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TRADE POLICY REVIEW

REPORT BY

MYANMAR

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Myanmar is attached.

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1 OVERVIEW

1.1. As recently as 2011, Myanmar was still labelled a pariah state. However, this perception has changed as a result of the general election in 2010 followed by the establishment of a civilian government and President U Thein Sein's election in March 2011. In his inaugural speech, the President stressed the importance of reform and openness in launching the first stage of reforms, with emphasis on solidifying national reconciliation and building good governance. A year after these reforms were introduced, the President announced a second stage of reforms in May 2012, focusing on the economic as well as social transformation of Myanmar. The wide-ranging *Framework for Economic and Social Reforms* (FESR) was released in late December 2012. It was prepared in order to push the ongoing reforms forward and to accelerate Myanmar's integration into the international community. The FESR outlines policy priorities for the Government of Myanmar (GOM) during the next three years, with emphasis on agro-based industrial development, equitable sharing of resources among the regions and the states of the country, promoting local and foreign investment, effective implementation of people-centered development, and poverty reduction.

1.2. In the context of these developments, the GOM welcomes Myanmar's first Trade Policy Review (TPR), which is undertaken in the spirit of transparency, as embodied in the TPR Mechanism. It provides an excellent opportunity to bring to Members' attention progress during the past three years in transforming Myanmar from a centrally-planned into a market-oriented and more open economy at the cross-roads of Asia, and re-integrating it into the global economy, after five decades of isolation and consequent stagnation. This TPR also highlights the formidable challenges Myanmar faces in advancing its economic and social development and the key roles of trade and related policies in meeting these challenges. Liberalization of trade and foreign investment is an integral part of these economic reforms. Accordingly, Myanmar is looking increasingly outward and strongly supports the multilateral trading system (MTS). An open global trading system, including access to export markets and inward flows of FDI, is a key to Myanmar's economic development and thus poverty reduction.

1.3. At the same time, however, as a consequence of its membership of the Association of South East Asian Nations (ASEAN), and the latter's deepening economic relationship with China, Japan, Korea, India, Australia and New Zealand, Myanmar is becoming increasingly integrated economically with these regional trading partners.

1.4. The opportunities for freer trade created by the MTS and these regional trade agreements are also providing an impetus for unilateral market-driven reforms, which will enable Myanmar to take advantage of these opportunities in order to achieve sustained growth and diversify its economy, which is rich in natural resources, but hitherto largely under-developed.

1.5. The single most important economic reform so far has been the replacement of the overvalued official foreign exchange rate peg with a "managed float" in April 2012 (a main step in removing restrictions on the purchase and sale of foreign exchange for the import and export of goods and services). Among the other major economic reforms have been the new, much more liberal, law aimed at ensuring a stable and predictable environment for foreign investment, which was passed in November 2012. In addition, Myanmar has, inter alia, abolished import and export licensing requirement on an initial selection of 1,928 non-sensitive commodities, made some progress on land and tax reform, and made improvements to basic infrastructure (transport and telecoms). Further reforms are envisaged, including: the granting of more autonomy to the Central Bank of Myanmar (CBM) as a consequence of its separation from the Ministry of Finance in accordance with the new CBM law, which entered into force on 11 July 2013; a new financial sector law to improve the functioning of the capital market; and an overhaul of Special Economic Zones, a key element of the government's industrial development plan.

1.6. In order to ensure continued strong, sustainable and inclusive growth, Myanmar faces a number of economic policy challenges, many of which are inter-related. These include: establishing a market-oriented economy in which private enterprises play an increasingly important role; integration into the global and regional economy through trade and inward FDI (a major source of new technology and managerial know-how); achieving the removal of remaining restrictions imposed by some Members on investment in Myanmar; enhancing the transparency of economic policies and measures; establishing a fiscally viable Government that can address Myanmar's developmental needs, including essential infrastructure (such as that involving electricity, transportation, telecommunications, water, educational and health facilities); developing Myanmar's abundant natural and human resources so as to ensure that the fruits of economic growth are fairly shared, thereby contributing to social harmony; and ensuring that growth is not detrimental to the environment. These and other challenges, together with the policies designed to address them, are laid out in the Framework.

1.7. This Review also throws light on Myanmar's institutional capacity constraints and related technical assistance (TA) needs. Indeed, Myanmar greatly appreciates the TA provided by international organizations and WTO Members, which, among other things, is enabling Myanmar to bring its trade policies and measures into line with its WTO obligations, thereby creating a trade regime that is non-discriminatory, predictable and, more importantly in the context of this TPR, transparent. Myanmar relies on Members' continued support in meeting these obligations.

1.8. With this and other support, the Government of Myanmar, among the poorest countries in ASEAN, is confident that it can pursue the wide-ranging economic and trade reforms necessary to overcome the formidable challenges it faces, thereby enabling Myanmar to realize its full potential and thus learn from the success of other countries in the region in lifting per capita income and reducing poverty.

2 BACKGROUND

2.1. Prior to World War II, Myanmar briefly enjoyed the economic benefits of its integration into the world economy and became a world leading exporter of rice. However, the 1929 Wall Street stock market crash exposed the vulnerability of its resource-based economy. Rice exports, which were then Myanmar's largest source of foreign earnings, dropped by more than half in the subsequent three years and made hundreds of thousands of rural families landless. World War II subsequently brought a fatal blow to Myanmar with the destruction of much of its infrastructure and industries.

2.2. Immediately prior to its independence on 4 January 1948, the 1947 Constitution was enacted, marking the end of British rule, and Myanmar (Burma then) became one of the 23 original founding members of the General Agreement on Tariffs and Trade (GATT). From then on, the post-war history of Myanmar's political and economic development may be succinctly categorized into four periods of Government: Parliamentary Democracy, 1948-1962; Burmese Way to Socialism, 1962-1988; Market-orientation under Military Government, 1988-2011; and Newly-Elected Government since March 2011.

2.1 Parliamentary Democracy, 1948-1962

2.3. The newly-democratic state had to contend with a multi-ethnic society, devastated infrastructure and industries, a diminished national army and a national aspiration to take control of key economic activities. The monopolized rice trade and timber industry were thus nationalized and some key industries were earmarked to be developed by state-owned economic enterprises (SEEs). It is against this background of weak national institutions and political instability that the Myanmar's army staged a coup in 1962.

2.2 Burmese Way to Socialism, 1962-1988

2.4. The economic strategy of the military Government was termed "The Burmese Way to Socialism", which encompassed central planning and self-reliance. The country became ruled essentially by decrees issued by the Revolution Council. The Government took swift action by nationalizing all enterprises involved in foreign, wholesale and retail trade and main industries, as well as implementing a series of price controls on the agriculture sector. In respect of trade, exports were indirectly taxed by maintaining national buying prices of commodities below their international prices by SEEs. Imports were managed in accordance with government priorities and availability of foreign exchange. Worsening economic conditions led the military Government to make some adjustment in the mid-70s, such as allowing official development assistance and encouraging SEEs to improve their efficiency. In 1987, the Government sought and obtained least developed country status.

2.3 Market-orientation under Military Government, 1988-2011

2.5. The Burmese Way to Socialism finally collapsed in September 1988, when a new military group took over the Government. The State Law and Order Restoration Council (SLORC) removed some restrictions on private sector participation in domestic and foreign trade and a new Foreign Investment Law (1988) was introduced to encourage foreign investment in the economy. The market-oriented reforms brought back economic growth and underpinned the Government's decision to seek and obtain ASEAN membership in July 1997. However almost simultaneously, government intervention in the economy was reinforced by means of more controls on business and trade. In May 2008, the tragic Nargis cyclone swept through the Irrawaddy Delta, leaving in its wake about 140,000 people dead, millions homeless and inflicting economic losses estimated at about 2.7% of GDP. A new Constitution was approved by referendum in 2008 and was instrumental in the establishment of a new government in 2011.

2.4 Newly-Elected Government since March 2011

2.6. The newly-elected Government has launched major reforms that have centered on three parallel processes: a peace process that strives to end all ethnic conflict ongoing since independence and achieve lasting peace; the transformation from military rule to democratic administration; and the replacement of a centralized economic system with a market-oriented economy. Myanmar, a poor country, is facing tremendous challenges in meeting these objectives. After decades of authoritarian rule, systemic changes are now needed to tackle these social and economic challenges.

3 TRANSPARENCY AND OTHER INSTITUTIONAL DEVELOPMENTS

3.1 Participation in the Multilateral Trading System

3.1. In formulating and implementing its trade and trade-related policies, the GOM seeks to adhere to the basic WTO principles of non-discrimination and predictability as well as transparency. As regards the latter, although Myanmar, a least developed country, currently lacks the capacity to fulfil its obligation to notify Members fully and promptly of changes in those trade policies subject to WTO agreements, it is making every effort to do so, thanks to technical assistance (TA) provided by the WTO and its Members as well as other international institutions, notably the Asian Development Bank (ADB), International Monetary Fund (IMF), and World Bank. Furthermore, Myanmar welcomes the WTO's first review of its trade and trade-related policies, undertaken in accordance with the Trade Policy Review Mechanism (TPRM).

