7. Making the most of economic zones

This chapter provides an overview of the regulatory and institutional framework for special economic zones and industrial zones in Myanmar, and then examines the implementation and performance of the most advanced zones in the country, Thilawa SEZ and Mingaladon Industrial Park. It concludes with an assessment of the potential for linkages between zone investors and the local economy, and offers directions for the way forward in terms of addressing skills shortages, developing a supplier base, and actively promoting business linkages.

Following the experience of regional peers, Myanmar is advancing an ambitious programme of special economic zone (SEZs) and industrial zone development, with the aim of attracting investors, creating jobs, and developing industry. Currently there are three SEZs and 19 industrial zones across the country. These zones impose a cost on society through forgone revenues from tax incentives, duty exemptions and infrastructure investments specific to the zone. In order to justify their establishment, the associated societal gains must outweigh these costs. In principle, zones, particularly SEZs, have the potential to generate long-run spillovers that benefit workers and firms beyond their confines through knowledge transfers, in addition to being a potential source of foreign currency as they typically target more export-oriented industries. In practice, the experience of SEZs as a vehicle for development has been mixed, depending much on the quality of policies and business environment in which they operate. On the positive side, host countries can, to a certain extent, influence the spillover potential of SEZs with appropriate policies and institutions targeting skills and supplier development, and facilitating the exchange of information between SEZ investors and local companies.

Some important differences in the framework for SEZs and industrial zones exist in Myanmar. SEZ programmes are governed by a special regulatory and institutional framework, dealing with trade, investment, land, tax, labour and environmental policy. The main legislation covering the regime for the establishment and operation of SEZs and the rights and obligations of SEZ authorities, developers and users is the 2014 Special Economic Zone Law. Industrial zones, on the other hand, do not offer a special regulatory or customs regime, and have until recently not been subject to dedicated legislation. The government submitted a draft Industrial Zone Law to Parliament in late 2019, enacted in May 2020, with the objective of ensuring a more systematic approach to zone planning and development.

To attract investors, the Myanmar SEZ Law offers a generous incentive package, including a corporate tax holiday of up to seven years, and a subsequent extended period of reduced corporate tax rate, as well as deductions linked to R&D investments and local staff training activities. In addition, the law mandates the establishment of a one-stop shop to access all government services and clearances, and the provision of basic infrastructure and utilities. In return, investors are subject to a minimum investment requirement, restrictions on domestic sales and employment of foreign personnel, and staff training obligations.

Compared to the in-land regime, the 10-year 50% corporate tax rate reduction offers a substantial competitive advantage, which partly justifies the restrictions on domestic sales of free zone investors, as a means of protecting inland investors from unfair competition. However, a less distortionary approach would be to gradually phase out the reduced tax rate, as has been the case in many regional peers, while relaxing the export share requirement, which would allow inland companies to benefit from high-quality goods produced in the zones.

Thilawa SEZ is currently the most advanced SEZ in Myanmar, with high quality facilities, public utilities and transport links. Its Management Committee, the TSMC, established a One-Stop Services Centre that significantly reduces the number of public officials with which investors must engage and offers expedited one-stop clearances for all necessary approvals and registrations. The TSMC is in the process of developing a portal for investors to submit applications and obtain approvals online, and has committed to specific turnaround times for many procedures, on par with zones that are internationally recognised for their good practice in business facilitation. It has also issued a notice clearly stating RBC expectations that apply to all companies doing business in Thilawa. As such, Thilawa can serve as a model for other industrial zones in terms of infrastructure development and zone management, and as a laboratory for policymakers to test new policies, like simplified regulations or RBC policies, before rolling them out to the wider economy. While it is too early to assess Thilawa's wider economic impacts, currently, 74 businesses are operational in the SEZ and account for around 9 000 jobs; a quarter of these businesses have already started exporting. Moreover there is evidence that Thilawa is contributing to skills development, as reported by surveyed zone workers, while the extent of backward linkages with non-zone firms remains limited mainly because of the still limited capacity of domestic firms (IGC, 2018).

The planning and administration of industrial zones is generally less well developed compared to that of SEZs. Until now, management committees have not been subject to rules or standards for developing and managing the zones, and the respective roles of different government bodies in administering zone development were not clearly defined. The weak and outdated legal framework has resulted in the rapid proliferation of industrial zones with inadequate planning and little assurances on their performance and benefits. Many industrial zones have inadequate infrastructure, unused plots and irregular use of land. Infrastructure investment and maintenance have been insufficient over the years. Roads are in poor condition even in zones surrounding the main urban areas, and drainage and waste management continue to be a concern. The high prices of land in these zones have led many companies to sell their plots and take their operations outside the zones, defeating any strategy behind zone development. The newly enacted Industrial Zone Law of May 2020 sets out that existing zones shall comply with provisions of the new law, including on land use, environmental conservation, and infrastructure provision. If appropriately enforced, this new legal framework is likely to deliver significant improvements in industrial zone performance.

Mingaladon Industrial Park, developed by a public-private joint venture between the Myanmar government and a Japanese trading and investment company is a notable exception to the general shortcomings of industrial zones. It is widely considered to have the most advanced facilities of any industrial zone in Myanmar, which along with its proximity to Yangon are its main attraction to investors. Unlike other industrial zones in the country, Mingaladon is fully operational with some 41 running businesses occupying all available plots, and employing tens of thousands of workers in light manufacturing activities. But business facilitation in Mingaladon is little better than in other zones or in the wider economy. Building on the Mingaladon experience, the Myanmar government is looking to develop other two industrial parks in partnership with the foreign investors, namely with the Thai Amata Corporation and with the Korea Land and Housing Corporation. It is expected that these new zones will set new improved standards for future industrial zones in the country (Myanmar Times, 2019a and 2019b).

The MIPP proposes a set of actions to improve administration policies of industrial zones, including devising a zone allocation plan based on the investment and linkage potential of different regions; clarifying the roles and responsibilities of different institutions; setting the rules and requirements in terms of activities, infrastructure provision and environmental protection; and examining opportunities for streamlining business-related procedures through a one-window service. The government has since enacted a new Industrial Zone Law as mentioned above and is in the process of amending the Private Industrial Enterprise (1990) and the Small and Medium Enterprise Development (2015) Laws, for the purpose of increasing investment, strengthening links with SEZs, upgrading existing industrial zones and developing sustainable industries. If designed appropriately and in the line with the actions proposed by the MIPP, these laws have the potential to support framework conditions that are conducive to new investment attraction and industrial linkage development in Myanmar’s industrial zones.

Myanmar is currently able to offer abundant labour to investors at a competitive cost but with an insufficient supply of workers with technical or managerial skills, who are vital for the adoption of new technologies and for effective business management. The combination of tax deductions for training expenses, investor obligations to provide training activities, and gradually increasing restrictions on foreign skilled labour may serve to effectively transfer knowledge to local employees and develop the technical skills base. But restricting foreign personnel without a parallel initiative to develop the local skills base will only serve to discourage potential investors from choosing to locate in Myanmar. In parallel, the education system is undergoing a major overhaul and the MIPP proposes concrete actions to develop human resources for industry, including monitoring private sector needs and facilitating dialogue between government bodies that oversee vocational education and skill development, education and training institutions and private sector representatives. These actions, if implemented, have the potential to foster the sorely needed technical and managerial skills.

Given the limited base of local suppliers, Myanmar is still at an early stage with respect to linkage programmes, and still relies heavily on donor support to develop the necessary framework for integrating local suppliers in the supply chains of foreign investors. Going forward, successful special economic zones and industrial zones, like Thilawa and Mingaladon, offer a good starting point for implementing pilot linkages programmes. The TSMC could also promote the matching of buyers and sellers by, for example, providing firms in the zone with a list of firms in the Yangon region, and in neighbouring IZs that are producing the relevant inputs or through networking events.

Main policy recommendations

- Align SEZ and industrial zone development and administration with the broader investment promotion strategy. Ensure careful co-ordination across the respective authorities overseeing SEZs and IZs, and DICA, to avoid policy misalignment, duplication and wasted resources.
- Consider gradually phasing out excessive fiscal advantages provided to SEZ investors through extended corporate tax reduction (in addition to the tax holiday available to non-zone investors), while simultaneously relaxing the export-share requirement of free-zones, to level the playing field across zone and non-zone investors, reduce government revenue losses, eliminate distortions in investor allocations to domestic and export markets, and grant domestic industry access to free zone goods. Along these lines, also consider extending tax deductions for training expenses available to SEZ investors to the inland regime.
- In line with the goal of attracting and enabling responsible investments into Myanmar, as alluded in the new Myanmar Investment Law, consider adopting the Thilawa SEZ Notice No. 4/2015 on Responsible Investment for the wider economy, and encourage management committees of all zones to adopt it too.
- Resolve the inconsistency between the SEZ Law and the EIA requirements in terms of approval processes and terminology as set out by the 2012 Environmental Conservation Law, by amending the implementing regulations of either law and creating a dedicated EIA regime for SEZs.
- Implement the action plan for improving planning and administration of industrial zones, and ensure that clear rules and requirements in terms of zone allocation, infrastructure provision, business facilitation and environmental protection are embedded in the new Industrial Zone Law.
- Implement the action plan to develop human resources for industry set out in the MIPP. In particular, establish an active dialogue with the private sector on skills needs, facilitate dialogue between relevant policy makers, education and training institutions, and industry, and support the design of curricula that meet the needs of business.
- Support relevant institutions in designing systematic and industry-specific training programmes for supporting industries, in collaboration with donors and the business community. Involve SEZ investors in the design of training curricula and programmes. Focus on key economic sectors, such as those targeted by the MIPP, including textiles and garments, agroindustry and machinery assembly. Food processing could serve as a pilot initiative given the currently higher potential for linkages in the sector.
- Promote the matching of investors and suppliers through networking events, or by providing Thilawa investors with a list of firms in the Yangon region, and in neighbouring industrial zones that are producing the relevant inputs.

The case for special economic zones

Economic zones have become the preferred instrument of many governments to achieve a number of policy objectives, ranging from FDI attraction to industrial development. Recent estimates suggest that there are nearly 5 400 SEZs globally, of which more than 1 000 established within the last five years (UNCTAD, 2019). Despite many variations in name and form, economic zones can broadly be defined as designated areas where business activity is subject to different rules from those prevailing in the national territory. These distinct (and often laxer) rules are intended to create a business environment that is relatively more liberal from a policy perspective and more efficient from an administrative perspective (Farole, 2011).

