MYANMAR SERVICES SECTOR ANALYSIS

Myanmar Snapshot

Capital: Rangoon
Population: 48,336,763 (WB 2011)
Currency: Burmese kyat
GDP per capita: $1,400 at PPP (CIA World Factbook 2011)
GDP Growth: 6.3% (ADB 2011)
Corruption Index: 172/176 (TI, 2012)

1. Overview of the Myanmar Economy

After decades of isolation, Myanmar has started to undertake major reforms towards a democratic system and market-based economy. Notwithstanding, the country still suffers from pervasive government controls, inefficient economic policies, corruption, and rural poverty.

The reforms initiated by the government include sectors’ liberalization such as banks and telecommunications. In October 2011, 11 private banks were allowed to trade foreign currency. In November 2012 a new Foreign Investment Law was signed. Despite these reforms, the government has not yet embarked on broad-based macro-economic reforms or addressed key impediments to economic development such as the opaque revenue collection system.

Even if the FDI are growing (see section 3), foreign investors have shied away from nearly every sector except for natural gas, power generation, timber, and mining. Other areas, such as manufacturing, tourism, and services, struggle in the face of poor infrastructure, unpredictable trade policies, undeveloped human resources (the result of neglected health and education systems), endemic corruption, and inadequate access to capital for investment.

In spite of the huge constraints Myanmar is facing, GDP and GDP per capita in the last 10 years have been increasing steadily (see Figure 1 and 2):

**Figure 1: Myanmar GDP Trend 2000-2011**

In 2010 and 2011 the GDP increased at an annual % rate of respectively 5.4% and 6.3%
The outlook for Myanmar economy over the near term is positive, bolstered by strong export earnings from resource-based commodities and an increase in foreign direct investment (FDI). ADB forecasts Myanmar’s GDP growth to accelerate in 2013 and to reach 6.5% in 2014. Economic growth over the longer term is expected to be driven by exports of resource-based commodities, infrastructure investments, a strong increase in FDI, and greater international trade. Myanmar’s economy could potentially grow at 7%-8% per year over an extended period if the reform process is sustained; at such growth rates, GDP per capita would reach $2,000–$3,000 by 2030—three times its current level—and propel the country to middle-income status. In spite of the optimistic forecasts, Myanmar is still the poorest country in Southeast Asia; approximately 32% of the population lives in poverty (CIA World Factbook); the exploitation of natural resources does not benefit the population at large. Stimulating rural development and human capital development for the poor will be vital to ensure that growth is inclusive.

2. Role of Services in Myanmar Economy

The share of the services sectors in gross domestic product (GDP) increased from 32 per cent in 1990 to 35 per cent in 2005 to 42 per cent in 2011 (see Figure 3 and 4) in the presence of market-oriented reforms. Agriculture is still the most important sector in terms of employment, accounting for 70% of the labor force (see Figure 5). In terms of growth, service sector records the fastest growth (Figure 3). Nevertheless, service sector exports (see section 4) account for a small share of production and employment compared with agriculture.
The Services Export Breakdown (Figure 6) can help understand which are the services more relevant to Myanmar’s economy and where the investments should be directed.

In order to further develop the transportation sub-sector and increase its export potential the main constraints to tackle are: (i) the fragmented and overlapping institutional structure that is responsible for the sector; (ii) the absence of a transport sector strategy; (iii) the absence of a more rigorous approach to selecting infrastructure investments, using the economic benefits as an input to the decision-making process; (iv) the need for capacity development—at the subsector level at least—that builds on the reasonably robust and committed institutions and officials; (v) the expanding the role of the private sector; and (vi) the absence of a sufficiently extensive lower-level road network servicing local communities as the current network offers inadequate access to the core road network and, hence, to basic services.

Tourism and travel services could have a great potential as drivers of economic growth given the country’s natural and cultural richness. Myanmar is, indeed, the fastest growing tourism market in the region. However, the tight centralized planning and closed economy as well as political instability has been a major barrier to tourists visiting the country. The Government still only allows free and unrestricted access to certain approved areas. Tourists can visit Rangoon, Mandalay, Bagan and Irrawaddy regions without restrictions. Other destinations are subject to limitations. The Myanmar Ministry of Hotels and Tourism promotes eco-tourism and alternative touristic itineraries such as Miracle Myanmar, Art Cities of Myanmar, Discovering Myanmar etc. Myanmar has been actively involved in regional as well as sub-regional cooperation efforts for the development of both intra-regional and inter-regional tourism development. However, its tourism industry development pace is still at a modest level due to existing substandard tourism infrastructure.