3.2. Given its lack of technical expertise in WTO matters, the GOM also appreciates the extremely useful role this first TPR plays in throwing light on, and thereby drawing Members' attention to, Myanmar's TA needs in this regard. It is also extremely grateful to the ADB for its TA, which has greatly assisted the Government in its preparations for this Review. Such TA and capacity building is essential if Myanmar is to be able to undertake the wide-ranging reforms that are necessary to meet the many formidable challenges it faces, especially with regard to trade and trade-related policies.

3.3. As regards further trade liberalization, Myanmar is committed to achieving a successful conclusion of the ongoing negotiations related to the Doha Development Agenda (DDA). In this context, Myanmar is willing to, *inter alia*, bind more of its tariff lines and improve its offer of commitments pertaining to those service sectors covered by the GATS, provided mutually satisfactory results can be achieved in these negotiations.

3.2 Institutionalization of Transparency

3.4. Myanmar's recent reforms have been aimed not only at "establishing a more transparent and inclusive political process" so that the democratization process succeeds. The GOM recognizes that transparency also provides the solid foundation for a thriving market economy as well as for good governance, including informed policy-making, because transparency reduces the scope for administrative discretion, and thus corruption, and ensures public accountability in the formulation and implementation of policy. In accordance with its objective of more open and transparent government, Myanmar has been undertaking reforms intended to enhance the transparency of its trade and trade-related policies and regulations, thereby increasing public accountability.

3.5. As mentioned in the Secretariat's report, enhancing transparency in the public sector has been one of the priorities of the Ministry of Commerce since 2006. The Ministry set up two websites (www.commerce.gov.mm and www.myanmartradenet.com.mm) where businesses can obtain trade information. Businesses may apply for licences from www.myanmartradenet.com.mm. The Ministry of Commerce also publishes a weekly "Commerce Journal" and a monthly "Trade News" booklet that provide trade-related information to the public and private sector. In addition, it has been cooperating closely with the Republic of the Union of Myanmar Federation of Chambers of Commerce and Industry (RUMFCCI) and other associations, conveying trade information and notifications to those organizations in a timely manner.

3.6. Furthermore, in recognition of the key role of Parliament (the Hluttaw) in the reform process, the Government now consults regularly with Parliament in undertaking economic as well as political and social reform so that the Government functions more effectively and efficiently. For example, in connection with the formulation of fiscal policy, the Government and Parliament discussed the budget bill for 2013 transparently and effectively, taking into account inputs from various constituencies. As a result, the passage of the budget bill will become increasingly systematic over time. In addition, citizens now have access to information regarding all discussions and hearings on the budget bill in Parliament. Moreover, a Tax Service Unit (TSU) was established in Yangon in 2012 in order to improve transparency in taxation by providing information to taxpayers and also investigating their complaints. Other TSUs were established elsewhere in 2013.

3.7. Two other major developments concerning transparency have been the publication in the government media of the texts of all draft laws and discussions thereof since 9 July 2012 and the subsequent lifting of press censorship on privately-run newspapers in 2013.

3.8. Many of Myanmar's existing laws are very old and out-dated, with some dating back to the pre-1948 period. These and much subsequent legislation were also rather vague leaving a great deal of scope for administrative discretion in the application of implementing regulations. In other instances, policies and measures had no legislative basis at all. However, the laws providing the basis for recent reforms are much more precise and detailed (as well as less restrictive), and thus more transparent.

3.9. Greater transparency is also levelling the corporate playing field in Myanmar in the natural resource and telecommunications sectors. The auction of exploration rights to 30 offshore oil and gas blocks is a case in point, with the Government now publicly advertising tenders in English and inviting international companies to apply. Similarly, the recent bidding process for two national telecoms licenses was opened to international bidders.

3.10. As regards the development of Myanmar's abundant natural resources, the Government is also preparing to be a signatory to the Extractive Industries Transparency Initiative, including transparent financial accounting, to ensure that there is maximum transparency in these sectors. This initiative can enable everyone to know where the revenues from these industries are going and thereby ensure that the benefits go to the vast majority of the people and not to just a small group.

3.11. In order to ensure the effectiveness of development assistance, the Government has instituted a monitoring and evaluation mechanism. It will also try to make the development assistance more effective by regularly sharing with its development partners information about the projects and programs being implemented.

3.12. An accurate and timely statistical data base is a prerequisite for transparency and evidence-based policy making. Without such a data base and key statistical indicators, policies are formulated largely in the dark. Accordingly, the GOM attaches high priority to improving the accuracy and timeliness of statistics with a view to making them publicly available. Some useful data are expected to be collected from the nationwide population census, the first in three decades, which will be conducted in 2014, and whose main objective is to obtain the basic population and socio-economic data necessary to formulate, implement, monitor, and evaluate development policies. The Government is grateful to the ASEAN, the European Union (EU) and

IMF, among others, which have kindly provided technical assistance on key statistics (including inflation and trade) and would like to request Myanmar's international partners to assist with other key statistics and the census in any way they can.

3.13. Corruption is the consequence of opaque laws and regulations, and thus administrative discretion. In a crack-down on corruption, including the practice of accepting or soliciting kickbacks and bribes to award contracts, between April 2011 and December 2012, almost 17,000 state employees were disciplined, nearly 5,000 dismissed, some 400 sent to jail, and 80 forced to return money. Also, almost 700 police personnel were punished for corruption. In another significant step forward, Myanmar became a Party to the United Nations Convention against Corruption (UNCAC), which entered into force on 19 January 2013. The Convention provides Myanmar with a comprehensive framework to fight corruption through preventive measures, law enforcement and international cooperation and asset recovery. Adoption of the Convention coincided with the President's announcement of "a third phase of reform" targeting corruption in the country. In connection with the UNCAC, an anti-corruption law was enacted on 17 September 2013.

3.14. In order to streamline bureaucracy and improve delivery of public services as well as to root out corruption, the Public Services Performance Appraisal Task Force was established by the President in June 2013. Comprising 12 to 15 members including cabinet ministers, academics and politicians, the body is headed by a former Minister of Commerce, who reports directly to the President. The Task Force is required to report back within two months with recommendations that could include the restructuring or elimination of some government departments, changes in personnel, reform of fee structures and bureaucratic processes. Some, but not all, of its recommendations will have to be approved by Parliament. But changes are already in place on smaller procedures, such as duplication of forms. To gather first-hand information, the Task Force launched consultations in Yangon with business groups, ordinary consumers and bureaucrats. In one such session, some 70 key business representatives were gathered for a day-long session to question them closely about customs, commercial tax and trade-related procedures, such as export and import licenses.

3.3 Regional Integration and Cooperation

3.15. With other ASEAN Member States to the south and east, China to the north-east, and India and Bangladesh to the west, Myanmar borders more than two billion people and the fastest growing markets in the world. Thus, the GOM attaches a high priority to regional integration and cooperation with ASEAN's Member States and its Dialogue Partners, namely Japan, Korea, China, India, Australia and New Zealand.

3.16. Myanmar joined the ASEAN in 1997 and will assume its chairmanship in 2014. While the eventual aim of the ASEAN Free Trade Area (AFTA) is to eliminate import barriers to all products within the region by 2015, Myanmar enjoys some flexibility, which allows it to eliminate tariff and non-tariff barriers by 2018. The outcome is that Myanmar's trade with ASEAN Member States and its Dialogue Partners accounted for about 95% of total trade in the past few years. In order to ensure the free flow of services, Myanmar is also committed to liberalizing intra-ASEAN trade in its services sectors by 2015. In order to increase intra-ASEAN investment and attract foreign investment into ASEAN, the ASEAN Comprehensive Investment Agreement (ACIA) was signed in 2009 with the intention of streamlining existing ASEAN Investment Agreements.

3.17. The potential benefits from further cooperation and integration with neighbouring countries are such that the GOM is focused on meeting the requirements for the establishment of the ASEAN Economic Community (AEC), with freer flow of goods, services, capital and skilled labour. Signed by ASEAN Leaders at the 13th ASEAN Summit on November 20, 2007, the AEC Blueprint lays the foundation for realising the goal of ASEAN as an integrated economic region by 2015. The AEC consists of four pillars: a single market and production base; a highly competitive economic region; a region of equitable economic development; and a region that is fully integrated into the global economy. Each of the four pillars involves various measures and initiatives that are being implemented to achieve the goals of the AEC. Myanmar plans to address the legislative and regulatory limitations that impede the timely implementation of intra- and extra-ASEAN commitments. It also plans to strengthen the Ministry of National Planning and Economic Development (MNPED), the national coordinating agency for AEC, to effectively coordinate implementation across various focal points and implementing agencies. The GOM has also informed and engaged the private sector to assess the preparedness and effectiveness of policies and measures. It also facilitated the establishment by the RUMFCCI of a well-functioning mechanism to monitor the outcomes, analyse the impacts, and address the capacity gaps to ensure that the achievement of the AEC targets will deliver maximum benefits to the private sector.