Common features of zones include a defined geographic perimeter, reduced tax burden, infrastructure support, simplified regulatory requirements (e.g. with respect to land access, permits and licences, or employment rules), and streamlined administrative procedures (e.g. for registration, customs, etc.) that are often governed by a single autonomous authority. In return for these concessions, governments expect investors in zones to create jobs, boost and diversify exports, and build productive capacity. Their attractiveness to policymakers stems also from their potential use as experimental laboratories where new policies can be tested before being rolled out to the rest of the economy, and more generally to catalyse structural transformation. In practice, evidence of the success of zones in meeting their development objectives is mixed (Box 7.1).

Economic zones generally fall under one of four categories: free zones, export processing zones (EPZs), special economic zones (SEZs), or industrial zones or parks (Table 7.1). Free zones and traditional EPZs are long-established models that are essentially separate customs territories designed to facilitate trade and increase export earnings, respectively. Modern SEZs and industrial zones have a broader development mandate and are designed to facilitate the formation of industrial clusters. SEZs, which are governed by special legislation, typically follow a multi-sector approach and sometimes include other zone models (e.g. large-scale SEZs may include EPZs and industrial zones within them), while industrial zones are usually sector-specific with adapted infrastructure (e.g. science and technology parks) but do not offer special regulatory treatment.

Table 7.1. Types of zones

Type of zone	Development objective	Typical size	Markets
Free zones	Support trade	<50 hectares	Domestic, re-export
Export processing zones	Export manufacturing	<100 hectares	Mostly export
Special economic zones	Integrated development	>1000 hectares	Internal, domestic, export
Industrial zones	Industrial clusters	No minimum	Mostly domestic

Source: Adapted from Farole and Akinci (2011)

Following the experience of some ASEAN peers and China, the government of Myanmar is advancing an ambitious programme of SEZ and industrial zone development, with the aim of supporting structural transformation of the economy (OECD, 2014). As of November 2019, the government designated three SEZs and 19 industrial zones. Of the three SEZs (briefly characterised in Table 7.2), only Thilawa is currently in operation and is home to 113 residents. Spread across the country, industrial zones were mostly established over 1996 to 2010 and host almost 7 500 residents as of November 2019 (Figure7.1). The three industrial zones in the Yangon region occupy 65% of the country's industrial land and are divided into 35 separately managed industrial areas and parks. Data shared by the authorities indicates that, including all industrial sub-zones, there are a total of 53 active zones and at least another three planned zones. The overall framework governing zones in Myanmar, and the implementation and performance of Thilawa SEZ and Mingaladon Industrial Park are the focus of the remainder of this chapter.

Table 7.2. SEZs in Myanmar

	Thilawa SEZ	Dawei SEZ	Kyaukphyu SEZ
Location	23km south of Yangon	Southern part of Thanintharyi Region	Western Region of Rakhine State
Project size	2 400 hectares	20 000 hectares	1 700 hectares
Major developers	Japan and Myanmar	Thailand and Myanmar	China and Myanmar
Stage	Zone A completed and operational; completion of Zone B expected in 2022.	Started and then suspended in 2013; Conditions for development currently under negotiation.	Three phases started in 2016. Completion expected in 2038.
Target industries	Light industries, manufacturing of consumer goods	First phase: labour-intensive industries, such as garments and food processing; Second phase: heavy industries including automotive, chemicals, rubber, electronics	Regional logistics, oil and gas, processing, garments and footwear
Strengths	Proximity to major market and labour force in Yangon	Proximity to Thailand; deep sea port planned	Proximity to oil and gas resources; deep sea port planned
Weaknesses	River ports in Yangon have limited capacity to handle large shipments	Poor infrastructure in nearby areas	Far from existing industrial areas

Source: Adapted from HKTDC Research (2016)

Box 7.1. Evidence of SEZ impacts

Boosting investment, exports and jobs

There is little systematic research on the impact of SEZs, but evidence of their effectiveness has been mixed. Case studies, often focusing on success stories, provide some evidence of a positive contribution to FDI attraction, export performance and job creation. In China for instance, SEZs account for over 80% of cumulative FDI and are found to have a particularly strong effect on greenfield investments, while not crowding out domestic investment (World Bank, 2017). In Costa Rica, SEZs helped diversify production from garments to electronic components, and their share in manufacturing exports increased from 10% in 1990 to 55% in 2003 (Gereffi, 2019). In the US FTZ programme, job creation averaged 7% per year since 2013, compared to 2% for the wider economy. A few empirical studies that weigh zone impacts against their construction and running costs provide further evidence that many SEZs are effective in boosting FDI, jobs and exports, and that their net economic benefits are marginally positive (Mongé-Gonzalez et al., 2005; Jayanthakumaran, 2003).

At the same time, anecdotal evidence provides numerous instances of zones that did not attract the expected influx of investors, or resulted in investors profiting from generous fiscal incentives while delivering limited employment and exports gains (Farole and Akinci, 2011). In some countries, decentralised policymaking for developing zones has led to excessive competition between provinces, and a misuse of resources and land where zones are only partially occupied (OECD, 2018b). Moreover, SEZs have sometimes been criticised for negative social and environmental impacts, including exploitation of workers and low environmental, health and safety standards (Milberg et al., 2008). In Sub-Saharan Africa, where zone initiatives have been least successful (with a few notable exceptions), poor performance has been attributed to a weak regulatory and institutional framework, lack of effective strategic planning, insufficient governance and implementation capacity, and inadequate infrastructure (Zeng, 2015). Experience worldwide also suggests that successful SEZ programmes require years of nurturing with consistent support from government before they yield the desired impacts (OECD, 2018a).

Experimenting with policy reform

SEZs can play a catalytic role in the process of economic liberalisation and reform. Where governance is relatively weak, or economic reforms are politically sensitive to implement, the enclave nature of SEZs

can be an asset. China effectively used its numerous SEZs as a testing lab for the market economy. Since the 1980s, the government experimented with liberal economic reforms and new institutions in Shenzhen and other coastal SEZs, before gradually introducing them to the wider economy. Recently, the more liberal negative list approach for foreign investment (that restricts access only in explicitly listed industries) was first tested in the Shanghai pilot free trade zone in 2013, then further extended to other pilot zones in 2015, and ultimately adopted as national policy in 2018 (UNCTAD, 2019). Similarly, the true success of the Mauritius EPZ programme was not job creation, investment or exports, but the economic and political reform process that it catalysed, and the ensuing structural transformation of the economy (Farole and Akinci, 2011).

In a similar vein, SEZs can be used as effective pilot schemes for testing policies to boost the investment climate. These pilots can be applied, for instance, in the area of environmental impact assessment, one-stop services, supplier development initiatives, and business matchmaking programmes (OECD, 2014). However, the framework conditions that allowed SEZs to serve a catalytic role in the policy reform process should not be ignored. Shenzhen was only part of the country's overall economic reform landscape (Cheesman, 2012). What worked for China over this period will not necessarily work in other contexts. Successful pilot schemes in SEZs will not necessarily be effective when rolled out to the wider economy if accompanying measures to build local capabilities (both in the private and public sectors) are not in place.

Promoting structural change and upgrading

Through adequate infrastructure and good practice in business facilitation, zones can to some extent compensate for an adverse investment climate. However, SEZs are not a substitute for improving the general investment climate, and have often failed to sustain innovation and competitiveness over time, delivering little technological upgrading or new firm creation. Most of the jobs created in zones are low-skilled and concentrated in low-technology manufacturing operations. Even zones that are effective in boosting investment, exports and jobs risk missing the broader development objectives and creating enclaves and parallel economies. In the Dominican Republic, SEZs initially helped shift the economy away from agricultural commodities toward textile manufacturing. But the programme's reliance on trade preferences, incentives and low wages, combined with enclave nature of the zones, led to deteriorating competitiveness and stagnation when the preferences were eventually phased out and wages began to rise (Burgaud and Farole, 2011).

Zone programmes that contribute to upgrading, structural transformation and long-term competitiveness are embedded in a broader national development strategy. For SEZs to generate impact beyond their confines, accompanying measures need to be put in place as part of the SEZ and wider national development strategy, including appropriate connectivity to the rest of the country, reduced barriers to investment, and engagement of the private sector and education institutes. In practical terms, zone spillovers require establishing conditions that favour linkages between investors in the zones and economic actors outside the zones that enable the transfer of knowledge and technology. The extent of these linkages depends crucially on how wide the gap is between the capabilities of the local business elite and the sophistication of what is demanded by foreign investors, so that a more robust local private sector translates to a greater probability of knowledge transfer.

There are many examples of how development strategies that incorporate SEZs have contributed to structural transformation and upgrading. Early examples include Korea and Chinese Taipei, where investors in SEZs formed extensive backward supplier linkages with domestic firms. The Philippines and Malaysia were also able to use their SEZ programmes to support upgrading to higher value added and technology-intensive industries, including electronics, services and software development (ASEAN, 2017). Outside of Asia, zones have also contributed to structural transformation in a number of countries, including the Dominican Republic, Mauritius and Lesotho.

Research suggests that partnerships between economic zones and local universities and vocational training institutes constitute an important magnet in attracting anchor investors, and expanding backward linkages into the host economy (Moran, 2011). In the Dominican Republic, following the decline in SEZ activity and exports, human development was encouraged to support upgrading of the country's production profile. A growing number of SEZs entered into collaboration with local universities, and, since 2010, SEZ exports rebounded, and production grew more diversified. By 2017, the number of indirect jobs attributed to SEZs grew to an estimated 250 000, double the jobs within the SEZs.

Figure 7.1. Existing industrial zones in Myanmar

Source: reproduced from Directorate of Industrial Supervision and Inspection of Ministry of Planning, Finance and Industry (2019).