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2 ADB, Myanmar: Interim Country Partnership Strategy (2012-2014)
3 [www.myanmartourism.org/tour_itinerary/touritinerary.htm](http://www.myanmartourism.org/tour_itinerary/touritinerary.htm)
Figure 7 provides with some data about the Travel and Tourism sector in the country.

**Figure 7: Myanmar Travel and Tourism Sector, 2011**

<table>
<thead>
<tr>
<th>Myanmar</th>
<th>2011</th>
<th>Exp. 2012</th>
<th>2012-2022 (p.a)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Travel and Tourism Direct Contribution to GDP</strong></td>
<td>1.4%</td>
<td>1.4%</td>
<td>4.7%</td>
</tr>
<tr>
<td><strong>Travel and Tourism Total Contribution to GDP</strong></td>
<td>3.2%</td>
<td>3.1%</td>
<td>4.8%</td>
</tr>
<tr>
<td><strong>Travel and Tourism Direct Contribution to Employment</strong></td>
<td>1.1%</td>
<td>1.1%</td>
<td>1.8%</td>
</tr>
<tr>
<td><strong>Travel and Tourism Total Contribution to Employment</strong></td>
<td>2.8%</td>
<td>2.7%</td>
<td>1.8%</td>
</tr>
<tr>
<td><strong>Visitor Exports</strong></td>
<td>21.6%</td>
<td>Up by 1.5%</td>
<td>2.7%</td>
</tr>
<tr>
<td><strong>Travel and Tourism Share of Total Investment</strong></td>
<td>1.1%</td>
<td>0.9%</td>
<td>6.3%</td>
</tr>
<tr>
<td><strong>Number of International Tourist Arrivals</strong></td>
<td>313,127</td>
<td>410,000</td>
<td>492,000</td>
</tr>
</tbody>
</table>

Source: WTTC, Travel & Tourism Economic Impact 2012- Myanmar

In order to foster the development of this key sector a tourism industry master plan is being drafted with the technical assistance of the German-based Hans Seidel Foundation and support from the Norwegian government and the Asian Development Bank (October 2012)\(^4\); the main activities foreseen to develop tourism are:

- Tourism promotional events domestically and participating in international travel fairs
- Star rating system to hotels to stimulate the competitiveness among the businesses and to monitor the quality assurance of our products
- Standardizing hotel accommodation and tourist transports
- Upgrade tourism-related infrastructure such as roads, bridges and international and domestic airports
- Committee on Smooth Entrance of Foreign Visitors

**Other business services** accounts for the 23% of Myanmar Services Export and include Merchanting and other trade-related services, Operational Leasing (rental), Miscellaneous business, professional, and technical services\(^5\).

### 3. The role of Foreign Direct Investment

Though the country's foreign relations, particularly with Western nations, have been strained, relations have thawed since the reforms following the 2010 elections. In July 2012 the US broadly eased restrictions on new investment in and the export of financial services to Myanmar. Still significant improvements in economic governance, the business climate, and the political situation are needed to promote serious foreign investment. Actual FDI inflows are


\(^5\) Under Balance of Payment Manual 10; merchanting will no longer be classified under services exports
typically well below the level of approved FDI contracts, generally as a result of circuitous contractual arrangements and difficulties with foreign currency arrangements, among other reasons. Furthermore, there have been very few substantial foreign investments in the services sectors except a few large investments in the hotel industry, as most services sectors are not fully liberalized in terms of foreign investment. Figure 8 shows the trend of FDI in the last ten years.

**Figure 8: Myanmar FDI Trend, 2000-2011**

![FDI Trend, 2000-2011](image)

*Source: World Bank, Databank*

Figure 9 shows the composition of FDI towards Myanmar; as already pointed out foreigners mainly invest in energy-related resources. Power and Oil and gas alone count for 80% of the total FDI.

**Figure 9: FDI Breakdown by sector as of 02/2012**

![FDI % as of 02/2012](image)

*Source: OECD*

**Figure 10: FDI Countries of Origin as of 02/2012**

![FDI Countries of Origin](image)

*Source: OECD*

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ASEAN Secretariat Services Diagnostic and Needs Assessment Study – Myanmar Summary
4. Trade in Services and Trading Partners

Trade volume has risen rapidly since 1994, mainly as a result of the private sector’s response to liberalization and high FDI inflow, but still Myanmar’s trade with the rest of the world is low; the total value of trade is less than 60.0% of GDP. Resources, especially gas, minerals, and timber, accounted for 58.0% of total exports in 2010. Labour-intensive manufacturing and agricultural exports accounted for 37.0% of total exports. 

