



Yangon, Myanmar



Phnom Penh, Cambodia



Dhaka, Bangladesh

Arrival of manufacturing FDI: Asian "Latest Comers"

- sharing experience -

***6th High Level Forum for the Phase II of Policy
Dialogue of Industrial Development in Ethiopia***

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Introduction: Asian “Latest Comers” for manufacturing investment



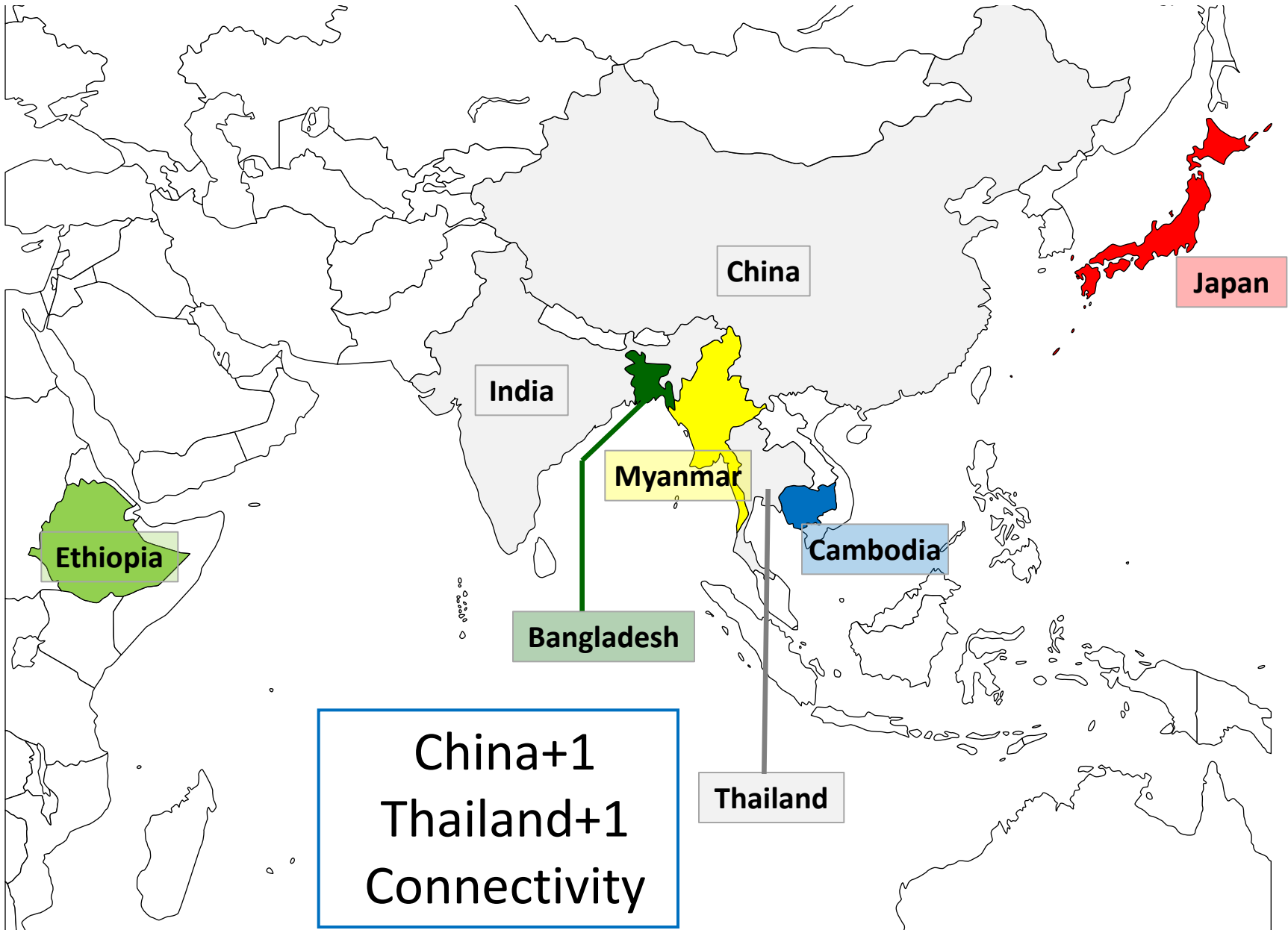
- Some Asian countries, such as **Myanmar**, **Cambodia** and **Bangladesh**, are at lower economic level in the region but show rapid FDI growth in particular manufacturing as “Latest Comers”, with rapid economic reform (esp. Myanmar).
- Fully utilizing their competitiveness of labor (cost and quality) and getting success for attracting labor-intensive FDI
- Garment sector (recently other sector as well) as processing charged-basis: Typically known as “**CMP**” in Myanmar - Cutting, Making and Packing; “**CMT**” in Cambodia – Cut, Make & Trim
- Considering how to step up to next stage to sustain inflow of manufacturing FDI utilizing advantages of regional connectivity etc.

	GDP (Mil USD)	Population (Thousand)	GDP per capita (USD)	2014 Doing Business
Myanmar	56,408	64.932	869	182
Cambodia	15,659	15.407	1,016	137
Bangladesh	141,275	156.298	904	130
Ethiopia	48,145	88.850	542	125

Asian “Latest Comers” and Ethiopia at a glance

Note: GDP and GDP per capita are at current US\$ basis

Geographical Economics



Competitiveness of labor of 3 countries

	Cumulative stock of FDI, 2012		Wage of unskilled manufacturing worker (\$/month)			Labor productivity (thousand USD/worker)		
	\$ billion	Japan's share	2003	2013	10-year change	2000	2011	11-year change
China (Dalian)	832.9	11.2%	108	326	203%	4.8	13.5	181%
Indonesia (Jakarta)	205.7	9.0%	108	239	121%	6.6	9.5	44%
Thailand (Bangkok)	185.7	18.9%	163	345	112%	12.0	15.4	28%
Vietnam (Hanoi)	72.5	11.6%	98	145	49%	3.4	5.5	62%
Philippines (Manila)	31.0	33.5%	150	301	101%	7.7	9.2	19%
Myanmar (Yangon)	11.9	NA	29	53	83%	1.2	3.4	183%
Cambodia (Phnom Penh)	8.4	2.1%	...	74	...	2.3	3.6	57%
Bangladesh (Dhaka)	7.2	NA	43	74	74%	3.4	4.4	29%

- Labor productivity increase is not bad: minimum wage of Cambodia and Bangladesh have been rapidly increased; Myanmar minimum wage has not been set yet