The regulatory framework for zones in Myanmar

SEZ programmes are usually governed by a special regulatory and institutional framework, dealing primarily with trade, investment, land, tax, labour and environmental policy (Table 7.3). Within this framework, SEZ legislation sets out the regime for the establishment and operation of SEZs and stipulates the rights and obligations of SEZ authorities, developers, operators, and users. The main legislation covering the definition, procedures and administration of SEZs in Myanmar is the 2014 Special Economic Zone Law (henceforth, SEZ Law), implemented by the 2015 Myanmar Special Economic Zone Rules (SEZ Rules). Multiple provisions in the SEZ Law reaffirm the applicability of national laws on land, environment and labour.

Industrial zones, on the other hand, have not been subject to any dedicated regulation to date, although this may change rather soon. The government has already submitted a draft Industrial Zone Law to the parliament and expects it to be enacted before end-2019 (Frontier Myanmar Research, 2019). The goal of the proposed law is to ensure a systematic approach to planning zones and that their development and management meets international standards.

Table 7.3. Main policy areas covered by regulatory framework of SEZs

General legal framework	Examples of special regime
Trade rules	Exemption from customs duties, expedited customs clearance
Investment law	Fewer restrictions on FDI, SEZ one-stop shop, additional protection clauses
Land and real estate laws	Relaxed rules on land ownership, exemption from real estate taxes
Tax code	Exemption from corporate income tax and VAT
Labour laws	Right to employ foreign personnel, requirement to train local staff
Environmental regulation	Obligations related to pollution, noise, water treatment, waste disposal

Source: Adapted from UNCTAD (2019)

Core elements of SEZ law

SEZ programmes that generate extra-zonal benefits through significant linkages with the domestic economy are developed with a clear vision and strategy for achieving specific goals, and are part of a broader development agenda. This strategy is ingrained in SEZ law, through provisions on SEZ definitions, objectives and targeted activities, establishment procedures, investment attraction tools, and operational requirements for investors.

According to a recent UNCTAD survey of SEZ laws in 115 countries, over 90% of SEZ laws contain a general definition of SEZ, but less than a third explicitly mention specific zone types and define them. Under two thirds of surveyed laws state the objectives of the zones. The most frequently cited objectives are static economic impacts such as attracting investment, boosting exports and creating jobs (59%). Around half of the laws articulate dynamic growth objectives, seeking innovation, industrial upgrading, skills development, economic diversification, structural change or integration into value chains. Only 20% specify sustainable development objectives, relating to job quality, environmental protection, or gender issues (UNCTAD, 2019).

The Myanmar SEZ Law provides a general definition of SEZ based on geographic demarcation and legal notification by the competent authority, and further specifies the types of zones (or activities) that can be established within the SEZ. Free Zones, deemed outside national territory and exempt from customs duties are to prioritise export-oriented manufacturing activities; while Promotion Zones, subject to national trade and taxation rules, serve primarily the domestic or internal SEZ markets. A third "other zone" type, can be stipulated by the SEZ managing committee according to market demand in addition to the free zone and

promotion zone. There need not be a physical demarcation of free zone activities and promotion or other zone activities within the SEZ.

The objectives of SEZs in Myanmar are clearly stated in Article 4 of the SEZ Law. They include static economic, dynamic growth and sustainable development objectives and are explicitly linked to a broader development strategy, in accordance with good practice. Notably, the SEZ programme aims to support the national economic development plan; create jobs and improve the standard of living of workers; promote economic cooperation with other countries and provide opportunities for vocational training; encourage both domestic and foreign investment; and support the creation of industrial linkages. These objectives, and particularly mention of domestic investment, linkages and vocational training opportunities provide a good basis for a zone programme that generates spillovers.

Investment attraction tools

Most SEZ laws contain a range of investment attraction instruments that confer special treatment to investors in zones, relative to the general legal framework (Table 7.4). The most common are fiscal incentives and special customs regimes, addressed by 85% and 82% of SEZ laws, respectively. Much fewer contain provisions on investment facilitation, investor protection, or land use (28–36%), followed by trade facilitation and infrastructure provision (18-19%); and only 3% provide for social amenities such as schools and hospitals (UNCTAD, 2019). The Myanmar SEZ Law is relatively comprehensive, applying all of these tools aside from social amenities (which can but need not be established in promotion zones) to make SEZs attractive to investors.

Table 7.4. Investment attraction tools in SEZ laws

Investment attraction tools	% of SEZ laws	Myanmar SEZ Law
Fiscal incentives	85%	✓
Special customs regime	82%	✓
Investment facilitation	36%	✓
Investment protection	29%	✓
Preferential land use	28%	✓
Trade facilitation	19%	✓
Infrastructure provision	18%	✓
Social amenities	3%	✗

Source: Authors' elaboration based on UNCTAD (2019) and the 2014 Myanmar SEZ Law

Commonly used fiscal incentives include exemptions or reduced tax rates on corporate income tax (CIT), tax deductions or credits on expenses (e.g. R&D), and accelerated depreciation of assets. Incentive schemes, particularly tax holidays can impose significant fiscal costs. In Cambodia, the incentive regime is among the least generous in the region, yet forgone revenue due to tax incentives was estimated to amount to 6% of GDP (OECD, 2018a). Incentives that lower the cost of investment (e.g. tax deductions and credits) are considered more efficient for attracting new investments than profit-based tax incentives (e.g. tax holidays and reduced CIT), which by design make already profitable projects even more profitable. Incentives that target specific activities (e.g. training or supplier development) involve greater transaction costs both in terms of understanding eligibility and of monitoring compliance, but, if effectively implemented, can support the achievement of socio-economic objectives.

The Myanmar SEZ Law specifies that businesses in the free zone and promotion zone receive corporate tax exemptions for the first seven or five years, respectively, followed by a 50% reduced CIT rate for the second five years, plus an additional five-year reduced rate on reinvested profits. Then the standard corporate tax rate of 25% applies. Dividends paid out to shareholders from taxed profits are exempt from

dividend tax. Additionally, free zone investors are exempt from customs duties and commercial taxes on all imports used for production (including imports from promotion zones), while promotion zone investors can apply for exemption on imported capital goods, only. Expenses related to staff training and research activities incurred by investors in free zones can be deducted from taxable income.

At first glance, a comparison of the Myanmar SEZ Law[1] and the Myanmar Investment Law[2] suggests that promotion zone investors and inland regime investors are essentially under the same tax and customs regime, and exporters in the inland regime have access to similar fiscal and customs advantages as free zone investors (Table 7.5). However, an important difference in the two regimes is the extended period of reduced CIT rate after the initial CIT holiday, available to both export-oriented (free zone) and domestic market-oriented (promotion zone) investors (Table 7.4). While this may compensate market-seeking investors for high costs related to market penetration and product adaptation, this fiscal advantage may be particularly detrimental for domestic non-zone companies that compete for the same market as promotion zone investors.

Table 7.5. Preferential tax treatment inside and outside Myanmar SEZs

		Inside SEZs		Outside SEZs
Law		SEZ Law		Investment Law
Approval		SEZ Management Committee		Myanmar Investment Commission
Tax exemptions and reductions	Commercial tax/ VAT	Free Zone	Exemption	No exemption
		Promotion Zone	Exemption for 5 years	
	Corporate income tax (CIT)	Free Zone	Exemption for 7 years 50% reduction for next 5 years 50% reduction for next 5 years for reinvested profits	Exemption for promoted sectors only, for 3, 5 or 7 years depending on development designation of location
		Promotion Zone	Exemption for 5 years 50% reduction for next 5 years 50% reduction for next 5 years for reinvested profits	
	Dividend tax	Free Zone	Exemption on dividends paid out from profits for which CIT was paid	No exemption
		Promotion Zone		
	Deductions	Free Zone	Local staff training and R&D activities	R&D activities
		Promotion Zone	Not specified	
Customs duties		Free Zone	Exemption on import of capital goods, intermediate goods and raw materials (including from Promotion Zone)	Exemption on import of capital goods during the construction period or during the preparatory period of the investment; Refund on import of raw materials and intermediate goods for the manufacture of export products
		Promotion Zone	Exemption on capital goods for 5 years 50% reduction for next 5 years Refund on import of raw materials and intermediate goods for the manufacture of export products	

Source: OECD based on SEZ Law and Investment Law

While the corporate tax holiday is similar to or shorter than the SEZ regimes of regional peers, this is one of the more generous incentive packages offered in the region (along with Indonesia, Lao PDR and Viet Nam), as a result of the long period of reduced CIT rate.[3] Many regional peers have abolished reduced tax rates in zones altogether, in line with wide consensus among international experts to simplify tax regimes and reduce reliance on tax incentives. Cambodia took this approach, offering essentially no special fiscal treatment to companies in SEZs to date. This avoids creating a dual regime system that can be an added source of complexity and distortion (OECD, 2018a). More advanced countries in the region have moved away from zone-based incentives, to targeting priority sectors and activities. Prioritising

industries can also be problematic and may not be suitable for Myanmar at this stage, but there may be scope for further reducing fiscal privileges of investors in zones relative to the wider economy.

On the other hand, tax deductions granted under Article 52 of the SEZ Law for staff training expenses can make an important contribution to upgrading skills and building local capacity. The government may consider extending these deductions to investors in promotion zones and in the inland regime.

While financial incentives are influential, they are not the only considerations for investors. Non-pecuniary incentives strive to improve the business climate within the SEZ, and have been found to matter more for SEZ success than tax incentives, based on data from 77 countries (Farole, 2011). Among the main obstacles faced by domestic and foreign investors in Myanmar are access to electricity and access to land (World Bank, 2016). The Myanmar SEZ framework alleviates these constraints by requiring developers to provide basic infrastructure and utilities; by sidestepping the costs imposed by inadequate land registry and conversion of land use categories; and by protecting against land expropriation.

The SEZ Law further mandates the establishment of a one-stop services centre (OSSC) to access all government services and clearances, where on-site representatives from relevant government departments are granted authority to issue all necessary permits without seeking approval from line ministries. Customs officers are similarly required to provide simplified and expedited clearance procedures on-site. This is a huge benefit, as there is effectively still no one-stop clearance for an investor outside the SEZ, and the investor has to make several applications across various ministries to get approval for the project.

Investor requirements

Over a third of SEZ laws specify criteria that investors must meet to establish and operate in SEZs, including minimum investment and performance requirements related to exports, employment and skills transfer (UNCTAD, 2019). The Myanmar SEZ Laws and Rules similarly establish these requirements, which are somewhat more onerous compared to other regional peers in terms of capital and export requirements (Table 7.6). In particular, free zone investments in Myanmar are subject to a 75% export share requirement (ESR), and supporting industry activities of free zones must sell 80% of their output to free zone exporters. In contrast, zone investors in Cambodia, Lao PDR and Viet Nam are not restricted from selling to the domestic market provided these sales are treated as imports and subject to general tariffs and customs procedures.

