

Economic Zones/Industrial Estates as a Tool for Growth and Development: A Policy Case Study of Industrial Estates in Yangon, Myanmar

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Background: Myanmar

- GDP is 59.44 US Billion (2012 UN Data) – growth 7.7% (2014) (ADB)
- Geographically largest in mainland Southeast Asia (676,578 sq-km)
- Population is 51.4 Mil (2014)
- Over 2,800 km of coastline to Indian Ocean through Bay of Bengal and Andaman Sea
- Strategically borders China, Laos and Thailand in the East and Northeast and India and Bangladesh in the West and Northwest



Background: Political, Economical and Social Systems of Myanmar

- Monarchy system until 1885
- Gained independence from British in January 1948
- Parliament democracy system (AFPFL Rule) from 1948 to 1962 (Brief military rule from May 1958 to January 1960)
- Burmese Way to Socialism from 1962 to 1988 after coup d'état'
- Military rule from 1988 to 2011 (SLORC and SPDC)
- 2010 General Election
- 2011 to current (Democratic System)
- November 2015 – election



Myanmar Timeline

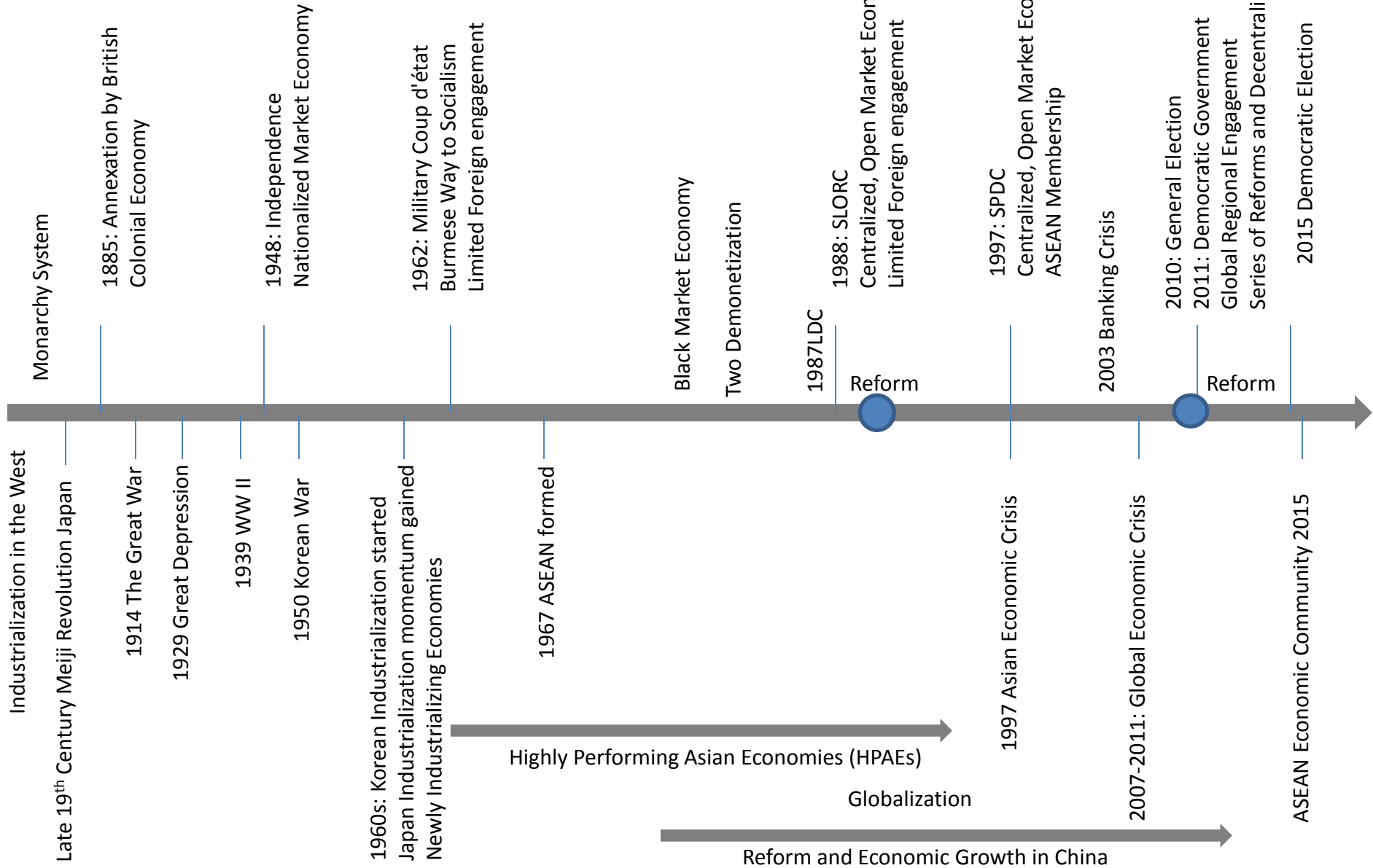


Figure: Series of Events

Global and Regional Timeline

Drivers of Reform

- Least developed country (LDC) status since 1987
- GDP per capita is 742 USD in 2010
- Gap in GDP per capita between Vietnam and Myanmar widened from USD 30 in 1990 to USD 432 in 2010 (ERIA, 2013)
- People living under poverty line is 25.6 % in 2010
- Human Development Index (HDI) in 2012 is 0.498 (second lowest in the region)
- Life expectancy at birth is 65.7 years (lower than average)

Drivers of Reform

- Control-oriented disposition still remains
- Rich and poor gap has increased
- Monopoly of State Owned Enterprises, especially military owned economic enterprises on Myanmar economy has rooted; cronyism was born in this period
- Sanctions and embargos still present
- Extractive industries dominated FDIs (Oil and gas, mining etc.,)
- Doing Business 182 out of 186 in 2014 and 177 in 2015
- Government recognized unsustainable economy and political system – elections in 2010

Reform Dynamics

- ASEAN membership in 1997, Leadership in 2014 - agreement of ASEAN Economic Community (2015) and AFTA
- Greater Mekong Sub-region cooperation
- US reconciliation in 2011 (lifted sanctions)
- European Union (EU) has also lifted trade, economic and individual sanctions
- However, the reform momentum relies heavily on the stability and positive political shift of Myanmar (politics over economy)