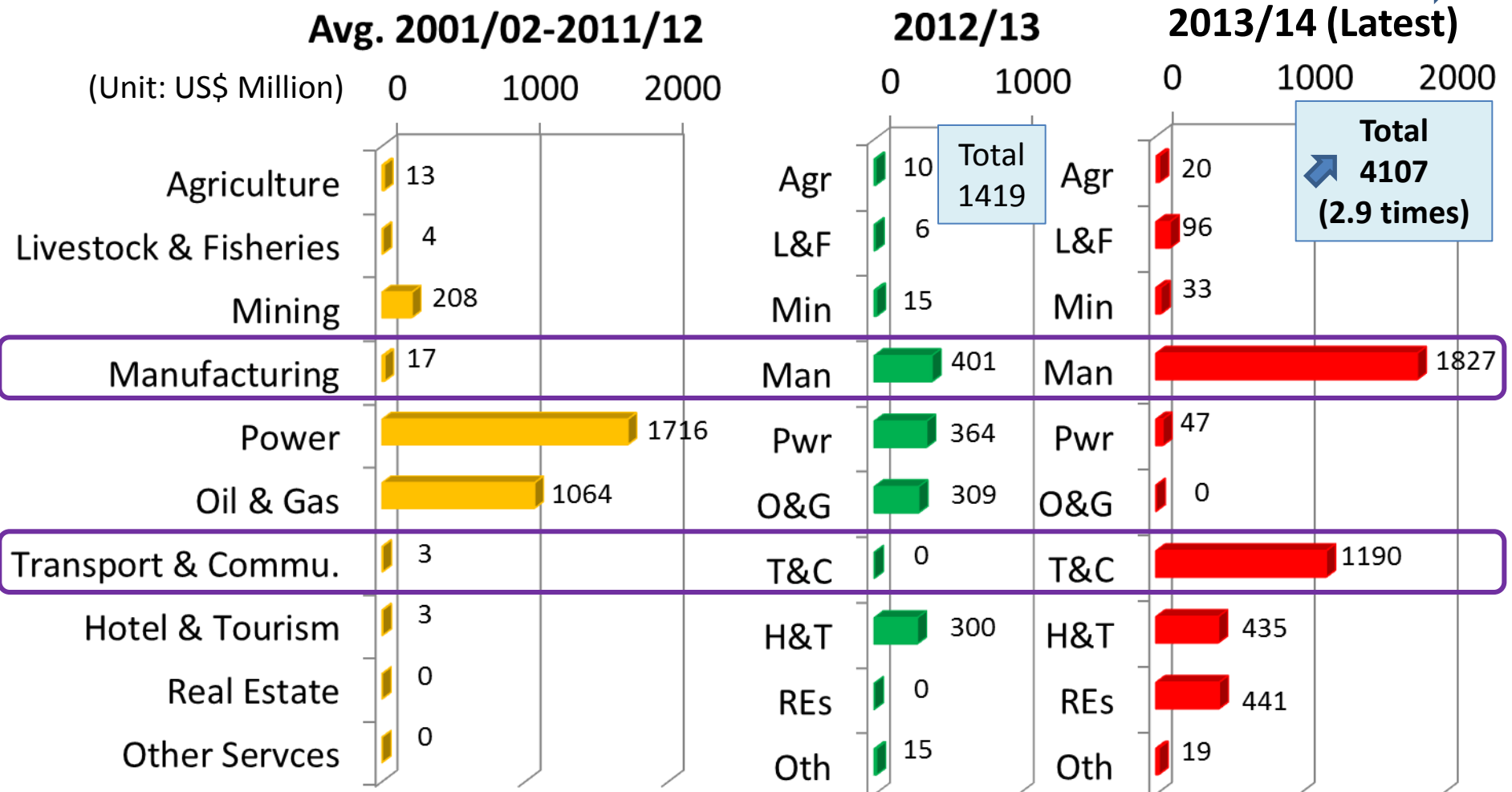


Diversification of investment sectors

FDI inflow to Myanmar tripled in 2013/14

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Diversification of investment sectors: increase of manufacturing



Note: 2013/14 = Myanmar fiscal year that starts on April 2013 and ends on March 2014

Source: DICA (2014); Homma (2014)



FDI Inflow (by country) (approved base)



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	2013/14	(Million USD)
1	Singapore	2,300.121
2	Malaysia	616.108
3	Thailand	529.072
4	UK	156.864
5	Vietnam	142.000
6	Hong Kong	107.102
7	South Korea	81.205
8	China	56.920
9	Japan	55.711
10	India	26.040
Other: 6 countries		35.912
Total: 16 countries		4,107.055

	1988/89-2013/14 Accumulated	No. Pjts.	(Million USD)
1	China	60	14,237.589
2	Thailand	73	10,098.465
3	Hong Kong	74	6,500.436
4	Singapore	111	4,522.367
5	UK	67	3,149.349
6	South Korea	89	3,060.436
7	Malaysia	47	1,647.393
8	Vietnam	7	513.186
9	France	3	474.360
10	Japan	45	325.994
Other: 24 countries		108	1,695.995
Total: 34 countries		684	46,225.570

- Asian countries (more recently Southeast Asian countries) dominated
- Some investment through third countries (eg. Japanese investment through its Southeast Asian core subsidiaries in Singapore) for administrative and tax reasons (eg. Tax Treaty)



Promising prospects by foreign investors



Long-term prospects by Japanese investors

FY2011

FY2012

FY2013

Result of a questionnaire survey (625 respondents)

Myanmar's ranking as promising countries/regions

No.19

↗ No.10

↗ No.8

Reasons (for viewed as promising country)

FY2012

FY2013

1 Inexpensive source of labour

72.9%

70.0%

2 Future growth potential of local market

50.0%

53.3%

3 Good for risk diversification to other countries

14.6%

20.0%

4 Qualified human resources

14.6%

10.0%

5 Base of export to third countries

12.5%

10.0%

Labour cost & market potential as considered 2 major reasons

Issues

FY2012

FY2013

1 Underdeveloped infrastructure

72.1%

↓ 64.3%

2 Underdeveloped legal system

48.8%

↓ 48.2%

3 Lack of information on the country

37.2%

↓ 32.1%

4 Execution of legal system unclear

32.6%

↓ 26.8%

5 Difficult to secure management-level staff

27.9%

↓ 25.0%

5 Security/social instability

51.2%

↓ 25.0%

All issue is considered as improving but still significant



Investment and Company Administration

- Established in 1993 under the Ministry of National Planning and Economic Development (MNPED)