3.18. To ensure a timely implementation of the AEC initiatives, ASEAN has established a monitoring mechanism called the AEC Scorecard. As a compliance tool, the AEC Scorecard reports progress in implementing the various AEC measures, identifies implementation gaps and challenges, and tracks the realisation of the AEC by 2015. Judging by the latest report issued by the ASEAN Secretariat in 2012, Myanmar's progress is comparable to other ASEAN Members, except regarding measures to promote the free flow of capital. However, the AEC Scorecard only states that Myanmar has signed ASEAN-wide agreements and that they have been transposed into national laws; the actual degree of implementation and enforcement of specific initiatives may still lag behind the agreed schedule. Nevertheless, the Government intends to implement all its ASEAN commitments by 2015 or 2018 in accordance with the built-in flexibility.

3.19. As a consequence of its membership of ASEAN, Myanmar also participates in ASEAN's preferential agreements with China, India, Japan, Korea, Australia and New Zealand. Moreover, with a view to promoting greater economic integration in the Greater Mekong Sub-region (GMS), Myanmar, Cambodia, Lao PDR, Thailand, Viet Nam, and Yunnan Province of China have been involved in the GMS Program (launched in 1992), whose purpose is to enhance economic linkages across these countries' borders. In 2010, the GMS countries approved a comprehensive medium-term program of Actions for Transport and Trade Facilitation (TTF). Moreover, Myanmar is a member of the BIMSTEC, which provides a forum to facilitate and promote trade, investment, and technical cooperation among Bangladesh, Bhutan, India, Nepal, Sri Lanka, and Thailand.

3.20. Myanmar's strategic location in the region should provide all its international trading partners with ample business opportunities both in the domestic market and in the adjacent region. As any enterprise established in Myanmar may benefit from these opportunities, these regional agreements and other arrangements greatly increase the attractiveness of Myanmar to foreign investors wishing to enter the neighbouring markets. However, Myanmar is also looking beyond its Asian neighbours to develop trade and investment ties. Accordingly, the Government has recently concluded two agreements with the United States, namely the Trade and Investment Framework Agreement and the Investment Incentive Agreement.

4 RECENT MACRO-ECONOMIC, STRUCTURAL AND OTHER DEVELOPMENTS

4.1 Macro-economic Developments

4.1. Since the onset of Myanmar's wide-ranging political, social and economic reforms aimed at its re-integration into the global economy following five decades of isolation and consequent economic stagnation, real GDP growth has accelerated from 5.1% in fiscal year 2009/10 (year ending March) to an estimated 6.4% in 2012/13 and 6.8% in 2013/14, led by gas production and both domestic and foreign investment. Nonetheless, Myanmar is still a poor country, with per capita GDP of only around US$900, the lowest among ASEAN countries. However, with abundant natural resources, a young labour force, and its strategic position bordering the fastest growing markets in the world with more than two billion people, Myanmar's growth potential is enormous, provided it sheds the shackles of policies that have condemned it to stagnation and therefore poverty, during the past 50 years. The Asian Development Bank, for example, estimates that Myanmar, on its current development path could sustain an annual growth rate of 7% to 8% during the next couple of decades, thereby trebling its per capita income by 2030 and propelling it into the ranks of middle-income countries. Clearly, there is considerable scope for catching-up with its partners in the AEC as well as other countries in the region as Myanmar becomes increasingly integrated into both the regional and global economies. At the same time, however, ensuring that the fruits of economic growth are fairly shared, thereby contributing to social harmony, and that growth is not detrimental to the environment are major challenges. Realizing the full extent of Myanmar's growth potential requires sound monetary and fiscal policies, in order to ensure macro-economic stability, together with structural policies, including liberalization of trade and foreign investment, as well as major advances in health and education.

4.2. In connection with an agreement with the IMF, which involved the latter establishing a staff monitored program intended to improve Myanmar's macro-economic management capacity and to establish a track record of sound macro-economic policies, the GOM presented a Memorandum of Economic and Financial Policies (MEFP) concerning the second-stage reforms. The objectives of the MEFP were to: (i) ensure macro-economic stability and debt sustainability; and (ii) lay the foundations for lasting macro-economic stability by building an appropriate macro-economic framework, and developing the institutions and instruments for effective use of them. The macro-economic goals were to maintain stable and low inflation and to build sufficient international reserves to provide a cushion against adverse external shocks as well as macro-economic risks arising from the reform process itself. Among the key macro-economic policies in this regard were foreign exchange and related monetary policy together with fiscal policy.

4.1.1 Foreign exchange and monetary policy

4.3. The single most important economic reform so far has been the liberalization of the exchange rate regime starting in September 2011 and the subsequent replacement of the overvalued official exchange rate peg with a "managed float" in April 2012, a main step in removing restrictions on the purchase and sale of foreign exchange for the import and export of goods and services and also in connection with Foreign Direct Investment (FDI). This reform was motivated by commitments under the AEC Blueprint, whereby the Central Bank of Myanmar (CBM) was obliged to conform with IMF Article VIII principles, just like other ASEAN Members. Prior to this reform, the local currency (kyat) was pegged at the rate of 8.50847 kyat per SDR. Under that foreign exchange regime, different exchange rates occurred in the different domestic foreign exchange markets. This situation was not only detrimental to transparency, but caused price distortions, inefficient allocation of resources, and risks to macro-economic stability and economic development. With a view to ensuring macro-economic stability and accelerating economic growth, therefore, the GOM has taken steps to unify the country's multiple exchange rates into a single rate, by replacing the official peg in April 2012 with a "managed float" through the foreign exchange auction market under the supervision of the CBM. Under the new foreign exchange regime, the reference rate is determined in the auction mechanism. At the same time, the GOM lifted key exchange restrictions, including the requirement to use only export proceeds for the purchase of imports. The CBM also issued licenses to a number of private banks enabling them to conduct international banking. Consequently, the difference between the reference rate and the informal market rate has diminished significantly. Moreover, in August 2012 Parliament adopted a new Foreign Exchange Management Law, which, once implemented, will remove all the present restrictions on current payments and transfers abroad. The CBM has also announced a redemption plan for the Foreign Exchange Certificates (FECs) that were created as a temporary vehicle for the convenient use of foreign currency under the previous rigid control mechanism. At the end of June 2013, the utilization of FECs ceased in accordance with the redemption plan.

4.4. When the new budget law was enacted by Parliament in April 2012, the Budget Department of the Ministry of Finance (MOF) had already incorporated necessary budget estimates and cost calculations based on a reference exchange rate at 800 kyats per dollar, which was in line with prevailing parallel market exchange rates. As a result of these reforms, pressure on the exchange rate to appreciate has receded and the market exchange rate has been stable at around 970 kyats per dollar. Consistent with this, the CBM will eliminate remaining exchange restrictions and multiple currency practices (MCPs), and will seek approval of the IMF's Executive Board for the MCP arising from multi-priced foreign exchange auctions, which is non-discriminatory and will be maintained on a temporary basis until the foreign exchange market of Myanmar develops. The CBM will also coordinate closely with IMF staff to ensure that new legislation, regulations, and bilateral payment arrangements do not create new exchange restrictions, and provide them with the necessary information. The CBM will take additional steps to deepen and facilitate the smooth functioning of the formal foreign exchange markets, enabling private banks to offer foreign exchange operations and services at par with state banks. Currently, although the CBM is endeavouring to establish an interbank foreign exchange market, the market is too tiny for market intervention to be effectively conducted. This situation signals that Myanmar's banking and financial sector needs to develop more vigorously.

4.5. Equipping the CBM with the instruments to conduct domestic monetary policy is important for delivering the stability necessary for sustained economic growth. Inflation remained moderate, averaging 2.8% during the period 2012/13, mainly due to declining food prices and less monetization of the fiscal deficit, although there are upward pressures, including from money growth, real estate prices and wage increases, so that inflation is projected by the IMF to rise to around 5.6% in 2013/14. The new CBM Law, which was enacted on 11 July 2013, grants the CBM the budgetary and operational autonomy to counter these pressures, if necessary, as well as to ensure proper accountability. This is in contrast to the situation in the past, when monetary policy was determined by the need to finance fiscal deficits, thereby contributing to high inflation. In the meantime, the CBM is seeking to build its capacity to conduct open market operations in the form of deposit and credit auctions, which have just begun. In order to contain potential inflationary pressure and dollarization under the new exchange rate regime, the CBM monitors domestic monetary developments so as to ensure exchange rate stability and price stability. In doing so, the CBM conducts monetary policy in coordination with fiscal policy so that both policies are conducive to export-led growth. As the revenues from new natural gas fields is expected to increase in the near future, the GOM is also preparing necessary measures to insulate these flows and to minimize their impact on exchange rate stability and the inflation rate.

4.1.2 Fiscal policy

4.6. The establishment of a fiscally transparent and viable Government that can ensure macro-economic stability and allocate more expenditure to Myanmar's developmental needs as a result of higher tax revenues remains a key challenge. Fiscal policy is now more transparent, and thus accountable, as a result of the decision by the Government to allow the 2012/13 budget to be debated in and approved by Parliament.

