Executive summary

After years of economic isolation, the government of Myanmar has initiated a wide range of reforms to open its economy to foreign trade and investment. As set out in the *Framework for Economic and Social Reform,* the reform programme includes: budgetary and tax reforms; monetary and financial sector reforms; liberalisation of trade and investment; food security and agricultural growth; land issues; and improvements in infrastructure availability and quality. The country stands to benefit from greater global and regional economic integration, with its rich natural resources base, young labour force and strategic geographic location between India and China.

Bringing about simultaneously a political and economic transition will not be an easy task. In the early 1960s, Myanmar was one of Asia's leading economies but fell substantially behind many of its peers in ASEAN during the lost decades of military rule. Some relevant reforms were never implemented, and those that were failed to modernise the country. Now Myanmar finds itself with a legislative framework that is often outdated and inadequate, and with limited capacity to implement widespread reforms.

As it undertakes the necessary structural reforms to boost Myanmar's development through greater integration with the world economy, the government can draw on some relevant lessons from an earlier attempt in the late 1980s to open up the country to foreign investment. Investments by multinational enterprises, often in joint ventures with state economic enterprises in extractive industries and the energy sector, provided little tangible benefits to local populations and were often seen as contributing to human rights abuses.

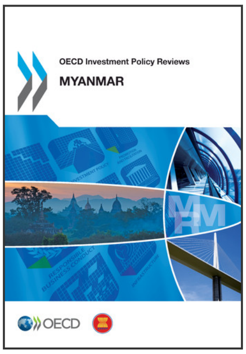
Building an appropriate framework for investment can help to avoid repeating the past experience and contribute to attracting the type of investment that adds to Myanmar's development. More can be done to promote responsible business conduct in the country by enhancing public consultations on changes in the legislative framework and on investment projects, as well as by signing many of the key international conventions related to labour and human rights. A continuing area of concern involves land acquisition for large-scale investment projects. Property rights are not well-established and populations living or working on the land have complained about inadequate consultation and compensation. It will take some time for the government to build the capacity to implement and enforce human rights, labour and environmental standards and consumer protection throughout its territory, hence there is scope civil society, both internationally and within Myanmar, as well as governments in investor home countries, to play a complementary role to ensure that investment in Myanmar contributes to inclusive and sustainable development.

The enactment of the new *Foreign Investment Law* and its accompanying implementing rules marks a milestone towards a more open and secure legal environment for investment but is only the first step in a long process. The law still leaves many questions unanswered, notably with respect to investor protection and the criteria for admitting foreign investors. The mechanisms for enforcing contracts and property rights and for settling disputes remain weak. The current regulatory framework is complex, with half a dozen laws regulating the entry of investors, depending on the sector and location of the investment and on whether or not the investor is foreign. The approval process is equally complex and sometimes opaque. Moreover, the new rules set out an extensive list of sectors in which foreign investment is either prohibited or restricted.

More still needs to be done to strengthen investment promotion and facilitation in Myanmar so that it can provide the private sector with an avenue to interface with the government. Despite the various initiatives to streamline business registration and procedures, the current system remains cumbersome. If accompanied by the right mix of supporting policies and measures, special economic zones can also play a central role in Myanmar's efforts to attract investment and to promote competitive semi-manufactured or manufactured goods with significant local value addition. Furthermore, substantial investment is needed in physical and social infrastructure. For this the government will need to improve revenue mobilisation and encourage greater private sector participation in infrastructure. The tax system does not generate enough revenue to ensure fiscal stability or to curb budget deficits. Myanmar currently has one of the lowest levels of tax revenue collection relative to GDP, forcing the government to rely on unstable revenues from natural resources to meet its spending needs.

Particular attention is needed in the agriculture sector which is faced with low productivity. While Myanmar was once the "rice bowl" of Asia, the sector has suffered from decades of extensive government controls and under-investment. More appropriate policies and increased government support for the sector could help Myanmar to recover its place as a major agricultural producer and exporter in Southeast Asia. In reforming the sector, land tenure security remains a major challenge ahead and should be a government priority.

Addressing many of these challenges will take time, particularly the question of capacity, while some may be tackled in a shorter timeframe. Failure to do so will affect both the credibility and effectiveness of reforms in achieving the desired outcomes in terms of inclusive and sustainable development. This review takes a broad brush to the question of investment climate reform and draws attention to numerous policy options available to Myanmar in each area of the *Policy Framework for Investment*. Some policies can be implemented relatively quickly, while others are more aspirational recommendations which will require more fundamental changes in the way the government goes about its business.



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