Service exports, as estimated from the balance of payment statistics, represented about 6.1% of total merchandised exports in 2006, but in the past ten years the trade in services balance as a percentage of GDP has averaged 0% (ADB Key Indicators 2010).

In terms of trade, China and Thailand both support trade in the country to a large extent. Although trade figures are on the whole reasonably healthy, these are dominated almost entirely by trade in goods, and could be much higher in both goods and services.

In 2010 Services exports' value accounted for US thousands dollar 366,620 (Trade Map ITC) compared to 8,141,670 thousands dollar of products exported, of which fuel and oil accounted 3,146,346.

The Services Sector Account (from the BoP) is shown in detail in Figure 1; for every subsector, except Travel, the imports are higher than exports and not surprisingly the Total Services Balance is negative (see Figure 12).

Figure 11: Myanmar Services Account 2010

![ Services Sector Account](image)

Source: Trade Map, ITC

Figure 12: Myanmar Services Balance 2010

<table>
<thead>
<tr>
<th>Balance in value in 2010, US Dollar thousand</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total services</td>
<td>-430440</td>
</tr>
<tr>
<td>Travel</td>
<td>18750</td>
</tr>
<tr>
<td>Government services, n.i.e.</td>
<td>-3600</td>
</tr>
<tr>
<td>Personal, cultural and recreational services</td>
<td>-10830</td>
</tr>
<tr>
<td>Other business services</td>
<td>-131160</td>
</tr>
<tr>
<td>Transportation</td>
<td>-303610</td>
</tr>
</tbody>
</table>

Source: Trade Map, ITC

Main trade partners for Myanmar are the following:

Exports: Thailand 36.7%, China 18.8%, India 14.1%, Japan 6.6% (CIA World Factbook 2011)

7 ADB, Myanmar: Interim Country Partnership Strategy (2012-2014)
5. Regional Integration

Myanmar recognizes the importance of Regional Cooperation and Integration (RCI) in its development efforts. It participates in several regional and sub-regional economic cooperation initiatives, such as the Association of Southeast Asian Nations (ASEAN), the Greater Mekong Sub-region (GMS) Program, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy, the Asian Cooperation Dialogue, and the Bangladesh-China-India-Myanmar Economic Forum.

The Asian Development Bank (ADB) has supported the GMS Program, of which Myanmar was one of the founding members, since its inception in 1992. More recently, ADB has also provided some assistance to BIMSTEC.

Four areas offer strategic opportunities for RCI in Myanmar:

(i) **Infrastructure**. The provision of additional infrastructure will facilitate domestic and regional connectivity. ADB has a long history of engagement with Myanmar through the GMS program, but this engagement has stopped short of supporting the extension of GMS economic corridors into Myanmar. Four GMS transport corridors pass through Myanmar. The GMS Transport Strategy recommends that the development of GMS corridors recognize the centrality of Myanmar in linking Southeast Asia to East and South Asia. Engagement with Myanmar offers the potential to complete the missing links in the GMS corridors and to include Myanmar in the forward investment framework of the GMS program.

(ii) **Policy reforms**. Policy reforms and related activities are needed to increase trade and investment opportunities, enhance private sector development, and realize the full potential of global and regional trade agreements. Areas of support and cooperation could include trade facilitation and logistics development, cross-border economic zones, and the promotion of links with regional production networks through the supply chain.

(iii) **Regional public goods**. These are critical in mitigating the impact of negative externalities that may result from regional economic cooperation. For instance, the GMS Core Environmental Program is well positioned to support Myanmar in areas such as environmental safeguard capacity building, environmental impact assessments, environmental monitoring and performance assessments, and pilot projects to demonstrate integrated conservation and development practices building on the Biodiversity Conservation Initiative. There is also the potential to develop a more substantive program of support to control HIV/AIDS in the GMS that directly includes Myanmar.

(iv) **Monetary and financial cooperation**. Monetary and financial cooperation and reform are needed to promote financial market development and integration. This will help mobilize savings and investment, as well as enhance regional macroeconomic and financial stability. ADB has been working with ASEAN on these areas of cooperation. Engagement with Myanmar will enable the country to obtain support for implementing financial reforms that are needed to keep in step with the envisioned arrangements in ASEAN.

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