Reform Dynamics

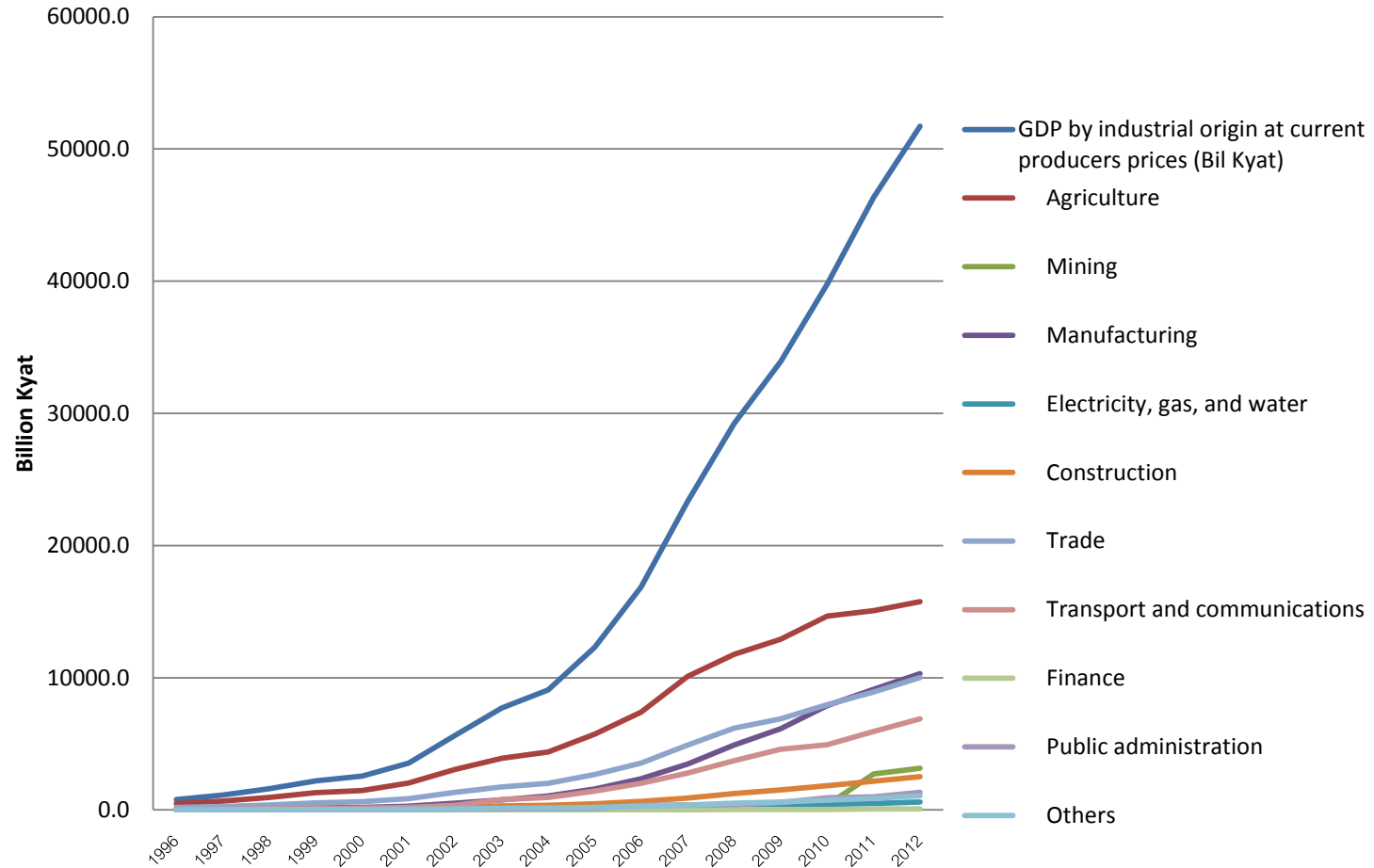


Figure: GDP by industrial origins

Reform Policy

- Framework for Economic and Social Reforms (FESR) 2012-2015
 1. fiscal and tax reform,
 2. monetary and finance sector reform,
 3. liberalization of trade and investment,
 4. private sector development,
 5. health and education,
 6. food security and agricultural growth,
 7. governance and transparency,
 8. mobile telephone and internet,
 9. infrastructure, and
 10. effective and efficient government.
- Reform Phases: 1) political reforms 2) economic reforms 3) public administration reforms and 4) private sector development reforms

Reform Policy

- A three pillar strategy:
 - Agriculture plus plus which is to improve value addition of agriculture products and bring more raw materials to the industrial and manufacturing sector,
 - FDI driven and export oriented strategy which is to bring foreign investment, technologies, and international market while creating new demand for agricultural products and
 - Two-polar balanced economic growth with enhanced connectivity