4.7. Fiscal policy is also being oriented more towards supporting continued macro-economic stability, while providing sufficient room for much-needed social and investment spending, including on poverty reduction programs and essential infrastructure, such as that involving electricity, transportation, telecommunications, water, educational and health facilities. Therefore, the GOM aims to keep the fiscal deficit in 2013/14 and over the medium-term broadly unchanged at around 5% of GDP (IMF definition, which corresponds to around 4% of GDP based on the GOM definition). Higher expenditures will be financed mainly by rising revenues from gas projects coming on stream. In future, non-concessional external borrowing will be used only to finance economically viable projects in key infrastructure (including energy, transport and telecommunications), at levels consistent with debt sustainability and low risk of debt distress. The Ministry of Finance is collaborating with IMF, World Bank, ADB and Multi-Development Partners to improve the Myanmar Public Finance Management System in order to ensure that spending is cost-effective and in line with development priorities. The Ministry of Finance is trying to establish the Public Finance Management Reform Strategy and negotiating with Multi-Development Partners to implement the Public Finance Management Reform Process in line with the Government's policy and priorities. Currently, debt management functions are jointly carried out by the CBM and the Budget Department. However, plans have been made to establish a Treasury Department under the Ministry of Finance and the consolidation of debt management into the Treasury Department. Moreover, the Paris Club countries have forgiven much of Myanmar's debt and the IMF, World Bank and ADB have returned to offer credit as well as technical assistance in connection with fiscal reforms. For example, with the assistance of both the IMF and World Bank, the MOF has been taking steps to strengthen Myanmar's Public Financial Management (PFM) reforms, Public Expenditure and Financial Accountability (PEFA) and Public Expenditure Review (PER), thereby providing the basis for more fundamental fiscal reforms.

4.8. The 2012/13 budget increased allocations for health and education almost fivefold and twofold, respectively, compared to 2011/12, financed to a significant extent by the positive revenue impact of adopting a more realistic market-based exchange rate in SEEs operations. Moreover, starting from 2011/12, budgetary reforms have been introduced to reflect the new Constitution. Accordingly, Region and State Fund Accounts are separated from the Union Fund Account, delegating the responsibility of the budget functions and financing budget expenses to the regions and states concerned. In this regard, an Intergovernmental Fiscal Relations Division will be formed under the Budget Department for Fiscal Relations between the Union and Region/State Governments. Moreover, to strengthen budget process, the Fiscal Policy and Strategy Division will be established under the Budget Department. The MOF has also increased civil servant pensions from very low levels. At the same time, in a first step to increase their financial autonomy, SEEs have been granted limited autonomy to finance part of their operating costs by themselves (instead of through direct budget allocations).

4.9. Sustained increases in tax revenues are crucial in order to boost expenditure and reduce dependence on natural resource revenues. This requires tax reforms aimed at broadening the tax base and improving compliance, including through the planned establishment of a large taxpayer office in 2014, so as to offset the loss in revenues from trade taxes as a consequence of the abolition the withholding tax on imports and the export tax on key agricultural exports. Furthermore, the MOF has also simplified the commercial tax on domestic sales, broadened the tax base by requiring public sector employees to pay income tax, and increased the progressivity of the income tax. Limiting tax incentives is also important to prevent further erosion of the tax base.

4.1.3 Balance of payments

4.10. The overall balance of payments position continued to show a surplus of US$1,105.1 million during the 2011/12, compared to a surplus of US$788.1 million in the previous year. This surplus is mainly due to the trade surplus and capital inflows. During the reporting period, the trade surplus declined by 80.4% to US$524.9 million compared to the previous year owing to the faster growth in imports (owing partly to trade liberalization) than exports. Consequently, the current account registered a deficit of US$1,404.8 million in 2011/12 compared to a surplus of US$876.5 million in the previous year.

4.11. In 2011/12, the value of imports increased by 40.3% to US$7,963.9 million compared to the previous year owing to increase in capital goods, intermediate goods as well as consumer goods. According to provisional data, intermediate goods constituted 34.5%, consumer goods 31.6%, and capital goods 33.9% of total imports, while capital goods increased by 58.0%, intermediate goods increased by 33.7% and consumer goods increased by 33.2% compared to the previous year. By contrast, the value of exports increased by only 1.5% to US$8,488.8 million from the previous year, mainly due to increased exports of natural gas, marine products, rice and rice products, pulses and beans as well as garments. According to provisional data, gas exports accounted for 37.9% of total exports in 2011/12, up 23.4% from the previous year.

4.12. In 2011/12, the services account deficit continued to expand by 20.5% to US$2,378.3 million from 2010/11. This wider deficit is mainly the consequence of larger payments for partner income of foreign joint venture companies in oil and gas sector. Private transfers, consisting largely of remittances and transfers in-kind from Myanmar nationals working abroad and foreign companies, increased by 169.1% to US$448.6 million, while official grants decreased by 35.6% from the previous year to US$41.3 million.

4.13. The financial account declined by 3.3% to US$2.5 billion in 2011/12 compared to 2010/11, owing to a drop in FDI. Nevertheless, as a result of increased exports earnings and other capital inflows, gross official reserves rose to US$4.6 billion in 2012/13 (which is sufficient to finance 3.7 months of imports), and are projected by the IMF to reach US$5.5 billion (3.9 months of imports) in 2013/14. These reserves are likely to continue rising as FDI inflows are expected to outweigh the widening current account deficit.

4.2 Main Structural Developments

4.14. In accordance with the Government's objective of transforming Myanmar from a centrally-planned into a market-oriented and more open economy, the role of the state in trade, production and setting prices has been considerably reduced. As regards trade, for example, between 2008/09 and 2011/12, the Government's share of imports dropped from 43.0% to 26.8% and its share of exports fell from 60.5% to 53.9%. Furthermore, most SEEs have been privatized, with only 42 remaining, so that their share of GDP has fallen correspondingly. Price controls are now rare, being confined mainly to energy.

4.15. Notwithstanding Myanmar's increased economic integration into ASEAN, this does not appear to have caused trade diversion because between 2008/09 and 2012/13, the ASEAN share of Myanmar's imports declined from 44.1% to 43.7%, while their share of exports fell from 56.2% to 50.7%.

4.16. Myanmar's exports are concentrated in a few primary commodities, notably gas and wood, along with agricultural and marine products. The GOM is therefore actively encouraging export diversification while promoting downstream processing of primary commodities, by inter alia, improving support services in areas of trade financing, market access and trade facilitation. In this regard, the GOM is also removing barriers to inbound foreign direct investment (FDI) to help domestic industries overcome technological, financial and market barriers to upgrading their value-added activities.

4.17. Given the key role of FDI in developing and diversifying Myanmar's economy and re-integrating it into the world economy, the GOM welcomes FDI. Approved inbound foreign investment rose sharply in 2010/11 to almost US$20 billion, exceeding the peak in 2005/06. In 2011/12, however, it dropped to US$4.6 billion. The bulk of foreign investment has been in electric power, oil and gas, and mining, although a significant amount has also gone into large construction projects such as the Nay Pyi Taw airport and telecoms infrastructure. Recently, the main sources of such investment have been China, Hong Kong, Korea and Thailand.

4.18. Between 2009/10 and 2012/13, agriculture's share of GDP fell from 38.1% to 30.5%. By contrast, the share of manufacturing increased from 18.1% to 19.9%. Services' share rose slightly from 37.4% to 37.5%.

4.3 Other Developments

4.3.1 Capital market policies

4.19. Myanmar's capital market is relatively under-developed (and therefore more susceptible to "market failure", which raises firms' costs). Hence, a modern, well-regulated and smooth functioning capital market is needed, not just to transmit monetary policy and reduce fiscal deficit monetization, but also to finance the private sector, including SMEs, and ensure an efficient allocation of capital.

4.20. Accordingly, the CBM is working with the World Bank to map out a master plan for the development of the financial sector and rewrite the Financial Institutions of Myanmar Law, while the IMF has assisted the CBM in rewriting the Central Bank of Myanmar Law. The CBM is also working with the Southeast Asian Central Banks (SEACEN) Centre, ADB, ASEAN partners and other countries, such as Japan and Korea, to build staff capacity, mainly in regulatory and supervisory matters, reserve management, payment/settlement system development, information technology, research, and monetary management areas. Furthermore, Myanmar has been participating in ASEAN Finance Cooperation with a view to its integration into the region's banking and insurance markets. In addition, Myanmar has been taking part in the ASEAN Capital Market Forum with a view to establishing a domestic capital market. The Securities Exchange Law, which was enacted on 31 July 2013, had been drafted with the assistance of Japan's Daiwa Research Institute. A joint venture firm of the Daiwa Research Institute and a state-owned Myanmar Economic Bank was formed to prepare the way for the establishment of Myanmar's capital market.

