to the inefficient productivity, underutilization of full capacity and shortage of finance supports.
- As a result there were seriously deficits in State budget and the SOEs were necessarily needed to be restructured.
- After the adoption of market-oriented policy since SLORC came to power in 1988, the significant changes in terms of the overall policy framework were initiated.
- ***Initially, foreign investment law*** was introduced to enhance technical know-how and investments in all sectors

# Reforms of State owned enterprises

- At the *macro level*, the SLORC initiated reform measures in fiscal and financial sector and then the sector-wise reform measures were followed.
- The removal of restrictions on private sector participation in domestic and foreign trade could be regarded as steps taken in its initial phase of reform.
- To allow private sector participation in economic activities,
  - SEE Law was introduced in 1989 and
  - liberalized the restrictions on private investment
- As *institutional reform*, some inefficient SOEs were leased and denationalized in 1992.
- The SOEs were facing problems such as losses: .... deficits in the state budget, shortages of funds for expansion, heavy debts, operating problems and inability to realize their full production capacity,
- the SOEs be transferred to the private sector.
- It began with the *leasing of SOEs to foreign private entrepreneurs* and inviting them to *form joint ventures with state agencies*.

# Reforms of State owned enterprises

- Thus *privatization became a part of the reform package to transform the command economy to the market oriented system.*
- the privatization process was initiated in 1995... established Myanmar privatization Commission (MPC) was established to coordinate and supervise the transfer of SEEs to the private sector.
- After the new elective government took political power in 2011, MPC was reorganized with 18 members and the chairman of today's MPC is Vice President.
- The ***main objectives*** of Myanmar privatization program are:
  - ❑ to increase the efficiency of enterprises through competition,
  - ❑ to strengthen the private sector and increase its role in economic development of the state.

# Reforms of State owned enterprises

## • *Guidelines:*

- ❑ To transfer state owned enterprises to the private sector in an orderly phase by phase manner;
- ❑ To help the private sector entrepreneurs to acquire business skills;
- ❑ To promote emergence and prosperity of national economic enterprises in the hands of the national entrepreneurs;
- ❑ To prevent monopolization by a private group in distribution of national wealth;
- ❑ To carry out privatization on the basis of patriotic spirit.
- ❖ the "*first priority* → to 'give back' companies to their original owners when possible".
- ❖ The '*second priority* → to encourage "groups of people or companies to band together to bid for state-owned businesses", and
- ❖ *Third* → foreign involvement are considered.
- As soon as the formation of Commission (MPC), fifty-one SEEs under five ministries were privatized as the first phase of a systematic privatization program.
- By early 2003, the no: of privatized State assets: 180 out of some 600 enterprises identified by 18 Ministries



# Reforms of State owned enterprises

- Indeed, the privatization process proceed slowly
  - ☞ lack of "*management expertise*" and
  - ☞ lack of "*financial capacity*" in the private sector
  - ☞ lack the hard currency required to upgrade and operate" by the privatized enterprises.
- The government has also intention to adopt a more transparent and competitive privatization process.
- The elephants in this room are (3)SEEs:
  - 🚩 Myanmar Oil and Gas Enterprise (MOGE),
  - 🚩 Myanmar Post and Telecommunications (MPT),
  - 🚩 Myanmar Electric Power Enterprise (MEPE).
- In each case, ending their monopolies and inviting competition on a level playing field is a valid alternative to privatization.
- telecommunications service is one of the infrastructure services playing a vital role in a country's economic development, and directly and indirectly links to living standards of people and economic growth of the country.
- Thus the new government has embarked on an ambitious economic reform program which aims at developing the private sector and stimulating direct foreign investments, a review of the financial sector, promotion of access to finance, and creating an environment conducive to job creation.