- **Objectives:**

- To increase investments (local & foreign investment)
- To encourage private entrepreneurship
- To take part in regional and international economic cooperation



- **Functions:**

- Secretariat for the Myanmar Investment Commission (MIC)**

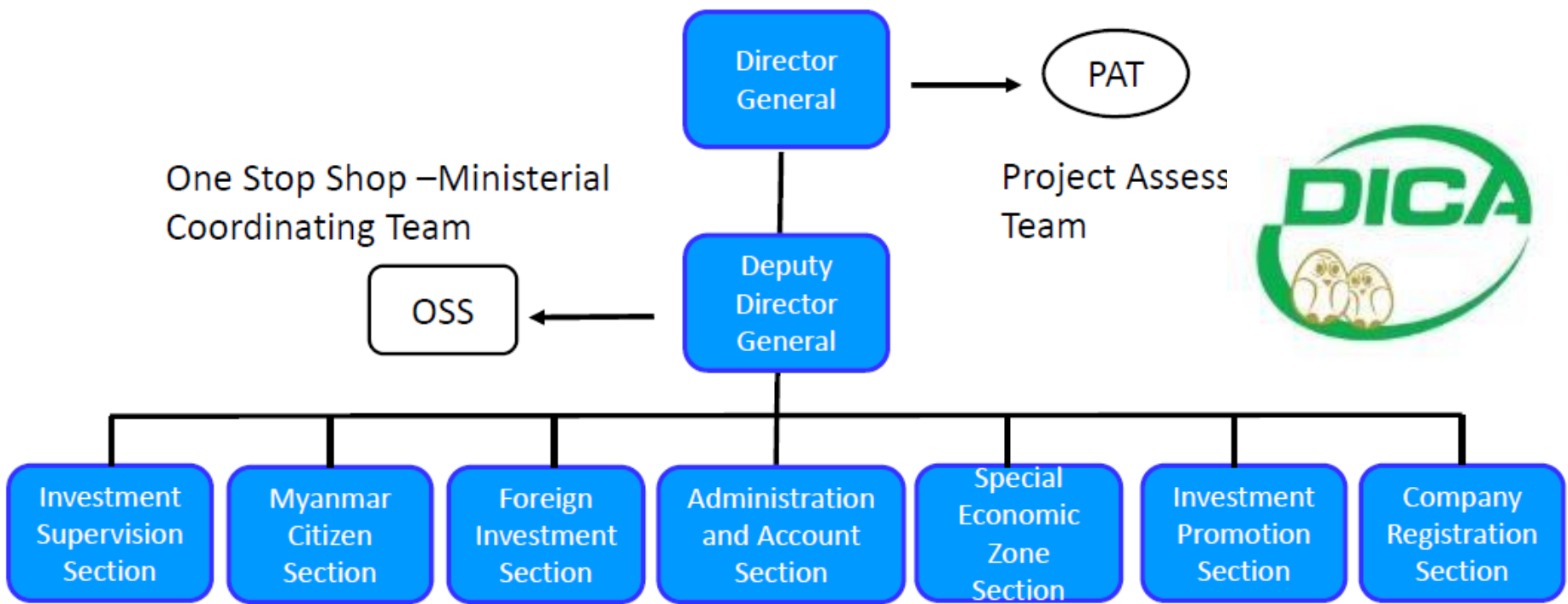
- Evaluate investment proposals
- Assist in solving investment issues
- Provide information to investors and coordinate with relevant ministries
- Draft laws and regulations related to investment (e.g. SEZs, FDI Law)
- Undertake regional economic cooperation on investment

- Business administration and registration**

(Source: DICA Website: <http://www.dica.gov.mm/dica.htm>)



DICA's Organization



- ❑ DICA consists of 7 sections with 225 staff as of January 2014.
- ❑ Plan to increase up to 535 staff by 2016 and assigned more officials in the regional branch offices.
- ❑ Just moved from Nay Pyi Taw (Capital) to Yangon (Largest city & Business Center) with new organization structure, based on sectoral orientation.
- ❑ DICA DG recently became Secretary of Myanmar Investment Committee (MIC).



Long-term Foreign Direct Investment Promotion Plan

- Objective of FDIPP is to set out the Myanmar's first comprehensive policy direction of FDI promotion...
- ... and to outline its transparent roadmap to reach its overall goal, contributing to Myanmar's further development and integration into the global economy.
- FDIPP aims to streamline its vision, goals and strategies with a framework corresponding to that of National Comprehensive Development Plan (NCDP) which is under preparation.
- Draft FDIPP has been prepared by DICA, supported by JICA, through a series of survey, interview, document analysis and workshops for consultation with various stakeholders; currently under authorization process.
- FDIPP will not give priority to any specific sector. But each sector's strategy should be respected and coordination should be conducted between DICA and relevant line ministries.



II-1. Structure of Draft FDIPP



VISION

VISION:
Dynamic economic growth led by FDI worth USD140 billion during the period of 2014 - 2030

NCDP*

GOALS with TARGETS

Short-Term (2015) with Target Amount : US\$ 4 billion/year
Increase of FDI to achieve access to the Global Supply Chain for Myanmar's economy and to contributes to the development of the domestic market as well as export.

Mid-Term (2016-2020): with Target Amount : US\$ 6 billion/year
Achievement of comparative advantages in the AEC with internationally-recognized reputation and realization of domestic industrial diversification.