4.3.2 Labour market policies

4.21. Despite the significant decline in its population growth rate from 2.2% to 1.1% per year over the past decade, Myanmar's now has a relatively young population with a high percentage of working-age groups relative to non-working, dependent groups. This presents a golden opportunity to reap a "demographic dividend" by creating jobs for this young population, thereby building a stronger economy with inclusive growth. However, the country's youthful population is currently facing the tremendous challenges of unemployment, low levels of education, lack of skills, and infectious disease. While the macro-economic reforms and resulting growth already mentioned will do much to increase employment opportunities, there is nonetheless the need for policies to strengthen the basic education and technical skills as well as health of the population and thereby improve human capital. Hence, education and health are top priorities. Consequently, the 2012/13 budget increased allocations for health and education almost five-fold and two-fold, respectively, compared to 2011/12, and will increase expenditure further in the coming years, both absolutely and as a proportion of the total government budget. In this regard, the Ministry of Labour, Employment and Social Security has prepared a draft law on Employment and Skill Development, which is now before Parliament. The Ministry is also drafting a new Foreign Labour Law and will be conducting a labour force survey in 2014 with the assistance of the ILO.

4.22. As Myanmar is actively embracing freedom of association, the GOM is also facilitating improved industrial relations between employers, employees and their representatives. The GOM has recently adopted the Labour Organization Law, which grants labour groups the right to freely establish trade unions and representative associations while guaranteeing basic rights of workers. The GOM has not only cooperated fully with the ILO in abolishing previous laws and regulations that were tantamount to involuntary labour across the country, but also taken initiatives to educate both employers and employees regarding their rights and responsibilities as well as the provisions of the new Labour Organization Law.

4.3.3 Infrastructure

4.23. Major improvements in Myanmar's basic infrastructure are critical for both growth and poverty reduction. Consequently, the GOM is proceeding quickly with the completion of the high priority infrastructure projects already underway while formulating a longer term strategy and program for infrastructure development. In the immediate term, priority also needs to be given to urban transportation systems, upgrading of national airports, providing clean water, and improving power supply.

4.24. Myanmar cannot be a crossroads in the region without adequate transport links internally and with neighbouring countries. The GOM is thus turning its attention to the development of Myanmar's transport and other infrastructure in order to enhance the country's connectivity to regional economies and fulfil the goal of integrating Myanmar into the ASEAN Economic Community. It will give priority to building infrastructure projects that will fill the missing links identified in the Master Plan of ASEAN Connectivity, such as transport links with India, China and Thailand. In parallel with these links to the neighbouring economies, the GOM will also prioritize the development of rural-city connections, renovation of inter-state highways and the upgrading of the existing road infrastructure to the standards set by ASEAN.

4.25. As regards the transport, water and public works sectors, the GOM is in the process of establishing a clear and strict separation between regulatory authorities and service providers and operators. For instance, such restructuring can be achieved in the transport sector by separating regulators (civil aviation authority or port authority) from service providers/operators (airports and port facilities). Public works will be gradually privatized while building the regulatory capacity and authority of the relevant department.

4.26. Meanwhile, the GOM will emphasize the improvement of the quality of the railroad sections that connect important economic centres in the country, namely Yangon-Mandalay-Myitkyitna section and the Bago-Mawlamyine section, and the upgrading of locomotives and coaches. This emphasis on the core links and services will strengthen the previous strategy of developing railroads that connect various parts of the country to the economic centres with the objective of achieving regional equity. Greater attention will be given to regional connectivity and bridging the gaps in operations and compatibility in alignment with region-wide transport strategies.

4.27. A master plan is being prepared concerning power supply, which is one of the most pressing economic challenges facing Myanmar. Nearly three-quarters of the population, living mainly in rural areas, lacks access to electricity. Moreover, the electric power production and distribution system is plagued by frequent interruptions. Without an accessible and a reliable electricity system, Myanmar's economic progress will stall. Addressing this challenge will require an expanded and modernized electricity grid as well as new sources of domestic energy and innovative solutions for rural energy access.

4.28. Public-private partnerships (PPPs), especially those involving inward FDI, can play a key role in the development and management of infrastructure. However, PPPs need to be very carefully structured to ensure the appropriate level of public benefits, which takes time. In order to facilitate their development, the GOM intends to put in place as soon as possible a clear legal framework for PPPs.

4.3.4 Reform of state-owned economic enterprises (SEEs) and privatization

4.29. In line with the Government's objective of reducing the role of the State in the economy, thereby rendering it more market-oriented, most SEEs have been privatized. Their presence is large only in energy, forestry, construction, telecommunications, social and public administration. With new budget allocations, those SEEs that remain are now subject to stricter financial discipline as well as strong incentives for profit-making. The Government has sharply cut direct subsidies to SEEs while opening markets to competition with the private sector. Furthermore, the GOM is removing easy credit from state banks, which has hitherto been available to SEEs, while limiting arrears on payments to central government funds. The GOM has also instructed SEEs to undertake more aggressive collection of receivables, to align more closely investment and profitability, and to re-orient goals from output targets to profit. All the managers of SEEs are now expected to focus on marketing and product quality, while improving operational efficiency and investment decisions.

4.30. Although all SEEs are now required to operate on a commercial basis and use the market-determined exchange rate, further reforms on "equitization", commercialization and possible privatization, including a privatization law, are envisaged in the future. The GOM also takes note of lessons from other developing countries that show there is potential for making major mistakes if privatization proceeds too quickly without properly preparing regulatory frameworks and competition policies. The GOM will ensure that the state privatization authority will have sufficient capacity in the areas of project appraisal, valuation and securitization procedures, public auctioning and open tender systems in managing the process of privatizing state assets, particularly for large SEEs. The GOM will also take a judicious and cautious approach to privatizing public utilities and infrastructure industries that are critical to the functioning of the economy and are natural monopolies. It will consider a step-by-step privatization plan by separating or unbundling monopoly parts to be subjected to competition with new firms, establishing regulatory frameworks and institutions, commercializing state enterprises and encouraging private-public partnerships and joint ventures with foreign participation.

4.3.5 Price Controls

4.31. In accordance with its objective of transforming Myanmar from a centrally-planned into a market-oriented economy, the Government rarely intervenes in the setting of prices. Such intervention is confined largely to energy.

4.3.6 Small and medium-sized enterprises (SMEs)

4.32. Increased foreign competition owing to the liberalization of trade and foreign investment is a mixed blessing for Myanmar's local companies. This is especially true in the case of SMEs, which form the backbone of Myanmar's economy, accounting for over 90% of total enterprises and about 70% of the total work force. Nonetheless, SMEs are characterized by relatively low productivity owing to lack of capital and outdated technology, among other things.

4.33. In recognition of SMEs' importance for Myanmar's industrialization, the GOM is implementing a number of policies to foster their development. These policies include: establishing one-stop centres for business start-ups that help reduce red-tape, reducing/eliminating administrative controls, supporting provision of land use rights, improving access to credit (both private and public), and helping to build enterprise capacity with respect to finance, marketing, etc. Development of micro-enterprises will also be encouraged, including through support for the development of micro-finance institutions. The GOM is also setting up a specialized SME-support centre in Yangon to help emerging businesses and young entrepreneurs to catch up with the reform process. To improve SMEs' access to finance, financing and micro-finance projects are being encouraged. One SME Development Bank has been established to facilitate SME financing. A micro-finance law has also been enacted. As a result, hundreds of micro-finance providers have been extending micro-credits to rural communities. Presently, the Myanmar Industrial Development Bank is being transformed into a specialized bank for SMEs, dedicated to supporting incubation projects and research linkages and facilitating access to credit, technology and markets. These emerging SME institutions will facilitate cluster formation between the existing industrial zones across the country and regional technological schools and colleges, which in turn will link up with access points to regional economic corridors in neighboring countries. Meanwhile, the Myanmar Investment Commission has set out an active policy for supporting foreign investment in the SME sector, with incentives for higher local content, and the transfer of skills, knowledge and technology.

4.3.7 Land reform

4.34. Land reform is essential for rural development and thus for inclusive growth. Towards this end, Parliament has recently enacted the Farmland Law as well as the Vacant, Fallow and Virgin Land Management Law in March 2012. Although these laws allow long-term use of large tracts of land by private investors in agricultural, industrial and contract farming practices, additional measures are required to protect the land rights of small holders and poor farmers. While Parliament has formed a Commission to investigate the impact of new land laws on rural households, the GOM has also been looking into overhauling the land use policy. In August 2012, the GOM set up the "Central, Regions/States, District and Township Administrative Body of Farmland" in compliance with the Farmland Law to oversee the management of land resources throughout the country. The President has also set out policy guidelines for Government agencies to address landlessness and indebtedness of rural farmers.

4.3.8 Competition policy

4.35. In accordance with the ASEAN AEC Blueprint, the Ministry of Commerce has, in consultation with other relevant ministries and the business community, drafted a comprehensive competition law covering all sectors. The proposed draft law has been submitted to the President's Office for subsequent consideration by Cabinet and ultimately Parliament. The law is aimed at ensuring fair competition by addressing anti-competitive actions, such anti-competitive agreements, monopolies, and mergers. It is to be enforced by a Competition Commission.