# Institutional Context of Telecommunication

- Telecommunications is essential for Myanmar's continued economic development... prerequisites for wellbeing of the Myanmar population and fundamental to generating sustainable sources of economic growth.
- Ever since the commencement of mobile telecommunication in Myanmar, state-owned Myanmar Post and Telecommunication (MPT) has been serving as one and sole mobile operator across the whole country.
- Thus, the government set new discerning policies to adapt with telecom sector reform which can truly enhance socio-economic development of the ordinary people.
- ITU (2011), Myanmar had an internet penetration rate of only 0.98% and just 1.3 million mobile subscribers (2.3% of total population).
- After initiating the public policy reform such as the liberalization on private participation in telecommunications sector after 2011, ...
- the contribution of telecommunication sector → from (2.7) percent of GDP in 2012-2013 to (4.8) percent of GDP in 2014-2015.
- The tele-density → 35.7% in 2015.

# Institutional Context of Telecommunication

- MPT is the sole provider of telecommunication services in Myanmar.
- It is operating under the Ministry of Communication and Information Technology (MCIT) ← (MCPT).
- MCIT is organized into two departments:
  - Post and Telecommunication Department (PTD) → regulatory body
  - Myanmar Posts and Telecommunications (MPT).
- Previously, MCPT has acted for many years as Myanmar's telecommunication regulators and owns the primary telecommunication operator MPT.
- The three main categories of services rendered by MPT are the *postal services*, *telegraph services* and *telephone services*, for both domestic and international communications.
- *Mobile telecommunication* in Myanmar commenced service in early 1990.
- Since at that time, Myanmar Posts and Telecommunications (MPT) has been serving as the sole mobile operator for the whole country.

# Institutional Context of Telecommunication

- As the government views the development of communications and IT sector is the basis for the all-round development of the nation and its overall nationals, the MCIT has been making great efforts for the development processes of communications and IT sector, by means of expanding and building communication networks and using new technologies to provide high quality services.
- (PTD) is Myanmar's Telecom Regulator under the MCIT.
- Basically, PTD's function as a regulator is to support the Ministry in its policy-making functions and to provide regulatory and legal support to the Ministry.

# Reform Program in Telecom Enterprise

- The 1990s saw global pursuit of telecom liberalization and regulatory reform that was unparalleled to any technological led reform since the beginning of the century and Myanmar was exception.
- The two critical outputs in the telecommunication reform were competition which is safeguarded by regulation through the creation of a regulator.
- The *factors* that have been attributed to *why the telecom reform* started in most countries are;
  - revolution in telecommunication technology
  - technological change and urgency need to attract financial investment in this sector.
  - the inefficiency of the monopoly operator which is the main motivation for the reform
- The new government realized that telecommunications sector has the growth potential of Myanmar and has desired to transform MPT into a *corporate entity* that will be independent of government funding.

# Reform Program in Telecom Enterprise

- In addition, private sector participation in telecommunication development expands and improves services, create incentives for efficiency, and reduce the burden on sustained public resources.
- Privatization in telecommunication can positively affect the economy:
  - ▶ reduce the cost of production,
  - ▶ increase revenue and employment directly and indirectly.
- It can be done as in the following categories:
  - ❑ *Full privatization:*
  - ❑ *Commercialization of government service:*
  - ❑ *Public-Private partnerships:*
  - ❑ *Contracting out:*
  - ❑ *Build-Operate-Transfer (BOT):*

# Reform Program in Telecom Enterprise

- The reform of Myanmar's telecommunications sector is an integral part of lifting millions of people out of poverty.
- This affects poor people and remote communities the most.
- By recognizing the following facts:
  - ✓ Create Competitiveness in telecom sector
  - ✓ Generate growth in employment opportunities in the sector
  - ✓ Provisioning of efficient & cost effective telecom services
  - ✓ Improve infrastructure through private sector support
  - ✓ Meet increasing demand of telecom services
  - ✓ Improve public access in rural and urban areas to telecom services
  - ✓ Increase Choice of providers & services
- Concrete steps to reform & policy framework → for the development of the county's telecommunications, and ICT industry by facilitating competition of both local and international operators in the sector

# Reform Program in Telecom Enterprise

- MCIT laid down *Telecom policies* as followed;
  - ✓ To increase the deployment of national telecommunications infrastructure.
  - ✓ To provide a financially viable telecommunications sector conducive to sustainable investment in telecommunications infrastructure.
  - ✓ To improve the efficiency and effectiveness of telecommunications service delivery to end users.
  - ✓ To provide telecommunication services at the affordable price.
  - ✓ To fulfill universal services obligation to the people of Myanmar.