Economic/Industrial Zone Environment in Myanmar

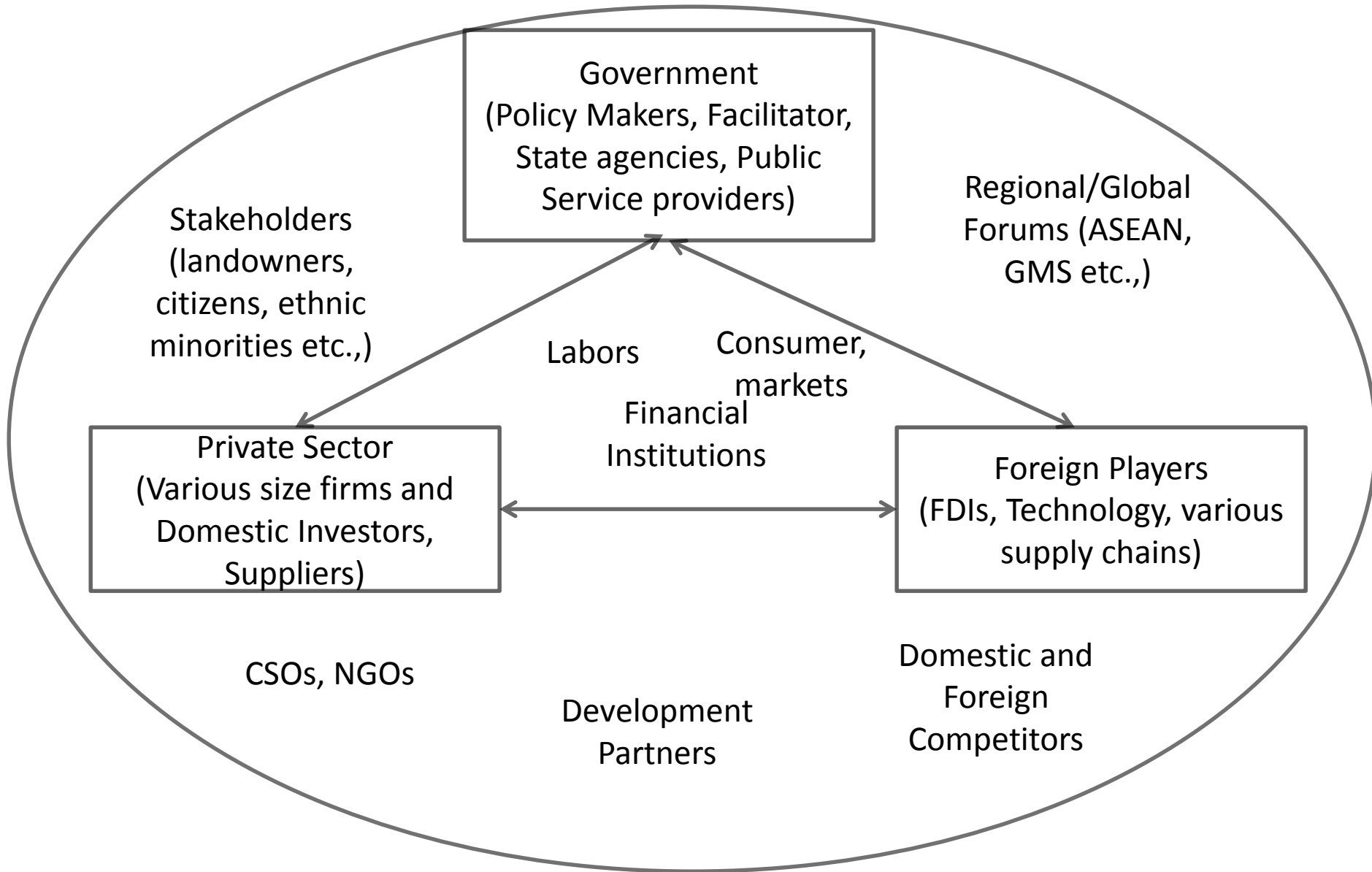


Figure: Key Players of SEZs/Izs/IEs

Industrial Estates: Yangon

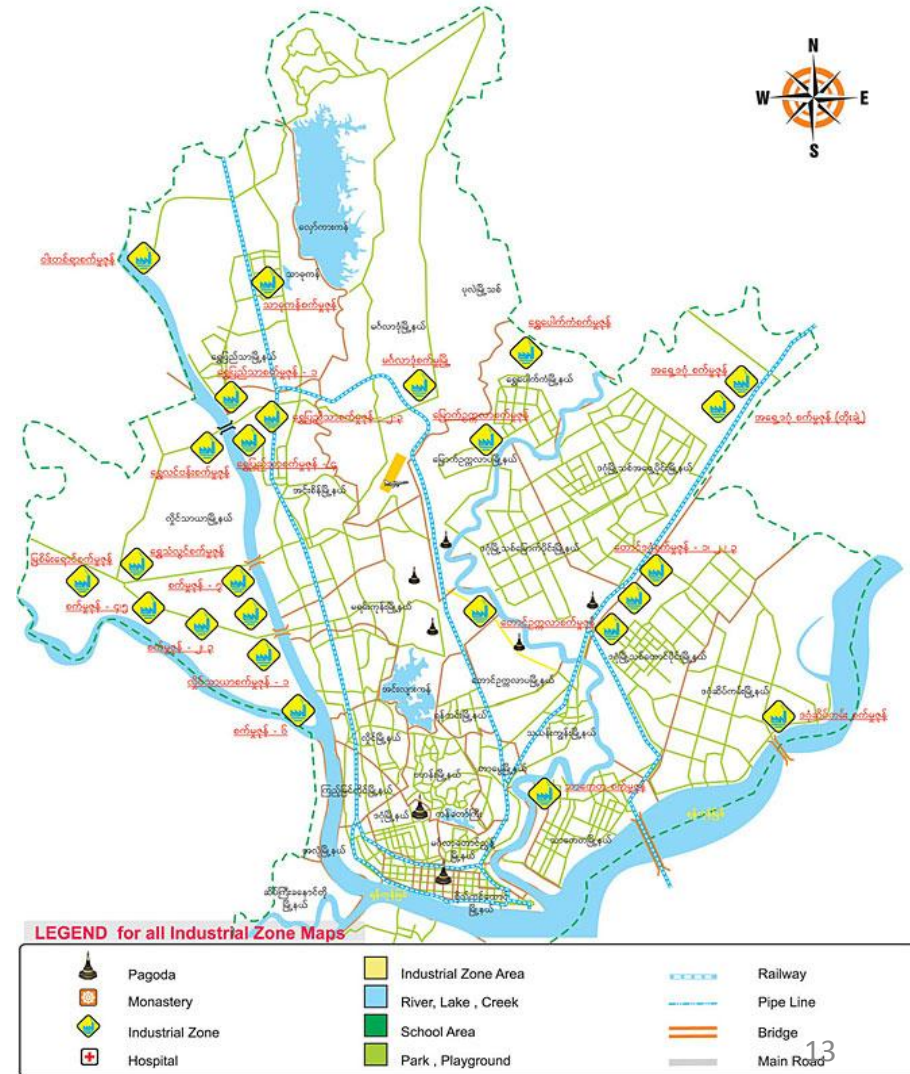
- Introduced Industrial Zones and Special Economic Zones since 1990s (SLORC-SPDC)
- Yangon area is the earliest and by far the largest
- It has highest profit, sales and employees within Myanmar industrial estates
- Mainly garment, textile, food and beverage etc
- Thiliwa SEZ, a joint venture between Myanmar and Japan is a leading SEZ which will be operating this year



Industrial Estates: Yangon

YANGON INDUSTRIAL ZONE INDEX

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Challenges: State's Capacity

- Institutional capacity to effectively implement the industrialization policy
 - President's export-oriented FDI-led policy is clear
 - States agencies' capacity to implement them effectively on ground is limited
 - Regulatory framework and institutional structure for the industry sectors are fragmented
 - Linkage and the cooperation between union level committees, line ministries, regional government focal and private sector are limited

Challenges

- Clear leadership on development and management of industrial estates is limited
 - Devolution of administration and decentralization diluted the capacity of central government including industrial policy
 - Responsibility for the industrial estates is split
 - Leadership and coordination is lacking due to unclear and overlapping roles and responsibilities, and professional management of the industrial zones is limited.