Long-Term (2021-2030): with Target Amount : US\$ 8 billion/year (2021-2025), US\$ 11 billion/year (2026-2030)
Development of industrial agglomeration through continuous FDI-led industrial development with sophisticated infrastructure and multi-layered supporting industries that contributing as the core driver of Myanmar's sustainable economic growth

Official paper to support NCDP
• FESR*
• Five year plan (2011-15)
• Economic framework by National Transport Master Plan

Sector Plans

STRATEGIES followed by ACTION PLAN

Strategy 1: Strengthening of the Legal Foundation

- I) Relaxing the Restrictive Provisions
- II) Improvement of Legal Provisional Consistency
- III) Improvement of Transparency and Efficiency in Law enforcement

Strategy 2: Investment Facilitation for Industrial Development

- I) Facilitation of FDI's Portfolio Needs for Global Supply Chain (GSC)
- II) Facilitation of FDI in Diversification of Industry
- III) Facilitation of Infrastructure (hard and soft) Development
- IV) Facilitation of Technology Transfer and Human Resource Development

Strategy 3: Widening Investment Opportunities

- I) Wider opportunities for FDI in public sectors
- II) Extensive dialogue among stakeholders

Resource:
DICA (2014),
JICA Study (2014)

* NCDP: National Comprehensive Development Plan, FESR: Framework for Economic and Social Reform



Vision

Dynamic economic growth led by FDI worth USD140 billion* during the period of 2014 to 2030

*accumulated amount

Goals (with Target FDI amount: calculated to meet NCDP targets)

<p>Short-term (2015) <i>USD 4 billion/year</i></p>	<p>Increase of FDI to achieve access to the Global Supply Chain for Myanmar's economy and to contribute to the development of the domestic market as well as to export</p>
<p>Mid-term (2016-2020) <i>USD 6 billion/year</i></p>	<p>Achievement of comparative advantage in the AEC with internationally-recognized reputation and realization of domestic industrial diversification</p>
<p>Long-term (2021-2030) <i>USD 8 billion/year</i> <i>(2021-2025)</i> <i>USD 11 billion/year</i> <i>(2026-2030)</i></p>	<p>Development of industrial agglomeration through continuous FDI-led industrial development with sophisticated infrastructure and multi-layered supporting industries that contributing as the core driver of Myanmar's sustainable economic growth</p>



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II-4. Draft FDIPP Strategy 1:



Strengthening of the Legal Foundation

Responding to the needs of Foreign Investment Enterprises (FIEs), improvement of legal issues including consistency, predictability, transparency and efficiency in enforcing laws/regulations to be highlighted

*(Note) FIL: Foreign Investment Law;
MCIL: Myanmar Citizens Investment Law;
OSS: One-Stop Service*

1-1. Relaxing the Restrictive Provisions

- a. Review of JV and restrictive business permit requirements

1-2. Improvement of Legal Provisional Consistency

- a. Coordination between FIL and individual business laws
- b. Review of legal structure between FIL and MCIL

1-3. Improvement of Transparency and Efficiency in Law Enforcement

- a. Upgrading FDI application management mechanism / database
- b. Improving OSS by strengthening collaboration mechanism



II-4. Draft FDIPP Strategy 2



Investment Facilitation for Industrial Development

2-1. Facilitation of FDI's Portfolio Needs for the Global Supply Chain (GSC)

Research & analysis of investors' portfolio strategy
neighbouring countries' strategy; Effective investment
promotion; Linkage with domestic industry

2-2. Facilitation of FDI for Diversification of Industry

Coordination with priority sectors/areas designated in
specific policies/strategies for FDI promotion

2-3. Facilitation of Infrastructure (hard and soft) Development

Infrastructure including SEZ; regional development; finance

2-4. Facilitation of Technology Transfer and Human Resource Development



II-4. Draft FDIPP Strategy 3: Widening Investment opportunities

- 3-1. **Wider opportunities for FDI in public sectors**
Designate large-scale projects to attract FDI; Encourage private sector participation by introducing PPP with legal framework established

- 3-2. **Extensive dialogue among stakeholders**
Emphasize to encourage private sector initiatives and public-private cooperation strengthen coordination among stakeholders for further FDI opportunities

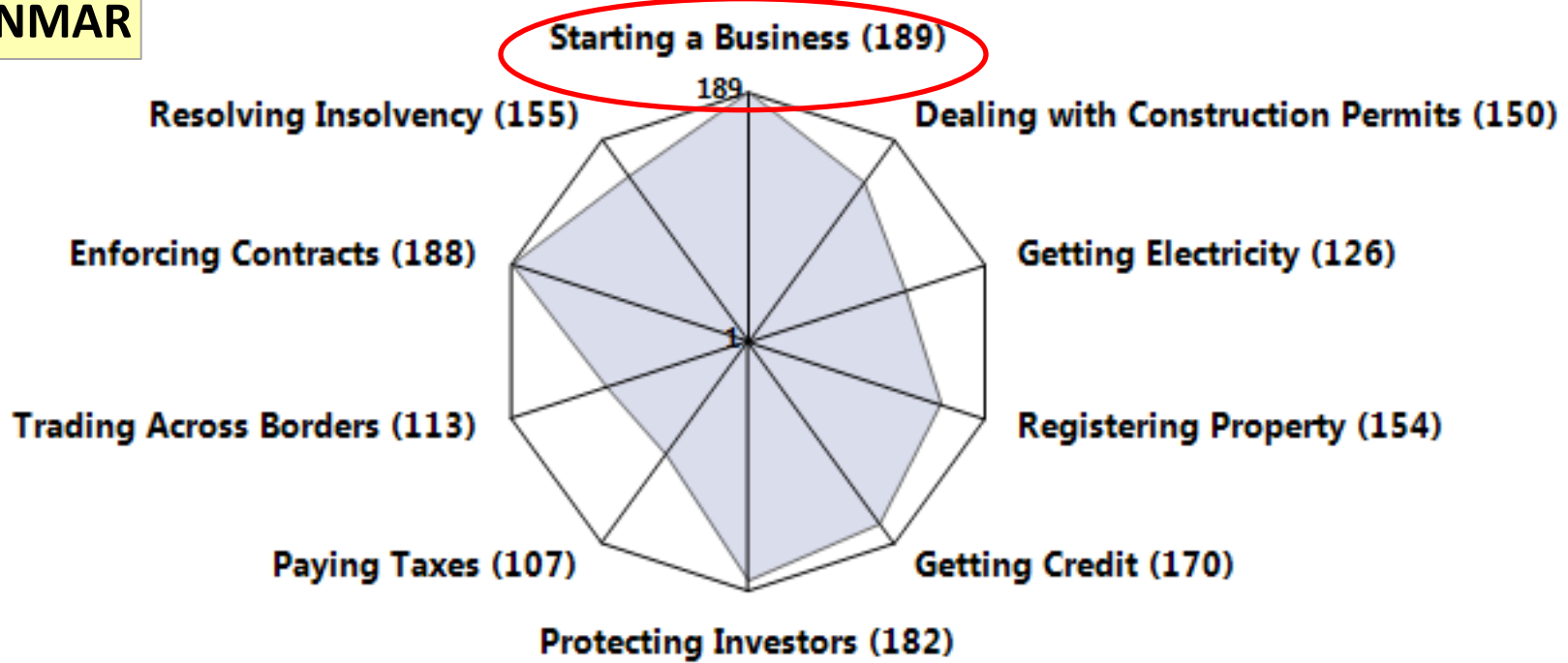


Improvement of doing business climate



Overcoming the Doing Business ranking debut last year at 182/189
Under the President's direction, various reforms are going on

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Indicators (Starting a business)	Myanmar	(East Asia & Pacific)
Procedures (number)	11	7
Time (days)	72.0	37.8
Cost (% of income per capita)	176.7	29.8
Paid-in. min. capital (% of income per capita)	7,016.0	293.3

Promisingly to be improved much in this year issue as some are already reformed !