The statutory ceiling on domestic sales, or export share requirement, is intended on the one hand, to protect firms in the inland regime from exposure to unfair competition from free zone firms under special investment regimes, and on the other to develop exports and avoid creating incentives for domestic market-seeking firms to relocate to free zones. However, it may distort investors' allocation of sales across domestic and export markets to comply with the ESR and enjoy the associated incentives, or prevent them from adjusting to macroeconomic fluctuations in demand. Moreover, it limits the extent to which the domestic industry and Myanmar citizens can, respectively, benefit from high-quality inputs and consumer goods produced in free zones. This may be particularly damaging to both SEZ investors and Myanmar consumers since the onset of the COVID-19 pandemic and the related impediments to trade. Lastly, monitoring the implementation of ESRs can be costly from an administrative point of view.

At the same time, the current preferential treatment available to both export-oriented and domestic market-oriented investors (*i.e.* the extended 50% CIT rate reduction) goes counter to the justification of protecting inland investors from unfair competition. Gradually lowering import tariffs and easing import procedures under the inland regime while phasing out profit-based corporate tax incentives in the zones may reduce the costly comparative advantage gap between free zone and inland investors (OECD, forthcoming 2020). This was the approach adopted in Cambodia, where zone investors enjoy virtually no fiscal advantage compared to the inland regime.

Among the countries considered only Cambodia and Myanmar require investors to train local staff. Specifically, Article 73 of the SEZ Law mandates the provision of training and course material on subjects relevant to the business "for the improvement of the skill of the citizen staff". In Cambodia, all investors, within and outside zones are required to provide adequate and consistent training to Cambodian staff under the national investment law. Moreover, zone developers have a duty to cooperate with the Ministry of Labour and Vocational Training to facilitate the training of Cambodian workers and employees and to promote new knowledge and skills through specifically-designed programmes.

Similar to its regional peers, Myanmar allows the employment of foreign personnel in SEZs only for activities requiring technical or managerial skills. In particular, Article 75 of the SEZ Law requires plants to gradually shift their skilled labour force towards Myanmar citizens, from at least 25% in the first year of operation to 75% in the fifth year. In Cambodia the law is much more restrictive allowing for at most 10% of skilled workers to be foreigners; while, at the other end of the spectrum, Viet Nam does not impose any restriction on skilled foreign employees. Combined with Article 73 on training requirements, and Article 52, on tax deductible training expenses, Myanmar's approach of gradually increasing the foreign employment restriction may be a way of fostering skills upgrading and anchoring investors to the country, although it entails the potentially high administrative costs of monitoring and enforcing the regulation. A less restrictive approach like that of Viet Nam, on the other hand, gives investors greater flexibility to bring in qualified manpower with the required qualification, increasing the zones attractiveness.

Table 7.6. Establishment and operational requirements for SEZ users

Investor requirements	Myanmar	Cambodia	Lao PDR	Viet Nam
Minimum investment	USD 750 000 (FZ) USD 300 (SI, PZ)	×	×	×
Exports share (including indirect)	75% (FZ) 80% (SI)	×	×	×
Foreign employment	0% low-skilled ≤25% high-skilled*	0% low-skilled ≤10% high-skilled	≤10% low-skilled ≤25% high-skilled	0% low-skilled No limit high-skilled
Skills transfer	✓	✓	×	×

Note: FZ = free zone; SI = supporting industry in free zone (required to sell 80% of output to exporter in FZ); PZ = promotion zone. High-skilled workers include managers, technicians and experts. *The SEZ Law allows for a higher share of skilled foreign personnel in the initial years of operation: 75% (2 years), and 50% (2 years).
Source: Authors' elaboration

Environmental Impact Assessments

As discussed in Chapter 6, Myanmar's regulatory framework for Environmental Impact Assessments (EIAs) is set out in the 2012 Environmental Conservation Law (ECL) and its implementing regulations. The framework precedes the 2014 SEZ Law, and explicitly references SEZs only with respect to environmental conservation (e.g. waste treatment). In turn, the SEZ Law embeds the ECL framework by requiring all zone developers and investors to abide not only by the environmental standards described in the ECL, but also by international standards. The SEZ Law does not attach any environmental permitting responsibility whatsoever to the SEZ Authority. The SEZ management committee is only mandated to supervise and ensure compliance of both zone developer and investors in the SEZ with the existing laws relating to the conservation and protection of natural environment.

As such, there are no provisions in either law or respective implementing regulations that establish dedicated arrangements for EIAs on SEZs and SEZ investments or which exempt them from the purview of EIA requirements established in the ECL (Baird and Cosier, 2016). Nonetheless, stakeholders have reported cases of SEZ developers and investors pursuing their investments without obtaining the required approvals from the Environmental Conservation Department (ECD) of the Ministry of Natural Resources

and Environmental Conservation as stipulated in the ECL. For the moment, under the current legal framework, these and any other future SEZ investment project relying simply on the investment permission issued by the SEZ authority, where it would have been subject to EIA approvals if located outside the zone, are likely to be in violation of Myanmar law. The Government needs to resolve this inconsistency by amending the implementing regulations of either law and creating a dedicated EIA regime for SEZs.

Institutional set-up

SEZs have a complex institutional set-up involving multiple public- and private-sector actors with different roles and responsibilities:

- The **government** sets the overall development objectives and implements the underlying economic policies, including SEZ programmes.
- Most governments establish an **SEZ authority**, responsible for the strategic and operational planning of the SEZ programme, and for overseeing development and administration of zones. The authority usually responds to the highest levels of government, in the form of an independent specialised agency or a state-owned enterprise.
- The **zone developer**, under the supervision of the SEZ authority, implements a zone project, providing infrastructure and making land arrangements. Given the requisite technical and financial capacities, many countries opt for private sector involvement in zone development, and over 40% of SEZ laws include incentive schemes to attract private developers (e.g. tax breaks and preferential land use).
- **Zone users**, or investors, are the intended beneficiaries of the special regime, and contribute their productive and technological capabilities to the zone.

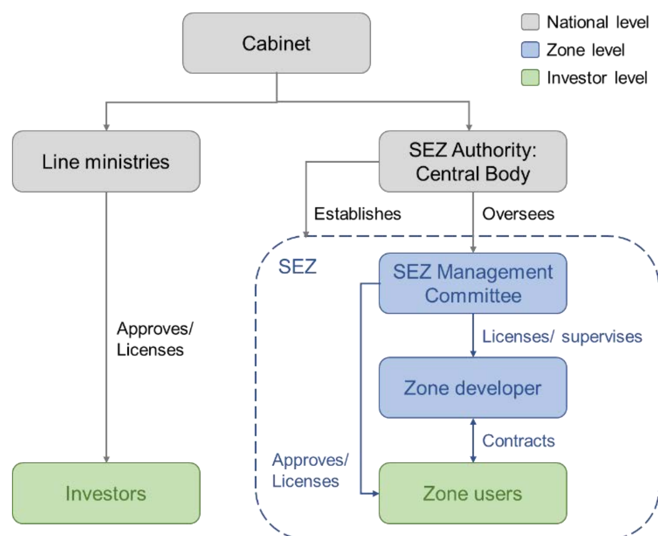
Like most countries, Myanmar established a separate SEZ authority, the Central Body, to co-ordinate zone policies and initiate related programmes. As it responds directly to the presidential cabinet and is chaired by the Vice President of Myanmar, the Central Body enjoys considerable autonomy in performing its duties, which include establishing SEZs; appointing and supervising each zone's management committee; selecting zone developers; and approving zone development plans submitted by the committees. The Central Body is also charged with forming a Central Working Body chaired by the Minister of Commerce to scrutinise proposed zone development plans and provide assistance in the implementation of SEZ activities.

The management committee of a zone, in turn, is charged with supervising the zone's development and day-to-day operations, providing all required permits within a prescribed time-frame (30 days), and establishing the one-stop window for issuing permits to investors. Within the SEZ, it can stipulate the demarcation between free zone, promotion zone, and other zone as it deems fit.

The developer, selected by the SEZ authority and licensed by the management committee, carries out the implementation and maintenance of the SEZ, and subleases land to investors. The SEZ Law specifies that the developer can be public, private, a public-private joint venture, fully domestic, fully foreign, a foreign-domestic joint venture, or an inter-governmental venture.

This institutional model (Figure 7.1) gives broad flexibility to policymakers to shape SEZ regimes according to zone activities and specific investment projects. It allows for developers to retain broad autonomy in their operations and to leverage the expertise of foreign public and private investors, while SEZ authorities retain some control over the admission process through the management committees.

Figure 7.2. Myanmar's institutional set-up for SEZs



Source: Authors' elaboration based on the Myanmar SEZ Law

Improving the framework for industrial zones

Contrary to SEZs, the legal framework, planning and administration of industrial zones in Myanmar are generally inferior to advanced ASEAN countries (MIC-JICA, 2018). Most zones were created between 1991 and 2010, and, up until now, have been governed by the directives of related ministries and the 1990 Private Industrial Enterprise Law (PIE). In this framework, the authority that oversaw industrial zones was the Directorate of Industrial Supervision and Inspection (DISI) under the Ministry of Industry. Management committees under DISI's oversight supervised industrial zone activities and provided the necessary services to business but were not subject to rules or standards for developing and managing the zones. The respective roles of different government bodies in planning and implementing zone development were not clearly defined. This weak legal framework resulted in the rapid proliferation of industrial zones with inadequate planning and little assurances on their performance and benefits to society at large.

There are limited investment climate incentives for establishing within existing zones, as business-related procedures are as costly and time-consuming as outside the zones. Corruption and regulatory red tape in particular make it difficult and time consuming to obtain the land ownership documentation required for loans or to import new technologies. Investors often have little understanding of the laws surrounding industrial processes, and find that many of these laws are unclear and applied unevenly. In practice, business owners must submit to the arbitrary request of officials. Whether or not these requests are supported by actual laws is often unknown by business owners (FNEFF, 2015).