Challenges

- Low standards of existing industrial estates
 - Current business environment in the country is rated poor (Doing Business 177 in 2015, 182 in 2014)
 - Poor basic infrastructure (electricity, energy, water, telecommunication etc)
 - Little emphasis on offering a package of incentives to potential investors
 - Government (national and sub-national) commitment is varying including Yangon estates

Challenges

- No integrated development policy (industrial estates and other development plans)
 - Industrial estate formulations are disconnected from national economic strategies, as well as urbanization trends
 - Comparative advantage such as good strategic location, low cost of labor, proximity to urban growth centers etc., are not maximized effectively

Challenges

- Land Issues (weak legal frameworks)
 - Some land plots in industrial estates including Yangon are unoccupied but their owners retain the land for land speculation (e.g. warehouses, renting etc.,)
 - High start up costs
 - Squatter issues
 - Compensation without recourse to further discussion
 - Deters investors who genuinely wish to invest and relocate from countries where labor is becoming expensive (China plus one, Thailand plus one etc.)

Challenges

- Labor availability is poor and quality is a challenge
 - Out-migration (both illegal and legal means) led to Myanmar not a labor surplus country
 - Skill-mix is poor with mindset and professionalism among the problems within the labor force
 - Output of vocational schools has been limited
 - Low cost labor which could overcome the other disadvantage is not a given, due to poor efficiency and productivity

Challenges

- Multi-modal linkage with transport and logistics infrastructure is poor
 - Shipping costs are high due to infrequency of liner services and being off the main ocean routes.
 - 0.17 million TEU of port container freight in 2010, the second lowest in ASEAN
 - Air cargo is in its infancy while most overland routes are poor and will remain so for the next three years at least.
 - Road density is lowest (41.3/1000km-sq), and paved road percent is one of the lowest in ASEAN countries.
 - Quality of rail service and connectivity is also poor
 - Agglomeration impacts and clustering are not considered systematically.

Challenges

- Poor capital and financing mechanisms
 - Financial services are weak, international transactions/foreign exchanges complex with long processes
 - Bank loans are limited to most local firms and SMEs with collateral main obstacles but money inside the banks is nearly half of national GDP



Challenges

- Technology and Innovation
 - Lack of investment in R&D, poor ICT infrastructure and basic services leads to low level of innovation in both public and private sectors
 - Many of the firms are CMPs, and thus technology transfer from foreign firms to local firms is limited
 - Goods produced are little or no high tech products, with mainly food and beverages, garment and apparels, construction and other raw materials

Challenges

- Other management capacity and issues include:
 - red tape/procedures/coordination/bureaucratic capacity limitation due to years of isolation and dictatorship, and lack of development support
 - policy uncertainty due to politics and reshuffling of local authorities
 - weak private sector and SME development due to limitation of cooperation and understanding within the sectors
 - limited interaction of union/sub-national government and poor coordination
 - no accurate data/market information
 - lack of effective environmental controls and
 - poor governance leading to rank seeking behavior.

Policy Evaluation

- The results of the reform process initiated (first phase after 1988 and second phase after election of 2010) are positive if looking at the steady GDP increase
- But the true potential of Myanmar has not been realised through industrialization and manufacturing (agriculture still dominating although trend is shifting).