4.3.9 Environmental protection

4.36. The GOM is committed to protecting Myanmar's biodiversity, conserving natural forests, greening the 17 mountain ranges in the dry zone, encouraging people to get involved in environmental conservation and management, and extracting natural resources sustainably. The GOM also attaches the highest importance to its commitment to international cooperation on climate change, while adopting new technologies for bio-diesel and other clean energy as well as actively educating the public about sustainable development. Accordingly, the Environmental Conservation Law, enacted on 30 March 2012, provides for the detailed development of environmental rules and regulations, mandatory compliance of environmental impact assessments in development projects, upgrading and standardization of environmental assessments, and joint undertakings with NGOs on broad-based public awareness campaigns. The Foreign Investment Law also contains social and environmental protection provisions.

4.37. In the case of mining, for example, the GOM is implementing measures, such as environmental and social impact assessments, to protect the environment from degradation that may result from mining and related operations. As regards forestry, it is also critical that timber and other forest products be extracted sustainably with proper technology. Therefore, the GOM will encourage better use of new technology and foreign investment in processing value-added forest products for future exports. It will also promote participatory projects of community forestry in the previously deforested areas while strengthening laws and regulations in prohibiting encroachment in the protected forest areas. The GOM will also consider promoting eco-tourism services in the designated areas.

5 TRADE AND INVESTMENT POLICIES

5.1 Introduction

5.1. Trade and inward FDI will undoubtedly play crucial roles in opening up Myanmar's economy and re-integrating it globally as well as regionally and thereby realizing its growth potential, as has been the case throughout East and South East Asia. While important measures have already been taken, notably foreign exchange rate unification and the lifting of key exchange rate restrictions (particularly the abolition of the requirement to secure private "export earnings" as a pre-requisite for purchasing imports), further reforms are essential. In this regard, the ASEAN Economic Community's targets and objectives for 2015 provide a major impetus for such reforms.

5.2 Trade Policies

5.2.1 Customs administration and procedures

5.2. In order to expedite customs clearance, the GOM has been implementing a National Single Window (NSW) in accordance with the principles of transparency, simplicity, efficiency and consistency with a view to its integration with the ASEAN Single Window (ASW) by 2015. This Single Window will facilitate Myanmar's trade, not just with its ASEAN partners, but also globally, thereby enhancing Myanmar's role as a trade crossroads. The Customs Department is working on the establishment of the Single Window with technical assistance from Japan.

5.2.2 Import tariffs

5.3. As tariffs tend to disrupt supply chains, especially when they are levied on raw materials and intermediate inputs, with an average applied most-favoured-nation (MFN) tariff rate of just 5.6% in 2012 and 2013, tariff protection in Myanmar is relatively low by developing country and especially least developed country standards, much lower (and less dispersed) even than in most ASEAN countries. All applied MFN tariffs rates are *ad valorem*, thereby imparting a high degree of transparency to the tariff. While less than 20% of tariffs are bound and the average of bound rates greatly exceeds average applied MFN rates, thereby providing a great deal of scope for raising applied rates, this scope has never been used and so the average applied MFN tariff rate has hardly changed since 1996. Myanmar does not impose any tariff rate quotas (or quantitative restraints). The GOM is willing to consider binding more tariff lines in order to contribute to a successful conclusion of the current Doha Development Agenda (DDA) negotiations, provided mutually satisfactory results can be achieved in these negotiations.

5.2.3 Export taxes

5.4. Taxes on most exports were removed in 2012/13, so that they are now levied on only a handful of natural resource products (namely, gems, oil and gas, teak and other timber) that might be expected to generate economic rents. These remaining export taxes are mainly designed to capture an appropriate share of natural resource rents for the budget and, as such, are components of Myanmar's tax regime for natural resources. At the same time, however, they can also induce downstream processing of the products concerned.

5.5. In the case of virgin teak, however, Myanmar has announced its intention of replacing the existing export tax with an export ban, as of 1 April 2014, thereby no longer being the only country without such a ban. The ban, which is arguably more transparent than a prohibitive export tax, is considered necessary to preserve Myanmar's remaining teak forests and to develop a sustainable hardwood timber export industry.

5.2.4 Non-tariff barriers (NTBs) to trade

5.6. In respect of import and export licenses, the Government has so far adopted two important trade liberalization measures to facilitate trade transactions. Prior to May 2012, Myanmar's export/import licensing system was non-automatic. Instead, every license application was reviewed by the Ministry of Commerce and could be rejected for various reasons. Since June 2012, however, the license regime has been converted from non-automatic to automatic licensing with most licenses issued within 24 hours. Moreover, on 28 February 2013, the Ministry of Commerce removed license requirements from a selection of 152 exported commodities and 166 imported commodities. Licensing requirements were essentially eliminated on a selection of commodities considered as non-sensitive. The outcome was the elimination of licenses on imports covered by 1,928 HS tariff lines. As a result, it is estimated that government revenue from import license fees dropped by 40%. On the export side, licensing has been maintained on the export of natural gas, rice, timber and some other commodities considered as sensitive. The Ministry of Commerce is currently considering broadening the scope of license removal.

5.2.5 Contingent protection

5.7. Myanmar does not have any legislation pertaining to anti-dumping, countervailing or safeguard measures. Consequently, no such measures are currently used. The Government intends to prepare WTO compatible trade remedy laws and regulations. Technical assistance in preparing the relevant legislation and regulations would be welcome.

5.2.6 Technical barriers to trade (TBTs) and sanitary and phytosanitary (SPS) measures

5.8. As noted by the Secretariat, insofar as Myanmar has standards and technical regulations as well as SPS measures, they are based largely on international standards. For example, food standards are adopted from CODEX; fishery standards are based on EU regulations; pharmaceutical standards and regulations are based on British International Standards; and animal health risks are those that have been recognized by the OIE. Hence, the GOM has no intention of impeding imports of these products without science-based justification. Myanmar does have 65 existing standards of its own, however.

5.9. In order to develop a legal framework to enable Myanmar to implement its commitments under international agreements, a draft National Standards Law has been prepared with the assistance of foreign experts. In 2012 and 2013, the Ministry of Science and Technological Research Department (MSTRD) held four national consultative meetings with concerned stakeholders to review the draft law. The draft law has been submitted to the President's office for consideration and subsequent transmission to Parliament. Meanwhile, the MSTRD has set up 19 standards technical committees involving all stakeholders. In addition, MSTRD has prepared a draft Legal Metrology Law as verification and re-verification of measuring equipment are currently not mandatory in Myanmar. The draft law was prepared by UNIDO for Cambodia and Laos, but modified according to Myanmar's specific circumstances and with the assistance of an expert from New Zealand. The draft law was also reviewed during the four national consultative meetings with stakeholders held in 2012 and 2013.

5.10. Moreover, as adherence to internationally-agreed SPS requirements is vital for the development of the agricultural and food processing sectors, the GOM is doing its best to ensure that they are upgraded in line with International Standards for Phytosanitary Measures, although its ability to do so is severely hampered by a lack of technical expertise and limited resources.

5.11. Clearly, inward FDI together with TA can enable Myanmar to implement internationally-accepted standards, not only for the benefit of domestic consumers, but also for the benefit of Myanmar's enterprises, which can then satisfy such standards and therefore enter export markets.

5.2.7 State trading

5.12. Several steps have been taken to encourage the active participation of the private sector in international trade. In particular, state trading monopolies were largely abolished in November 2011 so that private enterprises and individuals can now import and export all but a few products.

5.2.8 Special economic zones (SEZs)

5.13. In order to overcome infrastructure bottlenecks, attract FDI and increase exports, the Myanmar Economic Zone Law was enacted in 2011. This Law provides additional tax incentives for investment in several strategic locations along Myanmar's 1,300 mile long coast. This is an integral part of a strategy to promote Myanmar as a low-cost production base for export destinations within the wider region.

5.2.9 Tax incentives for exports

5.14. In order to promote export-based industrialization, profits of manufacturers derived from exports are eligible for income tax relief of up to 50%. As Myanmar is an economy in transition, such relief is justified on the grounds that some firms in the process of restructuring as well as those in "infant" industries need temporary assistance to enable them to compete in export markets and thereby achieve cost reductions associated with economies of scale as well to learning-by-doing and technological progress, which are among the major determinants of productivity growth, and thus become viable in the longer term.

5.2.10 Tax reform

5.15. The GOM is simplifying the current internal tax system and making it more neutral with respect to trade. The previously multi-rate commercial turnover tax, the sole domestic indirect tax, has now been largely unified at a relatively low rate of 5%. Only Schedule 6 goods, including alcohol, tobacco, petroleum products, and vehicles, which would normally be subject to excise taxes elsewhere, are now subject to a range of higher rates. Moreover, the commercial tax on most exports was eliminated at the beginning of 2012/13, thereby reducing the tax component in export prices and therefore making Myanmar exports more competitive on world markets.