# Reform Program in Telecom Enterprise

- The *Short-run objectives* are:
  - (1) To increase the overall **tele-density** of the country from 10% in 2012-2013; to 27% in 2013-2014; to 55% in 2014-2015; to 70-75% in 2015-2016 and to make available for people to choose and use freely communication and Internet services.
  - (2) To make the telecommunication services available not only for urban areas but also for rural areas and to increase the **mobile phone density to 75-80% and internet penetration by 50% in 2015-2016.**
- The initial round of reforms has seen action on the issuing of a series of new telecom operating licenses, allowing international companies to form joint ventures with the government to build infrastructure and to offer services.
- Telecommunications Law was approved in October 2013.

# Reform Program in Telecom Enterprise

- To provide telecommunication services in Myanmar, *Norway's Telenor* and *Qatar's Ooredoo* had been awarded licenses in January 2014 to build Myanmar's telecommunications network and run a nationwide wireless network in Myanmar for **15 years**.
- according to the new Telecom Law, the establishment of an independent regulator (MTC), by 2015 is one of the key provision.
- Among several economic sectors, modernization of telecom sector became one of the first to be targeted.

# Development of Mobile Telecommunication

- mobile telecommunication was first introduced in 1993.
- MPT → a sole operator for mobile services
- At the initial stage, Cellular Mobile phone system (AMPS 800) was established... about US\$ 4,000
  - in 1996, the digital AMPS cellular system was introduced.
  - The initial charge ... 1,500,000 MMK
  - Therefore, ordinary people were very frustrated and they were even fed up with the situation of mobile phone as the price was sky high and low level ordinary people could not even dream of owning one
  - mobile phone density was even lower than 1% of the total population
- GSM (900MHz) → in 2002
- CDMA networks (800MHz and 450MHz) → in 1999 and 2008
- 3G (WCDMA 2100MHz) → in 2008.

# Development of Mobile Telecommunication

- In 2012, the current mobile base allows 5.44 million subscribers or 9.0% penetration.
  - 3.62million or 67% of mobile subscribers → GSM,
  - 0.74 million or 14% → WCDMA,
  - 1.1 million or 20% → CDMA (mobile).
- The regions with the highest number of mobile subscribers are the two largest urban centers: Yangon (with 1.795 million subscribers) and Mandalay (with 0.860 million subscribers).
- The regions along the Yangon-Mandalay axis have between 200 to 350 thousands subscribers (Nay Pyi Taw, Sagaing, Bago(East),Magwe, Ayarwaddy).
- However, penetration rates are much higher in urban centers: 30.2% in Nay Pyi Taw, 25.3% in Yangon and 11.7% in Mandalay .

# Development of Mobile Telecommunication

- Since June 2013, MPT has reduced its internet service charge dramatically but the internet connection is still very slow
- The government also *opened internal telecommunication market to international mobile operators* with the aim of enhancing the mobile telecommunication in Myanmar.
- The government later gave *mobile operator licenses* to two international mobile operators, *Telenor* from Norway and *Ooredoo* from Qatar.
- Two local mobile operators, MPT and Yatanarpon Teleport were also given the licenses respectively.
- After obtaining operator licenses and to provide better quality services, both have committed to connecting 90% of Myanmar within the next five years.
- They have been building their own mobile infrastructure needed for covering territory across Myanmar.
- Mobile telecommunication in Myanmar will have "*leap frogging*" development in the near future and people can have the chance to experience the standardized mobile service.