Many industrial zones have inadequate infrastructure, unused plots and irregular use of land (a notable exception discussed in more detail in the next section is Mingaladon Industrial Park), being simply the result of the transformation of agricultural to industrial land (see Chapter 8 for a discussion on challenges related to land allocation and administration more generally). Infrastructure investment has fallen short of the needs of businesses, particularly for the more peripheral zones, and maintenance has been insufficient over the years. Roads are in poor condition even in zones surrounding the main urban areas, and drainage and waste management continue to be a concern, particularly as most zones were developed with inadequate waste management systems prior to the 2012 Environmental Conservation Law. The high prices of land in these zones have led many companies to sell their plots and take their operations outside the zones, defeating any strategy behind zone development. Also, the location of some industrial zones is questionable, as they are not connected to markets and trading routes (OECD, 2014).

In light of these shortcomings, the MIPP proposed a set of actions to improve administration policies of industrial zones, as part of the wider 2017-36 investment promotion strategy (Table 7.7). These actions include devising a zone allocation plan based on the investment and linkage potential of different regions and economic corridor considerations; clarifying the roles and responsibilities of different institutions; setting the rules and requirements in terms of zone activities, infrastructure provision and environmental protection; and examining opportunities for streamlining investment-related procedures through a one-window service.

Table 7.7. Action plan for improving industrial zone administration

Action	Items to be reviewed
Improve administration and management of industrial zones	• Regulatory organisation and supervision of zone management • Investment application criteria of MIC • Roles of state/ regional governments, Ministry of Industry (now merged into the new Ministry of Planning, Finance and Industry), Industrial Development Committee
Formulate a national industrial allocation plan	• Investment trends and investment potential of regions • Industrial linkage and agglomeration • Urban development • Economic corridor development
Formulate rules and standards for industrial zone development and management	• Zone requirements/ criteria • Standardised procedures for development • Management rules • Infrastructure development • Environmental protection
Consider establishing one-stop services centres in industrial zones	• Streamlining of investment-related procedures within OSSC mechanism

Source: MIC-JICA (2018).

The government has since submitted to Parliament a new Industrial Zone Law with the stated objectives of enhancing opportunities for investment, controlling and managing environmental impacts caused by industry, ensuring systematic planning of new zones, upgrading infrastructure of existing zones. Under the new law, enacted on 26 May 2020, industrial zones are governed by a three-tier system for policy design, oversight and management. A newly established Industrial Business and Industrial Zone Development Central Committee (Central Committee), chaired by the Minister of Planning, Finance and Industry, sets policies and reviews proposals to develop industrial zones. The Central Committee oversees regional supervisory committees, in turn chaired by regional ministers and charged with governing the zone programmes of their respective regions. Private sector representatives are included in the membership of regional committees. Individual zones and their day-to-day activities are then administered by management committees chaired by representatives elected by the zone investors under the supervision of their region's supervisory committee. Management committees will also at least be partly composed of investors.

The new law contains provisions on land use, environmental conservation, taxation and incentives, rights and obligations of developers and investors, and settlement of administrative disputes. For instance, under the IZ Law, regional supervisory committees are responsible for subjecting existing zones to environmental conservation plans, identifying any unused land plots, and reallocating them to SMEs. Prerequisites for new zones include strategic location with transport links to domestic and international markets; infrastructure development; sufficient land area; access to water and electrical power; and support for skills development through training opportunities. In addition, DISI is trying to draft a new and more comprehensive industrial law to replace the 1990 PIE law, and to amend the Small and Medium Enterprise Development Law (2015).

If these laws are enacted as proposed and in line with the actions proposed by the MIPP, together with the new IZ Law, they have the potential to support framework conditions that are conducive to new investment attraction and industrial linkage development. These laws should also aim to enhance the environmental performance of industrial activities, including by aligning and ensuring adequate monitoring of industries compliance with national standards, such as the Myanmar National Environmental Quality (Emissions) Guidelines (2015) which provides for controls on noise and vibration, air emissions, and liquid discharges from various sources (see Chapter 6 for more information on environmental standards).

In practice, existing management committees of selected zones have already started monitoring water use and examining opportunities for developing waste water treatment systems in their respective zones, under the guidance of the Environmental Conservation Department, and with the support of donors (JICA, 2018).

Aligning zone programmes with the investment promotion framework

SEZs and IZs are part of a broader national investment promotion and facilitation framework that comprises national and regional policies, legislation and institutions. As mentioned in previous chapters, the Myanmar government has taken significant strides toward strengthening the institutions and measures to promote and facilitate investment in the country, notably through the Investment Policy announced in 2016, and the new investment regime under the Myanmar Investment Law and Special Economic Zone Law.

Currently, DICA under the Ministry of Investment and Foreign Economic Relations is responsible for the overall investment promotion strategy and related activities, while SEZ programmes are under the direct supervision of the cabinet of ministers with the Ministry of Commerce providing an advisory role, and industrial zones are under the oversight of the Ministry of Planning, Finance and Industry. While it is not unusual for countries to have multiple institutions promoting investments at national and zone levels, what is important is for the activities and mandates of these institutions to be clearly outlined and co-ordinated to avoid wasteful duplication and overlap. Myanmar could look at the experience of other regional peers with different degrees of centralisation of FDI promotion efforts and zone programmes, and their respective successes and failures (Box 7.2).

Box 7.2. Experience of centralised and decentralised zone authorities

In **Cambodia**, the Council for Development Cambodia (CDC) established in 1994 was reorganised several times before becoming the highest decision-making body in defining the framework for investment strategies and accepting or rejecting investment proposals. The CDC now further serves as the first point of contact for foreign investors, the one-stop window for granting permits, the only institution granting tax incentives, the secretariat of the government-private sector forum, and the authority overseeing special economic zones. The strong degree of centralisation under the CDC ensures consistency and co-ordination of investment promotion and facilitation activities both within and outside zones.

In **Lao PDR**, until recently, the National Committee for SEZs (under the Prime Minister’s Office) was responsible for investments in zones, but the amendments made in 2016 to the Law on Investment Promotion consolidated this investment promotion and facilitation responsibilities under the Ministry of Planning and Investment. This was a welcome reform as, previously, these distinct entry points had brought a certain degree of confusion to investors, especially when incoherent or conflicting messages were delivered. Bringing special economic zones management into the unit responsible for investment promotion under the Ministry of Planning and Investment should allow for a coherent and consistent investment promotion and facilitation strategy and better co-ordinated activities.

In contrast each province in **Viet Nam**, has a Department of Planning and Investment responsible for investment-related activities and reports to the province’s People’s Committee. While all provinces

constitute the entry point of investors to establish their business and start their investment, their level of activity and efficiency depend greatly on local capacities and resources. Decentralisation also comes with certain risks, such as duplication and overlap of activities, potentially harmful competition between provinces, possible lowering of environmental standards and growing regional inequalities as a result. Until recently, poor co-ordination on investment promotion has brought confusion to investors and has sometimes sent negative signals

In the **Philippines**, while the Board of Investment (BOI) under the Department of Trade and Industry is the official national IPA, there are 18 agencies involved in investment promotion, each one with different functions and incentive packages. The government created separate zone authorities (e.g. PEZA, CDC, SCAD) because the BOI was having difficulty moving from business licensing and regulation to an IPA and zone authority. The zone authorities have their individual mandates objectives anchored in a number of legal acts, which can create confusion for potential investors and the administration. The government is aware of these challenges and efforts have been underway since 2009 to synchronise the various IPAs and their activities, resulting in joint missions abroad, a common platform, "Invest Philippines", and a joint website.

Source: OECD Investment Policy Reviews of Cambodia (2018), Viet Nam (2018), Lao PDR (2017) and Philippines (2016)

Implementation and impact: Thilawa and Mingaladon

There has been little systematic research on the impact of zones, as monitoring data on zone performance are rarely collected or comparable across countries. Zone assessments are largely based on case studies, which often focus on success stories and the characteristics that make them successful rather than providing a comprehensive cost-benefit appraisal.

The expected benefits of zones are both direct and indirect. Direct benefits include FDI attraction, job creation and income generation, export growth and diversification, and foreign exchange earnings. Indirect economic benefits are more difficult to define and measure, but are an essential component of the sustainable development impact of zones. They include supplier linkages beyond the confines of the zone and the indirect employment they create, as well as the induced income and jobs resulting from spending of zone wages in the wider economy.

Importantly, the benefits of SEZs should be weighed against their costs, which include the capital expenditure for zone development, the cost of operating the zone authority and other operating expenses, and the public revenues forgone through tax exemptions. Public expenditures on SEZs tend to be highest where governments develop and manage zones (UNCTAD, 2019). The combined economic impacts of a zone net of its investment and operating costs provide a measure of the zone's financial viability, including the payback period on zone investment and the long-run fiscal burden it generates.

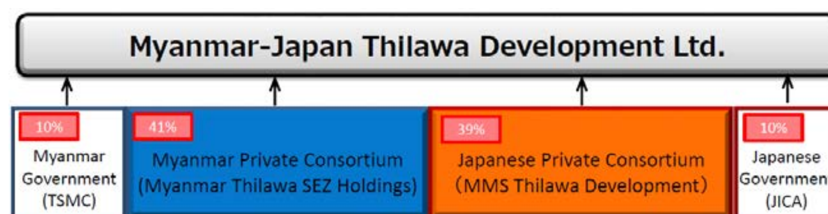
As mentioned earlier, zones can also generate dynamic economic effects through their impact on technology and skills development. These include promoting industrial upgrading and economic diversification, as well as enhanced regional co-operation and integration in regional and global value chains. Beyond economic impacts, zones can have positive or negative social and environmental impacts, by affecting for instance labour conditions, land use and pollution. Finally, zones that are used for policy experimentation can provide valuable policy lessons and catalyse reforms (or alternatively reduce pressure for governments to pursue difficult national reforms). The net economic, social, and environmental benefits of zones and their effects on policy reform capture their overall sustainable development impact, which is what ultimately affects structural transformation.

As argued earlier, successful SEZ programmes require years of nurturing before they fully bear fruit, and in the case of Thilawa and Mingaladon, it is still early to assess broad socio-economic impacts weighed against investment and operation costs. Nevertheless, it is useful to examine zone implementation and economic performance, both relative to the broader economy and in comparison to other countries so as to get a sense of their economic contributions and draw some lessons for the way forward.