5.16. Myanmar has also taken several important steps recently to streamline and modernize its direct tax system. In 2012, tax schedules were adjusted to the newly liberalized foreign exchange parity, tax rates for personal and corporate income tax were reduced, and some withholding taxes were eliminated. In the longer term, the GOM intends to: improve the capacity of tax (including customs) administration; reduce further tax rates and broaden the tax base, by rationalizing tax incentives for investment, thus rendering the tax system more neutral; and gradually shift reliance from direct to indirect taxation.

5.3 Investment Policies

5.17. Given the key role of FDI in developing and diversifying Myanmar's economy from one based largely on agriculture and natural resources into one oriented more towards manufacturing and services as well as in re-integrating Myanmar into the world economy, attracting FDI (and the associated technology and management know-how) is a very important objective of Government policy. Thus, the GOM has been steadily implementing several related measures to improve the investment and the business environment.

5.18. Accordingly, the GOM attaches the highest priority to drawing up the necessary procedures as well as environmental and social guidelines for foreign investment in accordance with the new Foreign Investment Law (FIL) promulgated in November 2012. Feedback from the business community suggests that it is particularly important that the law and procedures specify which sectors are restricted with respect to foreign investment and does not allow discretion with respect to implementation. Hence, whereas the previous law involved a "positive list" approach, whereby foreign investment was allowed only in listed sectors, the new FIL adopts a "negative list" approach that allows foreign investment in all activities except those that are listed as prohibited or restricted.

5.19. Furthermore, on 29 July 2013 the Citizens' Investment Law (CIL) was adopted. The CIL provides for a single investment framework by harmonizing the investment incentives and procedures for national and foreign investors.

5.20. The two new laws (FIL and CIL), which were closely scrutinized by Parliament, envisage not only wide range of activities where foreign investment can involve 100% equity ownership, but also lower and non-discriminatory minimum capital requirements, tax incentives (especially tax holidays), longer leasing of real estate, and vigorous standards for environmental and social protection.

5.21. At the same time, the GOM has liberalized the company registration process as of 10 September 2012 and other regulatory processes to further encourage foreign investors. The registration procedure for companies has also been simplified since 22 February 2013, and the registration period has been extended from three to five years.

5.22. Moreover, on 10 April 2013, a one-stop service for foreign as well as local investors was established in Yangon. Investors who previously had to grapple with red tape in five or more different ministries can now get everything done at the new Directorate of Investment and Company Administration (DICA). By reducing contacts between investors and bureaucrats in several different ministries, the DICA could also help combat corruption.

5.23. In addition, Myanmar has recently undertaken important reforms in order to adapt its corporate income tax (CIT) to a more open and business friendly environment. For instance, it has cut the CIT from 30% to an internationally competitive rate of 25%, eliminated special low rate regimes (notably for the "cutting, making and packaging" enterprises that were previously not subject to the CIT) and outdated tax regimes (e.g., Profit Tax Law), and updated important CIT regulations (revision of asset depreciation rates), all of which will improve the tax system's efficiency and administration.

5.24. Specific provisions in the FIL will enhance the transparency of Myanmar's foreign investment regime. The GOM is also planning to build capacity among the domestic judiciary with regard to their regulatory enforcement and intermediation. The Investment Commission is currently undergoing a reform process to become an independent board where non-transparent licensing practices will be eliminated.

5.25. Meanwhile, the GOM is cooperating with international financial institutions to conduct a comprehensive investment climate assessment to determine the full spectrum and magnitude of constraints on private sector development. The GOM will also focus on critical elements of the FDI regime, such as creating a positive business environment, providing a level-playing field (through, for example, more open tendering in respect of privatization and other government contracts as well a comprehensive competition law to combat anti-competitive practices), and other facilitation measures. Moreover, in April 2013, Myanmar became a party to the New York Convention, one of the key instruments in international arbitration.

5.4 Other Trade- and Investment-Related Policies

5.4.1 Intellectual property rights

5.26. Fully aware of the important role played by protection of intellectual property rights (IPRs) in attracting inward FDI, the GOM is taking steps to overhaul its outdated IPR laws and ensure that these laws are enforced. Accordingly, IPR laws in line with the TRIPs Agreement are being finalized subject to advice from the World Intellectual Property Organization (WIPO). These laws concern patents, industrial design, trademarks and copyright. The Ministry of Science and Technology is also preparing related enforcement provisions with WIPO assistance.

5.4.2 Government procurement

5.27. At present, Myanmar does not have any specific laws concerning government procurement. Nonetheless, all government bodies must adhere to the directives of the President's office on 2 June 2012 and 5 April 2013. These directives require, *inter alia*, the use of an open (rather than a closed) tendering system. Moreover, there is continuous internal auditing of government procurement to ensure that it is transparent and ensures "value for money", especially regarding public works projects in connection with the construction of essential infrastructure.

6 SECTORAL DEVELOPMENTS AND POLICIES

6.1 Overview

6.1. Myanmar is well endowed with fertile land and natural resources, and its population of about 60 million offers huge consumer and production opportunities. It is also strategically located at the crossroads of the Greater Mekong Sub-Region (GMS) bordering the fastest growing markets in the world with more than two billion people. Its growth potential is enormous, but largely under-developed.

Table 6.1 Main Exports

Main Exports (% of Total)	1990/91	1995/96	2005/06	2012/13
Gas			30.4%	40.8%
Agriculture	31.9%	45.9%	12.2%	13.9%
Garment	0.2%	5.9%	7.6%	7.7%
Timber	33.8%	20.8%	13.3%	6.4%
Marine	5.7%	12.2%	5.5%	4.2%

Main Exports (% of Total)	1990/91	1995/96	2005/06	2012/13
Base metal and Ores	2.5%	1.5%	3.2%	0.8%
Precious Stones and Pearls	2.9%	2.8%	6.6%	0.1%
Others	22.8%	10.8%	21.1%	25.9%
Total (in $ million)	**447**	**897**	**3,558**	**8,977**

Source: Central Statistical Office.

6.2. The GOM is underpinning an economic diversification strategy by: promoting downstream processing of primary commodities; modernizing essential business services, i.e. banking, telecommunications, electricity and transport sectors; and developing a sustainable tourist sector. Improved market access, trade facilitation initiatives and increased FDI in the economy are playing key supporting roles in this economic diversification strategy. Myanmar is very much an agrarian economy and this is reflected in its export composition, which is concentrated in few primary commodities, notably gas, which now accounts for about 40% of total exports (virtually non-existent a decade earlier), agriculture (13.9%) and timber (6.4%). An emerging garment industry now accounts for 7.7% of total exports, larger than the historical export pillars, such as timber, marine or precious stones.

6.2 Agriculture

6.3. Agriculture is a major sector of Myanmar's economy with a GDP contribution of 30.5% in 2012/13 (down from 43.9% in 2006/07) and accounting for 61.2% of total employment in 2010/11. The average farm holding is about 2.4 hectares, and about 58% of the total net sown area (13.8 million hectares) involves small scale farms (defined as those below 4 hectares).

6.4. Important market liberalization initiatives were first implemented in 1988 in the context of the State Law and Order Restoration Council (SLORC). The export of most agricultural products, with the exception of rice, sugar, rubber, cotton and jute (that were either essential for domestic consumption or used as raw material for domestic industries), was opened to the private sector. Waste and fallow land was allocated to private investors for agricultural purposes. Importation and distribution of agricultural inputs, previously handled by the state, were opened to the private sector, and tariffs on the import of agricultural inputs were removed. Input subsidies were also greatly reduced. These measures were accompanied by the Foreign Investment Law of 1988 that allowed full foreign ownership.

6.5. In 2004, state-controlled prices and compulsory sale of sugar, rubber and cotton to SEEs were lifted, but jute procurement and exports still remained in the hands of SEEs in order to provide export earnings and supply state-owned factories. Production and trade of all crops have now been liberalized, except for paddy rice, which is still subject to some controls as a "national crop important economically, politically and socially".

6.6. The importance of agriculture as a national policy priority is reflected in the first of the four national economic objectives, which states that the development of agriculture constitutes the basis for the development of other sectors of the economy. In order to achieve the three national agricultural policy objectives, i.e. food security, export promotion and increased farmers' income and welfare, the following specific targets have been established: achieving surplus rice production; reaching self-sufficiency in edible oils; and stepping up the production of exportable pulses and industrial crops. Rice area and production are targeted to increase by 19.9% and 52.8%, respectively, from 2002 to 2015, presupposing an increase of average yields from about 3.42 to 4.3 metric tonnes per hectare.

6.7. Furthermore, under the wide-ranging Framework for Economic and Social Reforms (FESR), policy priorities for 2012-15 include boosting agricultural productivity by increasing extension services and government loans, removing barriers throughout the supply chain, and promoting demand-oriented market support mechanisms. Intervention would focus on: increasing productivity of the rice sector through improved seed quality, better agronomic practices, optimal fertiliser and input dosages, and integrated pest management; promoting dry season diversification of small farmers into high-value horticulture, fresh fruit, poultry and small livestock;

improving farm-level water management by promoting low-cost micro-irrigation; and expanding micro-finance in rural areas. Moreover, the GOM recognized the need to improve the efficiency of Myanmar Agricultural and Development Bank, which is the main provider of agricultural finance. The reform approach adopted is based broadly on the model of rural financial institutions operating in Thailand.