# Development of Mobile Telecommunication

- In accordance with the reform process, MPT was encouraged to restructure and to be corporatized by partnering with international mobile operators to compete with the two fully foreign owned mobile operators.
- 16 July 2014, MPT signed an agreement with a Japanese firm, KDDI-SUMITOMO, to form the partnership to serve as a mobile operator by *providing better quality services with cheaper prices in the future.*
- For MPT, although they controlled 100% of mobile market in the past, with its outdated mobile infrastructure; lack of customer oriented service and lack of strong financial investment make it uneasy to compete with new mobile operators in upcoming mobile phone market.
- Forming business partnership with potential foreign investors is inevitable for MPT to continue playing an active role in future mobile phone market.

# Development of Mobile Telecommunication

- As a promotion, MPT gave the incentive to the customers by reducing the price of normal airtime charge
- After launching the two operators in 2014, *the local telecommunications market becomes competitive.*
- In accordance with the Telecommunication Law, MCIT issued **19 telecommunications services licenses** for local and foreign company.
- Of them, Oredoo Myanmar, Telenor Myanmar and Myanmar Posts and telecommunication (MPT) have been issued for ***Nationwide Telecommunication License*** .
- In 2014, MCIT has issued ***Network facilities Services license*** to **16 companies**:

# Impact of telecom sector reform

- Under the new government era, the development in mobile telecommunication must go together with telecommunication regulatory reforms.
- The development in countries characterized by political uncertainty may certainly offer support to people to enhance the basic networks of cooperation.
  - ✓ Easier access to mobile telecommunication will result easy access to information and which will enhance the transparency of the government in Myanmar.
  - ✓ raising the living standards of ordinary people in Myanmar and
  - ✓ pave the way for all round economic development in Myanmar by linking small and medium business enterprises to new opportunities and connect people to each other.
  - ✓ access to online information which can change the ways of life



# Impact of telecom sector reform

- For *the business sector*, Myanmar's small and medium business enterprises will acquire new opportunities by using better mobile network including getting information concerning their business, being able to expand their business with the support of mobile phone, and being able to advertise their products and businesses.
- Mobile banking will also enhance the economic development as there will be easier transactions of money using mobile phone network.
- In the future, mobile telecommunication will play an active role *in Myanmar politics*
- In upcoming election in 2015, It will be an advantage to use mobile telecommunication in political campaigning...., people will have better access to online information, especially *social media*.

# Impact of telecom sector reform

- Even though there are benefits from the development in mobile telecommunication, there are also negative social impacts on people.
- Due to the IT media, the religious based tensions occurred across the country.... the country's *political situation became unstable*.
- These inappropriate things should be curbed by the newly enacted telecom regulatory law which will guarantee the *social privacy and security of the people*.
- *Freedom of expression* should go hand in hand with the development in mobile telecommunication.

# Challenges in Telecom Sector Reform

- Even though there are some noticeable development in telecom sector reform, there are still some prominent challenges
- These challenges: → geographical challenge, political challenge and infrastructural challenge.
- ***Geographical challenge***, there is one prominent fact that setting up the mobile telecommunication network in the remote areas and areas which are under the control of the ethnic armed groups are basically the main challenge for the new mobile phone operators.
- Most people living in border areas are also using the mobile system from the respective neighboring countries, rather than Myanmar's own mobile system as those systems are more easily accessible and more economical than the own mobile system so the subscribers there prefer those network.
- It is an undeniable fact that the mobile operators need to upgrade their service to attract these subscribers in border areas.
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# Challenges in Telecom Sector Reform

- For the *political challenge*,.
- As economy and politics of a country are inter-relating each other in great amount, political stability is the most fundamental reassurance for the expansion of further investment by the all mobile operators in Myanmar.
- It is an inevitable fact that all mobile operators are reluctant to expand their investment to the maximum level and they are candidly using the wait and see method for further investment.
- They are now exploring and assessing the political scenario of Myanmar beyond 2015.
- the *infrastructural challenge*,...the lack of adequate mobile telecommunication towers to cover the efficient network.
- Except MPT, which acquires more mobile towers than any other mobile operators, other operators are witnessing the challenge of setting up mobile towers to cover their network and service.