Learning from Thilawa SEZ

Initiated in 2011, Thilawa commenced commercial operations in September 2015 and is currently the most advanced SEZ in Myanmar. The zone is located 25 km southeast of Yangon, adjacent to Thilawa Port, and stretches over 2500 hectares. The development of the zone is undertaken by MJTD, a public-private joint venture, including the Government of Myanmar and the Japan International Cooperation Agency, along with private consortia from Myanmar and Japan (Figure 7.3). As of September 2019, a quarter of the total available land is developed (629 ha) and hosts 113 contracted investors, of which 74 are in operation (MJTD, 2019). Around a quarter of tenants are export-oriented tenants of the Free Zone, while the remainder are domestic market-oriented tenants of the Promotion Zone.

Figure 7.3. Investment structure of the Thilawa SEZ developer



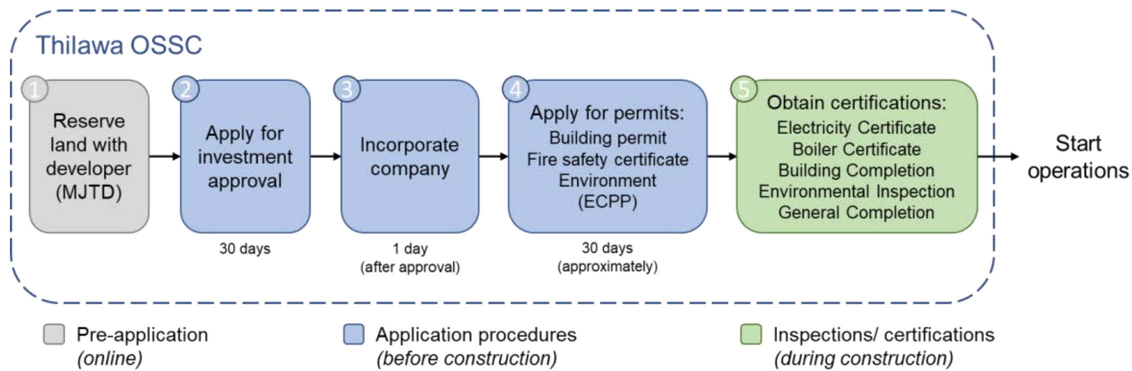
Note: TSMC = Thilawa SEZ Management Committee; JICA = Japan International Cooperation Agency.
Source: MJTD (2019)

Improving the investment climate

Countries often use SEZs to sidestep pre-existing regulatory procedures that impose high operating costs on firms, and to compensate for weak infrastructure. As mandated by the SEZ Law, the Thilawa SEZ Management Committee (TSMC), chaired by the Deputy Minister of Finance and Planning, established a One-Stop Services Centre (OSSC) that significantly reduces the number of public officials with which investors must engage and offers expedited one-stop clearances for all necessary approvals and registrations. Given the short lead time that international buyers require, delays and uncertainty around securing permits through multiple government agencies can be costly for producers, making one-stop clearances and effective way to reduce trade costs, which are estimated to be large in Myanmar (IGC, 2016).

The Thilawa OSSC is staffed by representatives of various ministries who are fully authorised to grant necessary licences and approvals required by investors. At the time of the project launch, the OSSC provides approval of company establishment, investment approval, company registration, environmental, construction and taxation application, and registration of foreign workers. During project construction and operation, the OSSC further offers visa issuance, customs clearance, labour management application, environmental management, tax filing, and power supply procedures (MJTD, 2018). The main steps for setting up a business in Thilawa are clearly explained on the Thilawa OSSC website, which provides links to all related forms and documentation (Figure 7.4). The TSMC is in the process of developing a portal for investors to submit applications, obtain approvals and interact with the TSMC online.

Figure 7.4. Setting up a business in Thilawa SEZ



Source: Adapted from https://www.myanmarthilawa.gov.mm/

The TSMC has committed to specific turnaround times for many procedures like investment approval (30 days), company incorporation (1 day), and construction design approval (5 days). In this respect, Thilawa is comparable to zones that are internationally recognised for their good practice in business facilitation, such as the Philippines Economic Zone Authority and the Clark Development Corporation in the Philippines (Box 7.3).

Box 7.3. Investor facilitation excellence in the Philippines

The Philippines has a number of good examples of one-stop-shops offering particularly effective services to investors.

The Philippines Economic Zone Authority (PEZA) is recognised internationally for its one-stop-non-stop shop, providing a 24 hours, 7 days a week service to investors. The services it offers under one roof include issuing building and occupancy permits, import and export permits, online application and e-payment systems, environmental clearance certificates, fast processing of food and medical devices, and special multiple-entry non-immigrant visas. PEZA's processing is recognised as fast and straightforward (CIE, 2008). Since 2009, PEZA zones' share in total inward FDI has increased from 50% to 70%, reflecting in part the quality of its one-stop-shop service.

Since 2013, Clark Development Corporation (CDC) has started streamlining administrative procedures on all frontline offices offering services such as permit processing. Based on official data for 2013, it has reduced processing time on average by 48%. In close co-ordination with the Bases Conversion and Development Authority (BCDA) and the Subic Clark Alliance for Development (SCAD), CDD developed and tested a programme called the harmonised Business Start Up and Registration System (EzBiz System), designed to achieve a unified, streamlined, cost-effective, automated and interlinked business registration, trade facilitation and information process. The system allows for an online interface and a real time business inquiry and registration system that would allow prospective investors seamless inquiries, and will eventually be rolled out to all national IPAs if successful.

Source: OECD (2016) and Pfister (2017)

In terms of infrastructure, the TSMC has taken access to basic public utilities seriously, as demonstrated by the recently developed electricity distribution network, gas pipeline, gas-fired power generation plant to supply firms inside the Thilawa SEZ, and water supply network. In addition, the bridges, highways and

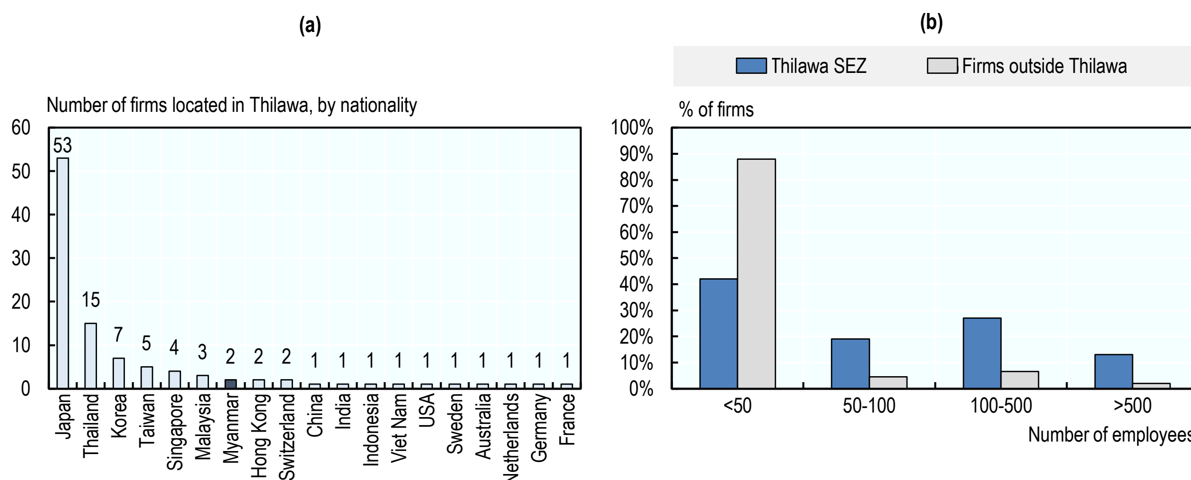
container terminals, both completed and under development, demonstrate the government's commitment to connect the SEZ to the wider economy.

Lastly, another key contribution of the TSMC to improving the investment climate in Thilawa has been its Notice No. 4/2015 to Ensure the Responsible Investment in the Thilawa SEZ. The guidance formally states what is expected of companies doing business in the SEZ in terms of responsible business conduct beyond simple compliance with Myanmar law. This includes respecting human rights; engaging with stakeholders affected by their activities; supporting the rights of workers; building human capital; ensuring effective grievance mechanisms; being open and transparent; creating shared value; and supporting the communities in which they operate. Given the reluctance of international brands to be associated with SEZs that violate human rights or other RBC principles, such a notice is an important step in branding Thilawa as a responsible business destination, and attracting more investment. As discussed in greater detail in Chapter 4, a similar notice, not only from other zone management committees, but from the government as a whole, would be a welcome improvement in the overall investment climate.

Thilawa's economic contributions

Just over 110 enterprises from 19 countries (including Myanmar) invested in Thilawa as of September 2019, with a combined total pledge of USD 1.89 billion. Currently, 74 businesses are operational and account for around 9000 jobs; a quarter of these have already started exporting. The vast majority of investors in Thilawa are Japanese, followed by Thai and Korean investors, while only two are local (Figure 7.5a).

Figure 7.5. Firms in Thilawa are predominantly foreign and larger

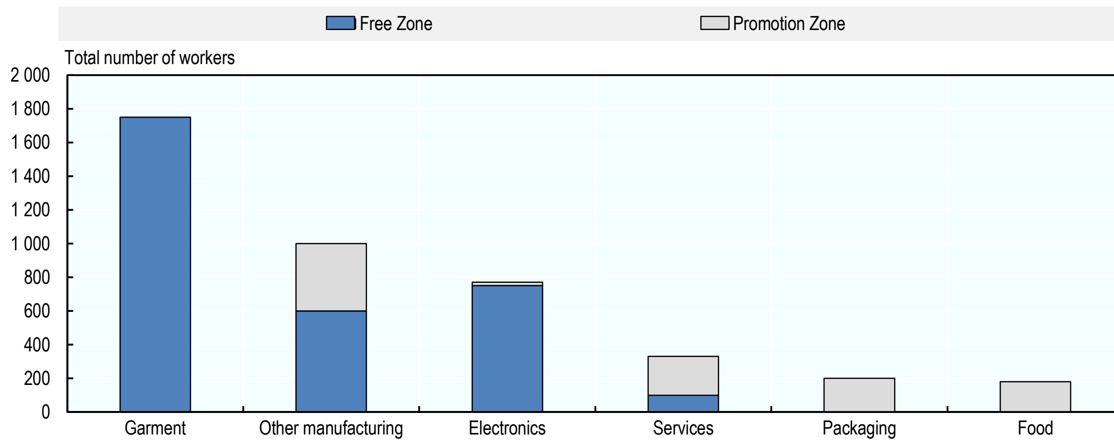


Note: Data are as September 2019 in Figure 7.5a, and as of February 2018 for IGC data on Thilawa firms and as of late 2016-early 2017 for World Bank's data on firms outside Thilawa in Figure 7.5b.
Source: author's calculation based on MJTD (2019), IGC (2018) and 2016 World Bank Enterprise Survey.