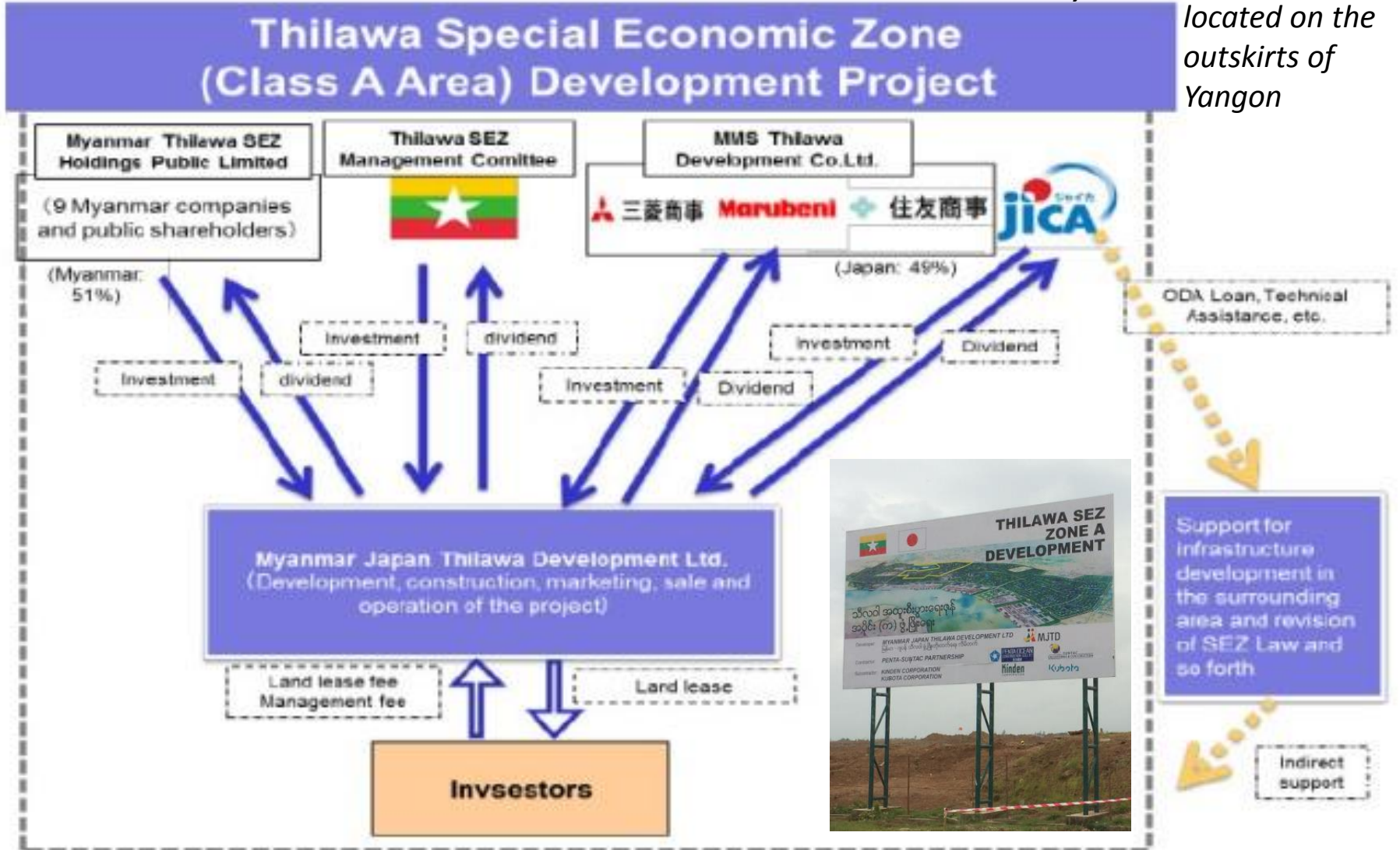
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Thilawa SEZ Development



Under development by both public and private sectors of both Myanmar and Japan. First Phase (211ha) of Class A Area (396ha) has been started to be sold. Total area is 2400 ha. New SEZ Law was enacted in January 2014.