# Challenges in Telecom Sector Reform

- in order to realize the full potential of Myanmar's telecommunication sector, large scale investments of private sector and a favorable operating environment are crucial.
- From the analytical point of view, it is found that several distinctive characteristics of the telecommunication sector in Myanmar have lacked of Telecommunication infrastructure, strong regulation, and instability of the micro economy.
- Moreover, it is identified that there is national consensus enhancing the Telecommunication development including building of infrastructure but there are too many outdated telecom network systems.
- Some advantages that would expedite the development are rapid increase of demand of mobile service and the government's high interest in telecommunication development.

# Challenges in Telecom Sector Reform

- To enhance the telecommunication sector development, there are many *advantages or opportunities* in Telecommunication sector:
  - ✓ High demand in Telecom service
  - ✓ High profitability of mobile industry
  - ✓ Increase in well-educated human resources
  - ✓ Distribution system
  - ✓ New administration with new ICT policy direction
  - ✓ Improving international cooperation environment
  - ✓ Regional cooperation with ASEAN, China and India
  - ✓ Strong determination on Information
  - ✓ The government's high interest in Telecommunication development
  - ✓ Strong consensus on telecommunication infrastructure build up
  - ✓ Fast increase in demand on mobile service
  - ✓ High return of telecom business
  - ✓ New administration with new Telecommunication policy direction
  - ✓ Improving international cooperation environment
  - ✓ Dynamism of ICT industry environment

# Challenges in Telecom Sector Reform

- To transform MPT into a corporate entity, there are some *weaknesses* as follows:
  - ☞ Limited and unstable telecom infrastructure
  - ☞ Weak telecommunication industry base
  - ☞ Strong regulation imposed on most of industry sector
  - ☞ Comparatively high price
  - ☞ Gap digital divide
  - ☞ Intense competition from neighboring countries
  - ☞ Instability and low efficiency in macro economy (weak financial industry base and structure)
  - ☞ Limited foreign investment
  - ☞ Brain drain of ICT human resources
  - ☞ Natural disaster
  - ☞ Too many outdated telecom network system
  - ☞ Lack of national information strategy
  - ☞ Lack of skilled professional

# Conclusion

- Regarding the telecom sector reform process in Myanmar, there are many dramatic changes in mobile telecommunication market.
- Opening internal mobile phone market to international mobile phone operators is the first stepping stone of Myanmar telecom sector.
- With the reform process,
  - **access to better quality mobile connectivity and**
  - **get the chance to own a mobile phone at an affordable price (the prices of SIM card already have dropped significantly to US\$ 1.5 each)**
  - **the right to choose the mobile service they prefer, which provides better quality with cheaper charges, for the first time in Myanmar.**
- Mobile telecommunication becomes a reality for the people and this development benefits the people and will again raise the living standards of the people.
- This will definitely **generate more job creations** and will play a *crucial role in the whole political economy* of Myanmar.



# Conclusion

- As mobile operators will provide other services relating to mobile telecommunication, the lives of people will become easier.
- With effective telecom regulatory laws, mobile phone operators will continue providing services to the people.
- They will also be accountable for social responsibility.
- Development in mobile telecommunication will result in overall economic development of Myanmar.
- The government's effort to liberalize the telecommunication sector are commendable.
- international companies are now permitted to form joint ventures with the government to build infrastructure and provide services, ending the monopoly by MPT.
- these actions will foster competition, thereby improving efficiency so that Myanmar is a step closer to affordable and universal telecommunications services.

Thank you for your kind Attention