Comparing the distribution of firm size (in terms of employment) inside Thilawa as of February 2018 to a representative sample of Myanmar firms from the 2016 World Bank Enterprise Survey suggests that firms in Thilawa are typically larger than firms operating outside the zone (Figure 7.5b). A closer look indicates that the average number of employees of firms in the Free Zone is 250 compared to 50 in the Promotion Zone, and 80 outside Thilawa. This gap is largely due to the difference in industry specialisation between the Zones. Domestic market-oriented firms of the Promotion Zone, include more capital-intensive producers of construction materials, fertilisers, medicine and packaging, as well as logistics companies

and service providers. Large-scale export-oriented employers, such as garment, shoe, and toy manufacturers, are instead the main occupants of the Free Zone (Figure 7.6).

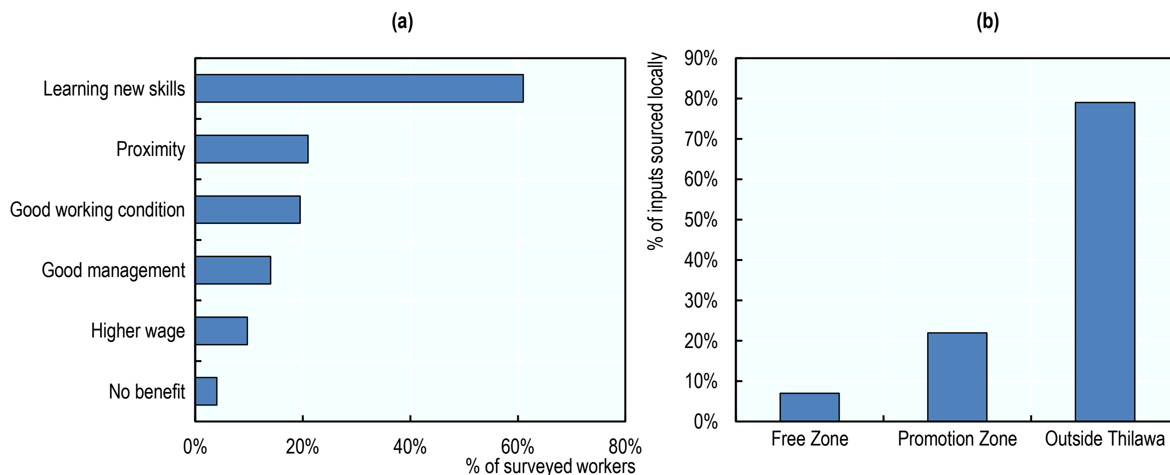
Figure 7.6. Large-scale employers prevail in the Free Zone



Note: The underlying data is from a survey of firms in Thilawa SEZ as of February 2018.
Source: author's calculation based on IGC (2018).

The potential long-run benefits of SEZs arise through knowledge transfers between foreign companies in the SEZ and local companies. An important channel of knowledge transfer is labour mobility. Foreign investors in SEZs typically use more advanced technology and processes and need to train their staff to acquire the relevant skills. If the trained staff subsequently move outside the zone to work for domestic companies or start a business they can share valuable knowledge acquired inside the zone to the wider economy. In Thilawa, the top perceived benefit of working in the zone is indeed learning new skills, and 62% of the managerial workforce report that human resource management is the most important skill acquired in the zone (Figure 7.7a).

Figure 7.7. Skills are the most important perceived benefit of working in Thilawa and local content is relatively low



Note: The underlying data is from a survey of workers in Thilawa SEZ as of February 2018.
Source: author's calculation based on IGC (2018).

Another important mechanism for zone spillovers is through business linkages between zone and non-zone firms, through selling or buying intermediate inputs. By engaging with firms with more advanced technology and knowhow, higher quality products and services and better management practices, domestic firms can internalise this knowledge and operate more efficiently. However, domestic input sourcing of Thilawa's investors is currently not very high. The percentage of intermediate inputs sourced locally is less than 20% in the Promotion Zone and under 10% in the Free Zone, compared to 80% in the rest of the country (Figure 7.7b). The sector in which local sourcing is greatest is food processing, where 50% of inputs were sourced domestically, on average (IGC, 2018).

Insights from Mingaladon Industrial Park

A total of 19 operational industrial zones exist across Myanmar with three more zones planned or currently under construction. The Yangon East Industrial Zone and Yangon North Industrial Zone are significantly larger than other zones in the country, and are consequently divided into 29 industrial areas that function as independent industrial zones, each with a management committee.

Stretching over 90 hectares, Mingaladon Industrial Park (henceforth, Mingaladon) is one of the independent industrial areas in the North Yangon Industrial Zone, located 7 km from Yangon International Airport, 25 km from central Yangon and 50 km from Thilawa SEZ. Originally established in 1996, Mingaladon was developed by a public-private joint venture involving Japanese Mits Co. Ltd. (60%) and the Myanmar Ministry of Construction (40%), with the objective of creating an industrial zone in Myanmar to meet international standards. In fact Mingaladon is the only zone in the country to have foreign participation in its development. Other zones are entirely domestically developed and many do not have a formal zone developer. Given the zone's relative success, clear rules and criteria for zone developers are a crucial factor introduced by the new 2020 Industrial Zone Law.

Similarly to all industrial zones, Mingaladon does not offer special treatment in terms of taxes, customs duties or administrative procedures. Investors benefit from customs duty exemption on import of capital goods for five years, and on the import of raw materials and intermediate goods used to manufacture export products, as stipulated by the Investment Law, provided the necessary materials are declared at the time of investment proposal. The same is true of employing skilled foreign staff (low-skilled foreign workers are not permitted). This can pose a considerable hurdle for investors, as any adjustments in imported resources require additional approvals. While similar procedures for importing materials and workers are necessary in Thilawa at the time of business proposal, they can be more easily and rapidly (1 day for registering foreign workers) amended thanks to the highly efficient Thilawa OSSC. Instead, in terms of business facilitation, there is limited improvement in Mingaladon with respect to other zones or the wider economy. Interviewed foreign investors in the garment sector, report that the zone management does little to help investors navigate through the required paperwork and procedures, and investors are forced to rely on personal acquaintances for help.

Mingaladon is widely considered to have the most advanced facilities of any zone in Myanmar, which are its main attraction to investors. Specifically, the zone provides access to electricity, communication, and water supply networks, a waste water treatment plant, a retention pond, roads and drainages. For large-scale producers, the supply of electricity remains insufficient, and many have their own generators. Unlike other zones, Mingaladon is fully operational with 28 running businesses occupying all available plots, each of 1 to 4 hectares in size. One interviewed embroidery manufacturer employing 5000 workers expressed that they would expand operations in Mingaladon if it were possible but are limited by availability of plots, and do not find other sites sufficiently attractive.

While other zones in the country fail to attract foreign investment, the vast majority of businesses in Mingaladon are Japanese, Korean and Chinese, and engaged in export-oriented, labour-intensive manufacturing of garments, shoes and cosmetics. As they export most if not all of their production, they benefit from duty and tax refunds on imported inputs. Interviewed businesses report that all machinery and

equipment are imported mainly from Japan, Germany and Italy, and raw materials from China and Chinese Taipei.

The 28 firms in Mingaladon, of which none are small and only one is medium-sized, employ a total of 14 872 workers as of 30 November 2019, according to official data shared by the authorities. In other words, investors in Mingaladon employ on average 531 workers, compared to 172 in the wider North Yangon Zone, and 53 countrywide, reflecting the zone's high concentration of low-skilled labour-intensive manufacturing activities (Table 7.8). A sport footwear manufacturer reported that they provide three months of training to new employees during their probationary period and keep them if they meet the skills requirements. Trainers are brought in from China, while supervisors within the plant are local. Other companies employ managers from Chinese Taipei and technicians and local staff for production. Competent, fast-learning and hard-working labour force were commonly reported as motives for locating in Myanmar during field visits.

Table 7.8. Industrial zone occupancy by region

Region (No. of IZs)	Number of enterprises				Labour force	Average firm size
	Small	Medium	Large	Total		
Mingaladon	**27**	**1**	**0**	**28**	**14 872**	**531**
Mandalay Division (3)	440	580	681	1 701	20 608	12
Yangon East (11)	947	930	129	2 006	65 710	33
Yangon South (1)	16	0	0	16	2 078	130
Yangon North (23)	1 495	106	9	1 610	276 854	172
Ayeyarwady Division (3)	16	17	44	77	10 526	137
Sagaing Division (4)	178	238	365	781	8 849	11
Bago Division (1)	34	74	79	187	956	5
Magway Division (2)	34	97	201	332	1 675	5
Mon State (1)	31	116	40	187	929	5
Shan State (1)	55	106	342	503	2 542	5
Tanintharyi Division (1)	25	2	2	29	1 168	40
Kayin State (1)	26	9	0	35	2 363	68
Naypyitaw (1)	9	0	0	9	182	20
Total (53)	3 306	2 275	1 892	7 473	394 440	53

Note: The reported number of IZs in parentheses includes sub-zones. Data as 30 November 2019.
Source: Ministry of Finance, Industry and Planning (2019).

Enhancing the impact of SEZs through business linkages

As discussed in the previous section, SEZs impose a cost on society through forgone revenues from tax incentives, duty exemptions and infrastructure investment specific to the zone. In order to justify the establishment of zones, the societal gains must outweigh these costs. The potential long-run benefits of SEZs are that they generate spillovers that benefit workers and firms located outside the zone through knowledge transfers.