located on the outskirts of Yangon

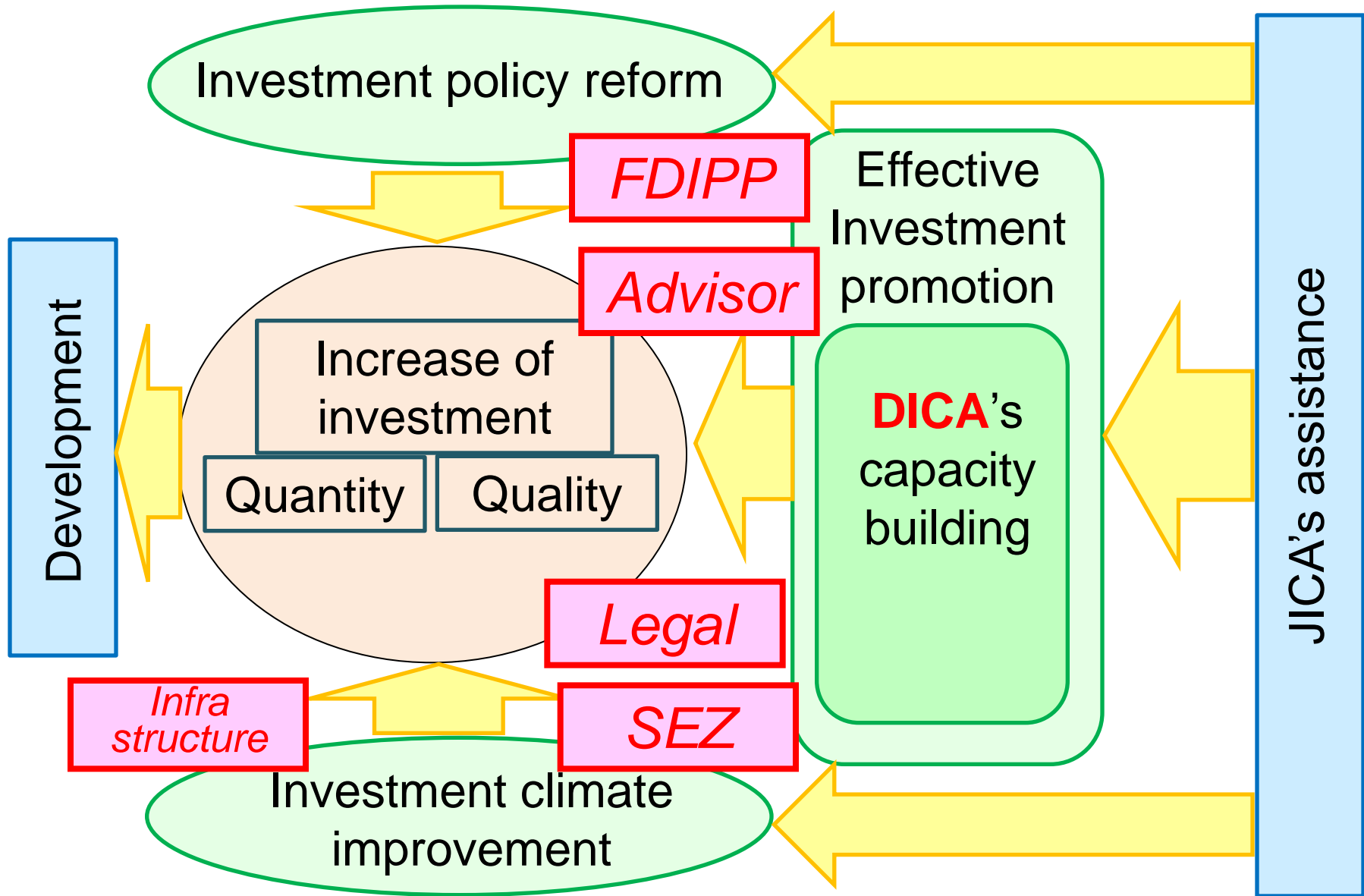




JICA's major approaches



for assisting investment promotion in Myanmar





Cambodia: open and welcoming approach



■ High concentration on light manufacturing esp. garment

- ✓ Labour-intensive, Low labour cost
- ✓ Typical feature: “CMT (Cut-Make-Trim)” garment/footwear
- ✓ Caution of rapid increase of minimum wage: \$61 → \$80(‘13.5) → \$100(‘14.2)

■ Becoming a part of global supply chain (GSC)

- ✓ “Thailand+1 approach”: horizontal division of labour at manufacturing process level

■ Quality investment

- ✓ Foot-rooting, employment creation, responsible inv.
- ✓ Japanese investment is welcomed as Quality Investment
- ✓ Individual approach by high-level for key/core investment

■ Investment climate

- ✓ Open investment policy, high focus on SEZs

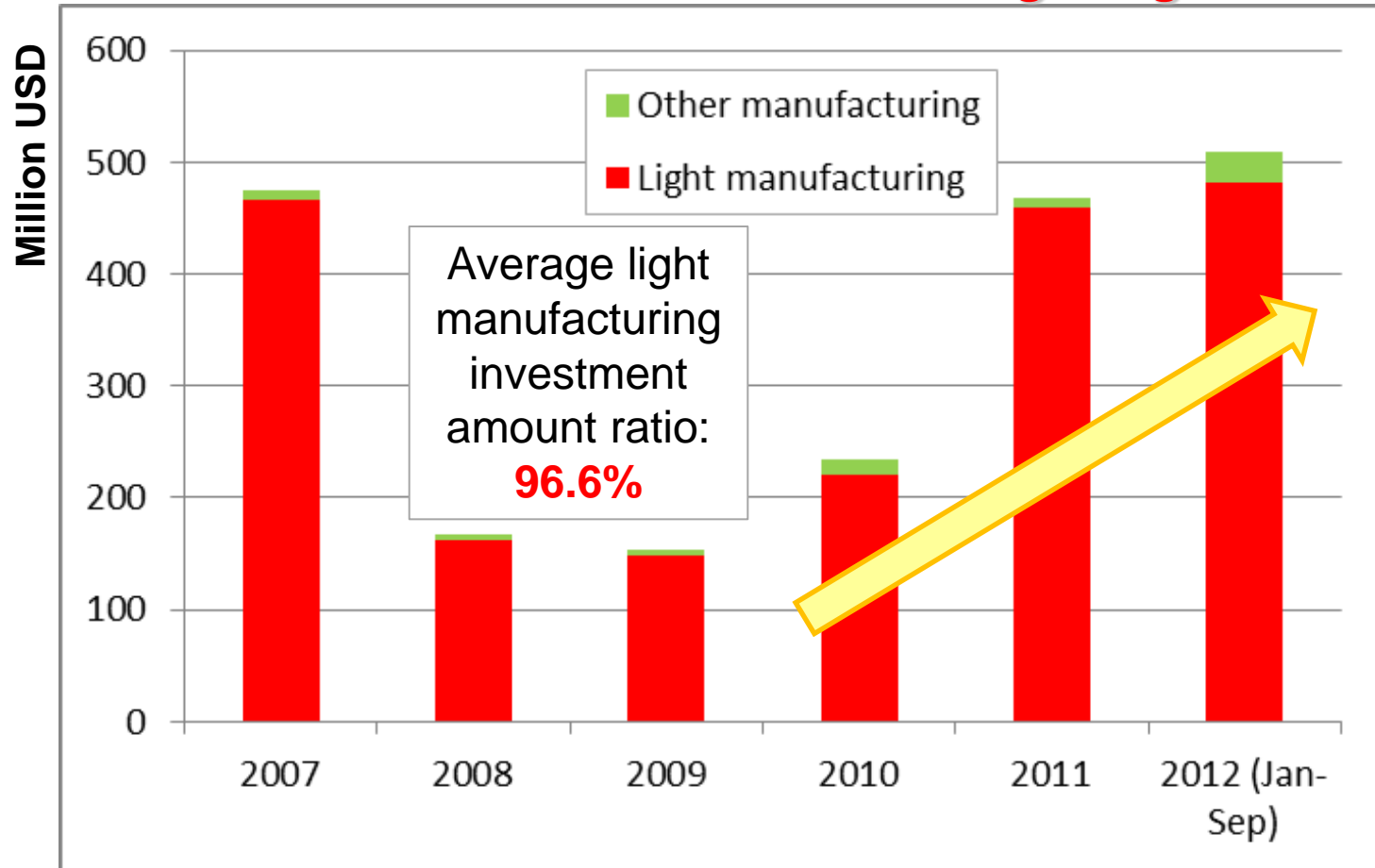
■ Now 2nd stage of Japanese investment rush by Aeon Mall