6.3 Natural Resources

6.8. Forestry, fisheries, precious stones and pearls and to a lesser extent mining have been the other historical export pillars. Their relative importance has recently declined due to the expansion of gas exploitation in partnership with foreign investors. Although the forestry sector's contribution to GDP is less than 1%, timber (mainly teak and other hard wood) has accounted for a significant, albeit declining, share of total exports, exceeding 20% prior to 2000, but down to 6.5% in 2012/13, partly reflecting lower teak prices due to increasing volume of lower grade teak. Myanmar is one of few countries in the world with natural teak forests and continuous efforts are deployed to preserve this unique endowment. Systematic forest management in Myanmar was first initiated in 1856 and was further consolidated into guiding principles in forest management in 1894. These principles are enshrined in the Myanmar Forest Policy of 1995.

Table 6.2 Gas Consortia in Myanmar

Gas Project	Consortium			Production	Export	Start
	Sellers	Country	Shares	(MMSCFD)		Export
Yadana				900	700	1998
	TOTAL	France	31.2%	Offshore	Pipeline to	
	UNOCAL	USA	28.3%		Thailand	
	PTTEP	Thailand	25.5%			
	MOGE	Myanmar	15.0%			
Yetagun				460	460	2000
	PETRONAS	Malaysia	40.75%	Offshore	Pipeline to	
	NIPPON	Japan	19.4%		Thailand	
	PTTEP	Thailand	19.4%			
	MOGE	Myanmar	20.45%			
Shwe				500	400	2013
	DAEWOO	South Korea	51.0%	Offshore	Oil and gas in parallel pipelines to China	
	OVL	India	17.0%			
	MOGE	Myanmar	15.0%			
	GAIL	India	8.5%			
	KOGAS	South Korea	8.5%			
Zawtika				345	245	2013
	PTTEP	Thailand	80.0%	Offshore	Pipeline to	
	MOGE	Myanmar	20.0%		Thailand	

Source: Ministry of Energy.

6.9. The development of Myanmar's gas reserves effectively began following the adoption of the 1988 SLORC market-orientation policy, which allowed foreign participation in the economy. In 2013, there are four gas consortia in operation, all of which are predominantly owned by foreign investors and in which the SEE Myanmar Oil and Gas Enterprise (MOGE) hold a minority stake (see Table 6.2). Gas is now exported through three pipelines to Thailand and there is a fourth gas pipeline to China. In parallel with the latter, an oil pipeline transports imported oil to China. Important investment has been required to build this pipeline in recent years. Gas now accounts for about 40% of total exports, a share that is likely to be sustained in the foreseeable future as the Shwe and Zawtika pipelines began exporting activities only in 2013.

6.4 Manufacturing

6.10. Manufacturing which accounted for 19.9% of Myanmar's GDP in 2012/13 (compared with 14.0% in 2006/07), is growing, but still relatively small compared with agriculture and services. Manufacturing accounted for 11.3% of employment in 2010/11. The main manufacturing industries include food and beverage processing and textiles and clothing, where SMEs predominate. Relative to Bangladesh and Cambodia, the clothing industry in Myanmar is under-developed. Nonetheless, it offers huge opportunities as low-wage labour is widely available to carry out the labour-intensive activities of clothing assembly. In effect, Myanmar is well positioned to carry out the assembly process of many manufacturing products. As mentioned earlier, the new law on Special Economic Zones provides a more friendly business environment and is instrumental in the overall economic strategy to promote Myanmar as a low-cost production base for export destinations within the wider region.

6.5 Services

6.11. Services in Myanmar accounted for 37.5% of GDP in 2012/13. The Government's wide-ranging FERS recognized the critical importance of major improvements in Myanmar's infrastructure in essential business services. International experience clearly shows that expanding the quantity and quality of essential business services in an efficient and effective manner is crucial to both growth and poverty reduction.

6.5.1 Transport

6.12. The transport sector plays a pivotal role in facilitating of the flow of goods and people that is vital for the economic development of Myanmar and the whole South East Asia region. Myanmar is now eager to reap the benefits of its strategic location with direct access to the Andaman Sea and Indian Ocean for the easier regional movement of goods and people. Improved road, rail, maritime and aviation transportation infrastructure and improved cross-border regulations will lessen dependence on the congested Straits of Malacca, thereby reducing transportation time and logistic costs. Its strategic location will provide Myanmar with a competitive advantage.

6.13. The transformation from state-control to public-private partnership is underway by formulating and implementing transport policies in compliance with Myanmar's commitments in international and regional institutions, such as International Maritime Organization, International Civil Aviation Organization and ASEAN.

6.14. In the context of ASEAN commitments, Myanmar adopted the implementation framework of ASEAN Single Aviation Market (ASAM) on 15th December 2011, which is one of the key strategies under the Master Plan on ASEAN Connectivity. The Implementation Framework is a significant undertaking that will guide the development of ASEAN's aviation sector over the next four years and beyond. At the same time, Myanmar signed the Protocol to Implement the Seventh Package of Commitments on Air Transport Services under the ASEAN Framework Agreement on Services. Myanmar signed Protocol 6 on Railways Border and Interchange Stations under the ASEAN Framework Agreement on Facilitation of Goods in Transit that aims to facilitate cross-border movement of goods trains within the region. Myanmar is also implementing its commitments in the context of the ASEAN Single Shipping market to develop an integrated and competitive ASEAN maritime transport. It is also worth noting that the final draft of the Multimodal Transport Law has been submitted to Parliament for approval and work is under way to prepare the necessary rules and regulations. Moreover, the formulation of the National Integrated Transport Master Plan is progressing well.

6.15. Implementation of a regionally-integrated regulatory framework in transport is instrumental in enhancing the attractiveness of Myanmar for the development of key transport infrastructure projects. Considerable interest has already been expressed in several large scale projects, such as the Dawei Deep Sea Port and Industrial Estate, and the Thilawa Sea Port.

6.5.2 Banking, Finance and Insurance

6.16. As noted earlier, the CBM has successfully managed the replacement of the former overvalued foreign exchange peg rate by a "managed float" system in April 2012 and is in the process of obtaining its full autonomy. The CBM is also working to map out a master plan for the development of the financial sector and to rewrite the Financial Institutions of Myanmar Law with the assistance of donors. It is envisaged that once this new regulatory framework is adopted, financial institutions will be able to compete more efficiently with each other in offering financial products, such as credit cards.

6.5.3 Telecommunications

6.17. Reflecting the economic priority attached to improved telecommunications infrastructure, the wide-ranging FESR has set an ambitious target of raising mobile phone penetration from 9% in 2012 to 80% by 2015. To reach this target, the GOM invited applications for two new nation-wide telecommunications licences, which were ultimately awarded to Norway's Telenor and Qatar's Ooredoo at the end of June 2013. In doing so, it is envisaged that this will result in the upgrading of the internet infrastructure that will allow for a comprehensive e-strategy in educational programs, government regulations and knowledge management.

6.5.4 Electricity

6.18. Since 2008, private companies have been allowed to participate in power generation, especially in hydropower plant projects. Private sector participation is allowed not only in generation, but also in distribution. Some 77% of total electricity is hydro-powered, followed by natural gas, which accounts for about 20%. A master plan for power production and distribution is under preparation with a view to replacing old gas turbine plants with new more efficient combined cycle plants that use the same amount of gas, but produce two to three time the amount of power.

6.5.5 Tourism

6.19. Myanmar, as a year round tourist destination blessed with diverse attractions, has achieved steady growth in tourist arrivals and tourism receipts owing to the government's reform policy associated with joint efforts of the public and private partnership of the tourism stakeholders. Myanmar has received increasing numbers of international visitors ever since 2008, with a notable 30% growth rate in 2012. 2013 is well on the way to recording another strong double-digit growth in international arrivals (23.7% growth during the first semester of 2013). In terms of the origin of tourists, about two-thirds come from Asia and 20% from Western Europe.

Table 6.3 Tourist Arrivals and Origin

	2008	2009	2010	2011	2012
Tourist Arrivals	731,230	762,547	791,508	816,369	1,058,995
Asia	66.4%	66.2%	68.4%	66.4%	64.1%
Western Europe	19.2%	20.0%	19.2%	20.7%	22.0%
North America	7.9%	7.2%	6.1%	6.5%	7.4%
Oceania	3.1%	3.3%	2.8%	3.0%	3.5%
Total Earnings (million)	165	196	254	319	534
Average length of stay	9.0	8.5	8.0	8.0	7.0

Source: Myanmar Tourism Statistics, Ministry of Hotels and Tourism.

6.20. One key objective of Myanmar's tourism policy is to focus on the long-term sustainability of tourism development, notably through responsible and community-based tourism. The policy aims at maximizing economic, social and environmental benefits and minimizing costs. Myanmar is closely working together with the donor community in implementing its tourism development strategy.

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