Structure of Economy

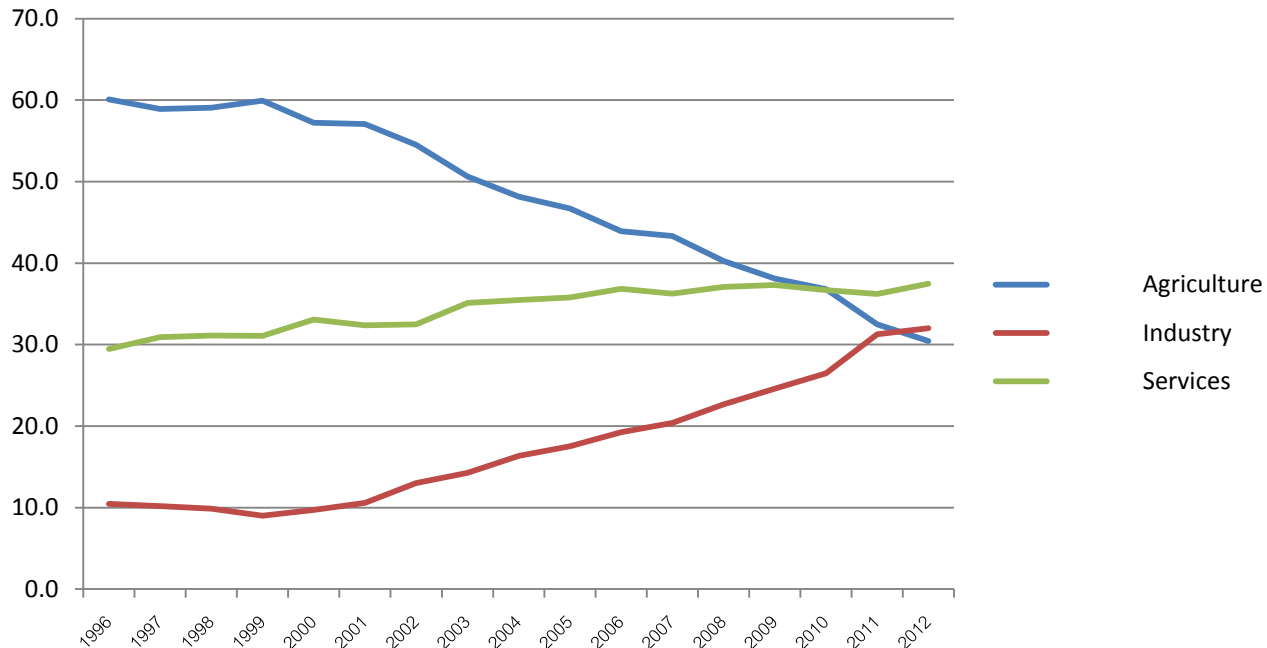


Figure: Structural output: percent of GDP at current prices by industry sectors in Myanmar (Source ADB Key Indicators Asia and Pacific 2014)

Lessons Learnt: State's Capacity

- Use urbanization trends effectively in designing the industrial estates
- Develop a robust legal and regulatory framework addressing the fragmentation of industrialization policies, financial institutions and most importantly land disputes
- Upgrade the capacity of line agencies and the state to act as a lead and facilitator

Lessons Learnt: State's Capacity

- Improve the overall governance and transparency
- Increase cooperation and coordination between stakeholders - government agencies, facilitators and private sector
- Improve private sector development especially SMEs

Lessons Learnt: State's Capacity

- Upgrade both personal and institutional levels, and establish strong working partnerships with regional forums (ASEAN, GMS, etc.,)
- Academic and research/development institutions must be linked to both the government and private sectors.
- Capacity building programs must be developed for concerned government agencies, at national, state/region and local levels.

Lessons Learnt: State's Capacity

- Rationalizing of the government agencies in economic development, state and region developments and urban and rural spatial planning is needed
- Areas of overlap should be clear and strategically defined
- Introduce monitoring and evaluation mechanism

Conclusion

- Myanmar now has a chance to truly realize its industrialization potential by maintaining macroeconomic and political stability
- Priority areas should be focused on government's vision, and capacity to designing competitive industrial estates, integrated package of policies, legal frameworks, institution, governance and systems; and private sector development.

Thank you...