- ✓ First super mall for Cambodia; 49/190 tenants are Japanese
- ✓ From manufacturing sector to other sectors



Cambodia: FDI Inflow

Manufacturing investment has been increasing
Almost all the amount of manufacturing FDI goes to LM



Source: Calculated by author from the data on approved Qualified Investment Project (QIP) by Cambodia Investment Board (CIB) - Council for the Development of Cambodia (CDC)

Note: Manufacturing is defined as the sector classified under "industries" except for energy, mining and others. Light manufacturing is defined as the sub-sector of food, garment, shoes and wood.

Various actions to be done by IPA (CDC: Council for the Development of Cambodia) recommended by JICA project

Actions for Investment Information Services



Action 1	Periodical update of investment guidebook
Action 2	Periodical update of website
Action 3	Periodical update of QIP manual for investors
Action 4	Establishment of a library of investment-related information & data

Actions for PR Activities

Action 5	Set-up of units specialized in investment promotion of target countries
Action 6	Improvement of investment seminar management
Action 7	Training of provincial governments on investment promotion

Actions for Investment Consultation and Aftercare Services

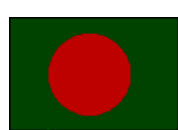
Action 8	Upgrading of reception desk (Investors Desk)
Action 9	Introduction of an investment approval tracking system
Action 10	Establishment and capacity development of aftercare service

Actions for Policy Advocacy

Action 11	Formulation of a proposal for investment climate improvement
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Actions for Organization and Management

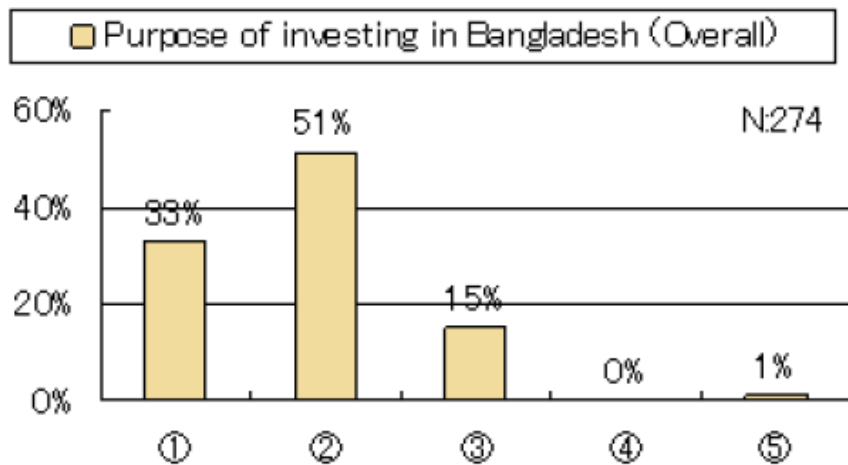
Action 12	Preparation and implementation of organizational reform
Action 13	Preparation of job description & job flow to enhance inv. Promo. function
Action 14	Introduction of task management system for effective provision of service
Action 15	Introduction of annual planning and budgeting mechanism
Action 16	Planning and implementation of training program



Purpose of investing in Bangladesh

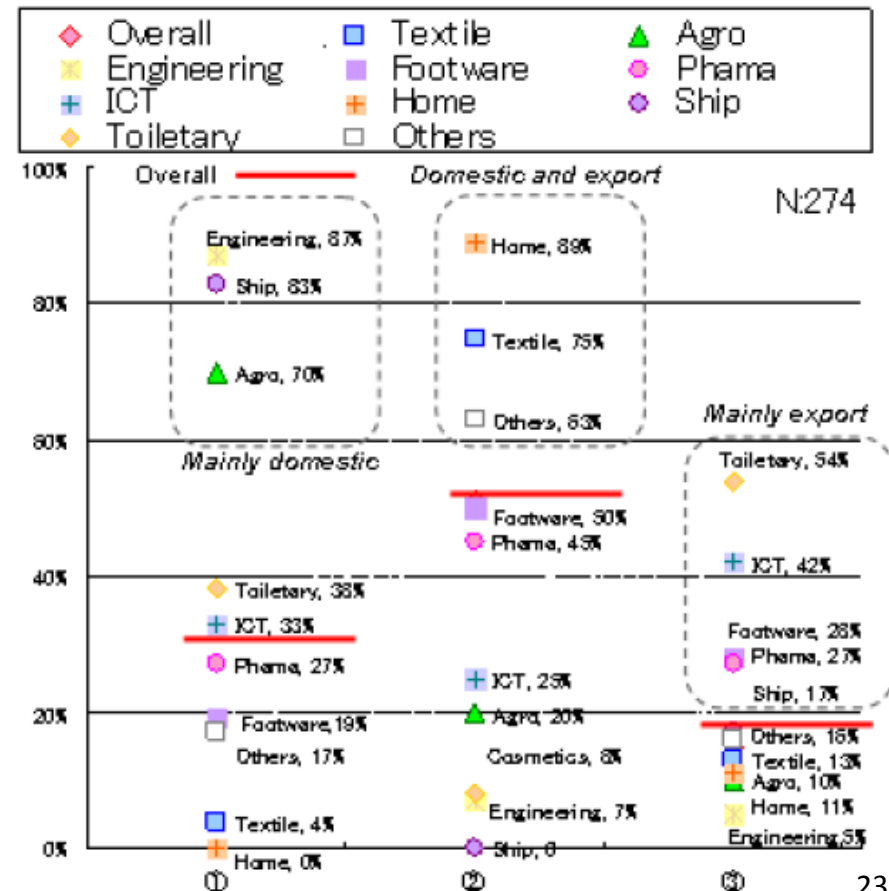
Japanese potential investors survey

- *Not only garment, but there are a variety of promising FDI industries: engineering, shipbuilding, pharmaceutical, ICT etc.*
- *Not only for export but increasing for domestic market targeted*



- ① Produce and sell products in domestic market
- ② Produce products in Bangladesh and export to other market
- ③ Produce and sell products in domestic market and export to other markets
- ④ Other purpose
- ⑤ n.a.

(By sectors)





Development strategy of Economic Zone

On-going policy changes toward private sector driven

	Previous		New	Remarks
Key regime	EPZ (Export Processing Zone)	➔	EZ (Economic Zone)	Diversification of mode of zones; difficulty of EPZ
Agency	BEPZA	➔	BEZA	2011 established
Capital & Management	Government driven	➔	Private sector driven	Introducing private sector's expertise & financial resources
Domestic linkage	Isolated	➔	Encouraged	In response to EPZ experience

Source: JICA (2012, 2014), table prepared by author

4 types of Economic Zone (EZ) categories

	Category name	Definition
1	Public and Private Partnership (PPP)	Economic Zones established through public and private partnership by local or foreign individuals, body or organizations
2	Private Economic Zones	Economic Zones established individually or jointly by local, non-resident Bangladeshis or foreign investors, body, business organizations or group
3	Government Economic Zones	Economic Zones established and owned by the Government
4	Special Economic Zones	Economic Zones established privately or by public-private partnership or by the Government initiative, for the establishment of any kind of specialized industry or commercial organization

Source: JICA (2012, 2014)



Bangladesh's “light engineering” industry

- What is “light engineering industry”?
- ✓ Key features are similar to light manufacturing: Labour-intensive, less capital etc.
- ✓ But it is essentially metal and engineering industry, which provides with smaller items
- ✓ Considered as “mother of all other sectors”
- It is unique to Bangladesh
 - ✓ Higher attention on light engineering
 - ✓ It is more often heard than “light manufacturing” (although Bangladesh is considered as one of the world leading light manufacturing bases, especially garment)
 - ✓ Private sector driven: Light Engineering Product Business Promotion Council (LEPBPC)

Summary and implications for Ethiopia



Although there are some similarities, each country has different approach according to country's situation; and each country does a lot for attracting further investment in particular manufacturing.

(1) Investment strategy

- ✓ Contribution to national development plan (=GTP in ET)
- ✓ Linkage to (priority) sector-oriented strategy
- ✓ Consideration of Investors' international portfolio strategy
= Global positioning of the country
- ✓ Legal framework and enforcement as basic platform

(2) Investment promotion agency

- ✓ Seeking overarching positioning in the government
- ✓ Need more capacity/capability of staff in quantity/quality
- ✓ Reducing time-consuming process (screening, docs etc)
- ✓ Enhancing advocacy role on behalf of private sector

(3) Investment-related legal framework

- ✓ Consistency, predictability, simplicity; as an entire package of investment-related legal system
- ✓ Gradual open-up of restrictive business area & policy space

(4) SEZ / Economic Zone / Industrial Zone

- ✓ Separated legal framework design
- ✓ Manufacturing and related/affiliated industries
- ✓ Strategic FDI attraction \leftrightarrow Regional balancing

(5) Labour cost competitiveness

- ✓ Securing sustainability of current advantage is most pressing issue
- ✓ Balanced increase of labor productivity and minimum wage but difficulty due to wage claim and RBC/CSR

Summary and implications for Ethiopia



(6) Hard infrastructure

- ✓ Hard infrastructure: power as always No.1 challenge for manufacturing sector; road and alternative transport

(7) Finance and customs as soft infrastructure

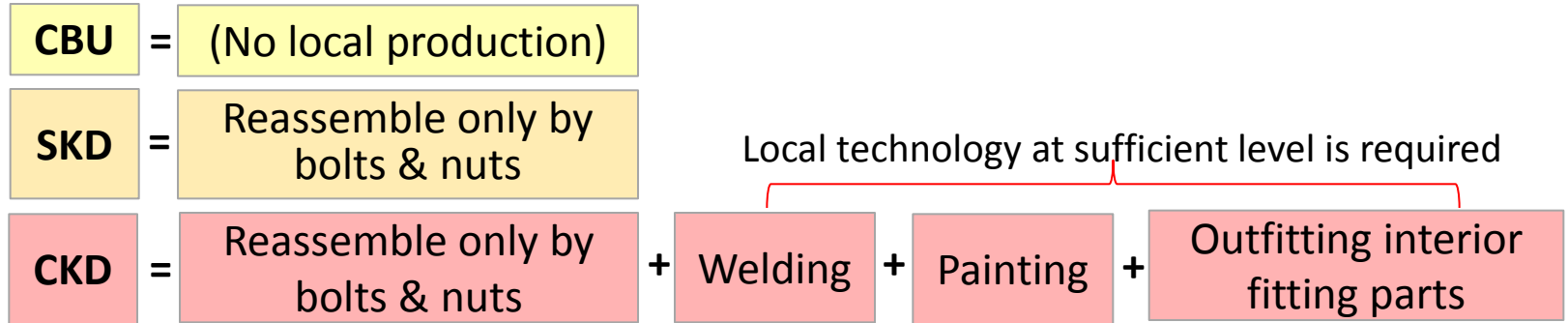
- ✓ Deregulation for foreign bank \leftrightarrow protection of domestic bank
 \leftrightarrow ? domestic industry support
- ✓ “Parent-subsidiary loan” by foreign companies
- ✓ Custom duty difference among CBU/SKD/CKD (see next page)

(8) Global Value Chain (GVC) / Regional integration

- ✓ Thailand + 1: deepening of inter-process division of labor
- ✓ ASEAN Economic Community (AEC) into effect in 2015 \rightarrow competitiveness, connectivity, corridor approach, RECs
- ✓ Sound supporting industries bases to enter into GVC

Automobile investment among CBU/SKD/CKD

- For automobile and motorcycle industry, Semi Knock Down (SKD) and Complete Knock Down (CKD) production are often introduced where domestic industry is not developed



Source: JAMA (2008), Homma (2014)

- In order to develop domestic car industry, step by step shift is needed from Complete Build Up (CBU) to SKD/CKD and finally local parts supply
- Many countries impose higher custom duty on complete car than SKD/CKD (and car components) to enhance this shift (Egypt, Malaysia, Russia etc.), on the other hand some countries discourage it without significant (or even minus) duty difference

Policy support for facilitating step-by-step shift along with country's capacity development

Stage	CBU	→	SKD	→	CKD	→	Local parts supply
Benefits	Sufficient car supply		Employment creation		Local add value		Industrial development
Challenges	No technology transfer		Less local add value		Lack of quality local techniques		Lack of supporting industries

Amesegenalew

Thank you



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