Better understanding SEZ spillovers

SEZ spillovers encompass all sorts of long-lasting, structural benefits that investments in the SEZ can bring to the host country, whether on the quality of the workforce, on the competitive environment in the economy, or on the creation of supply chain linkages with domestic firms. Business linkages between zone

and non-zone companies are the channel through which SEZ spillovers can be maximised, owing to the productivity gains resulting from the transfer of knowledge and technology from zone investors to domestic companies and workers (Farole and Winkler, 2014).

While SEZ investors will generate spillovers depending on the spillover potential of the particular type of investment in the host economy, domestic firms will benefit from them if they have sufficient absorptive capacities. To a certain extent, host countries can influence investor spillover potential and domestic firm absorptive capacities with appropriate policies and institutions, such as labour market regulations, intellectual property (IP) rights, access to finance, education and training facilities, investment and trade policies and promotion as well as SME development policy.

Business linkages occur along the supply chain and can be either backward or forward. Backward linkages refer to upstream sectors and occur when domestic firms become suppliers to SEZ investors. Forward linkages arise in downstream sectors, when the investors' goods and services are used as inputs in local companies' operations. Low- and middle-income host countries tend to focus, in the first instance, on promoting the former as they can more easily serve to develop the potential of local SMEs. Creating linkages also serves the purpose of investment attraction and retention, as it induces foreign investors to be more firmly anchored to the local economy, to adopt a longer-term investment strategy in the country and be inclined to reinvest or expand activities.

Business linkages depend first and foremost on the capabilities of domestic companies, which in turn hinge crucially on the skills of local managers and workers. Addressing skills shortages and tailoring human resource development to meet industry needs are a critical first step. Improving the business climate outside SEZs, building a supplier base with the requisite capacities, and other more proactive measures to encourage linkages and develop clusters around SEZs are then essential to ensure SEZs become part of the wider business ecosystem rather than enclaves and benefit the rest of the economy.

Addressing skills shortages

A skilled workforce tailored to private sector needs is vital for the creation of productive business linkages, and for embedding economic zones in the wider business ecosystem. Higher education and vocational training are important means for acquiring the technical skills workers need in their professions. Policy action can help ensure educational and training programmes are high-quality, relevant, and regularly reviewed, and plays a fundamental role in linking education and training institutions with businesses and industry, to ensure programmes meet business needs. Human resource development is one of the priority policy areas to be addressed by the inter-ministerial Investment Promotion Committee (task force 5) established in 2019 (see Chapter 3).

Myanmar is currently able to offer abundant labour to investors at a competitive cost, but there remains insufficient supply of workers with technical or managerial skills, who are vital for the adoption of new technologies and for effective business management. Lack of trained staff was among the top reported business challenges in a 2017 Myanmar Business Survey of 500 domestic and international investors (Roland Berger, 2017). Quality of employees is similarly among the most commonly cited problems faced by Japanese investors in Myanmar (59%), second only to Bangladesh (63%) in a survey of 5073 firms in Asia and Oceania (JETRO, 2018).

Skills shortages derive from a combination of a weak education system and a lack of adequate training opportunities. Only 10% of young people from any year group currently obtain secondary school-leaving certificates, enabling them to meet the requirements for enrolment in university or in most vocational training programmes (GIZ, 2019). For those who qualify for higher education, there are 33 technical universities specialised in science and engineering and 28 computer studies universities, but their graduates do not satisfy the requirements of investors in terms of expertise (MIC-JICA, 2018). SME employees have limited access to formal on-the-job training opportunities. Training facilities are poorly

equipped and run-down and the programmes they offer are often ill-suited to the demands of a rapidly evolving labour market. Training institutes lack the ability to teach practical computer courses, for instance, due to a limited number of computers, lack of electricity and severely restricted funding (Oxford Business Group, 2018). To date, the private sector has not been systematically involved in developing and implementing vocational education initiatives (GIZ, 2019).

Recognising the need to improve the quality of the education system and develop adequate skills in Myanmar, the government laid out the groundwork for reform with the 2012 Comprehensive Education Sector Review, which resulted in the enactment of the 2014 National Education Law[4] and establishment of a Technical Vocational Education and Training (TVET) Task Force. The education system is undergoing a major overhaul under the ambitious National Education Strategic Plan (2016-2021), which articulates strategies for human resource development, and for which the government is currently attempting to create the necessary legislation and institutional structures. The National Skills Standard Authority has reviewed TVET institutions from the perspective of skill standards, competency-based curriculum and competency-based assessment, and is creating a skills qualification framework in accordance with that of ASEAN (MIC-JICA, 2018).

In parallel the MIC acknowledges that investors sorely need skilled workers with practical knowledge and middle management staff, and sets out required actions to develop human resources for industry, as part of the wider 2017-36 investment promotion strategy. The proposed actions crucially include monitoring the needs of the private sector by facilitating dialogue between government bodies that oversee TVET and skill development, education and training institutions and private sector representatives, such as the UMFCCI. According to the strategy, DICA is to convey the needs of investors to relevant policymakers, while the Technical and Vocational Education Council is to formulate a plan for developing human resources for industry, with the purpose of designing curricula that meet the needs of business.

The MIPP further endorses the establishment of collaborations between universities and training institutions, foreign investors, local business and donor organisation, and several such collaborations are already in place. The Myanmar-Japan Centre for Human Resources Development, managed by UMFCCI with the assistance of JICA, provides training on practical production techniques. The Myanmar Garment Human Resource Development Centre trains garment workers in collaboration with JETRO. The Singapore-Myanmar Vocational Training Institute collaborates with foreign automobile producers and hotels on internship programmes. Thilawa SEZ has created its own Vocational Training Centre to train workers based on what skills are in demand by investors in the SEZ, although records of its activities are not yet available. Lastly, the action plan proposes revamping the employment placement network that matches job-seekers and investors, and putting together a reliable database on TVET institutions that allow investors to easily access information on where to find required skills.

If this co-ordinated effort continues to receive credible political backing and public resources, and the described actions are effectively implemented, monitored and reviewed, the ongoing overhaul of the education system is expected to help develop and maintain a skilled and adaptable workforce. Addressing existing skills shortages will in turn provide an important first step to building a vibrant supplier base that can engage in productive business linkages with SEZ investors. In advancing the activities of the Thilawa Vocational Training Centre and ensuring their effectiveness, Myanmar may draw some lessons from Malaysia's experience with the Penang Skills Development Centre (Box 7.4).

Box 7.4. Lessons from Malaysia's Penang Skills Development Centre

Amidst fierce national debates on the relative virtues of export-led versus import substitution growth strategies, the Penang SEZ became known in the 1980s as the site in Malaysia where multinational investors engaged in basic consumer electronic assembly and export. In combination with vigorous investment promotion policies, the Penang state government established the Penang Skills Development Centre (PSDC), which was later recognised as a world-class model for partnerships between government, academia, and industry. PSDC initially concentrated on vocational training in electrical engineering and electronics, as part of Malaysia's advance into standardised component production (such as printed circuit boards), and subsequently to higher value-added components and products in the semiconductor, information technology, audio visual, and digital camera sectors.

Beginning in 2000, Penang added life sciences, biotechnology, pharmaceuticals and medical devices to its repertoire for FDI-SEZ-export expansion. Penang's particular niche combines advanced electronics with life sciences, including, for example, precision and tooling-based medical devices, electrical and electronic-based medical devices, automation-based medical devices, and diagnostic tools. In an effort to ensure that its vocational training programmes kept pace with FDI promotion efforts, PSDC created a Micro-Electronics Centre of Excellence at Universiti Sains Malaysia, which relies on support from international corporations for specialization in mechanical engineering (e.g. robotics, micro- and nano-assembly), chemical engineering (e.g. gasses and chemical delivery techniques), materials sciences (e.g. packing R&D), and supply chain management. More recently, Universiti Sains Malaysia has begun to cultivate similar government-industry-academic partnerships in the pharmaceutical and nutraceutical sectors.

Penang's FDI-SEZ-export strategy has created a virtuous cycle for Malaysia by integrating attraction of foreign investors, skill-building initiatives, and infrastructure upgrades. In 2005, the Malaysian central government chose Penang to roll-out the Multimedia Super Corridor IT platform for industries and businesses. At the onset of the international financial crisis in 2008 there were more than 700 companies operating in Penang's eight SEZs (4 Free Trade Zones and 4 Industrial Estates) with a total of 775 factories employing more than 170 000 workers. At the same time Penang – and Malaysia overall – have generated one of the world's more successful records in generating backward linkages and supply chains within the host economy, from complex packaging to a broad array of contract engineering services.

Source: OECD-UNIDO (2019); OECD (2013)

Developing supporting industries

Industrial clusters, characterised by geographic concentrations of interconnected firms, have yet to begin developing in Myanmar (MIC-JICA, 2018). The export-oriented garment sector has developed in the Yangon region and its periphery, but lacks upstream linkages. Local competition is not yet well-prepared to face players operating on an international level, according to 78% of foreign investors that participated in a 2017 survey (Roland Berger, 2017). Resource-based industries, such as the agro-industry, are characterised by low value addition and offer limited spillover potential. In an effort to address the general lack of capacity, DISI has started offering technology-related training programmes in collaboration with relevant line ministries and organisations for SME development. The national and regional SME agencies also formulated an action plan for SME development.

Building absorptive capacities of Myanmar supporting industries and enhancing MNE-SME linkages not only requires a horizontal approach to SME development but also industry-specific capacity-building to

help SMEs achieve technological upgrading and meet quality standards. The potential for Myanmar companies to become suppliers of foreign affiliates remains limited in most industries. While it is important to help SMEs meet international quality standards (e.g. ISO), it might be more critical to help them meet industry-specific standards, as the latter are more inclined to help SMEs become sound supporting industries and integrate in global value chains (Farole and Winkler, 2014). Technical support and training also need to involve industry associations and MNEs themselves, which can play a key role in both the design and the delivery of such training, and ensure their relevance. These aspects also highlight the importance of adapting the country's human resource development strategy with national economic priorities, as discussed in the previous section.

The government could support the design of systematic and well-institutionalised industry-specific training programmes for supporting industries, in collaboration with donors, the business community and educational institutions. Agencies and training providers responsible for implementation should involve SEZ investors in the design of curricula and programmes. Initially the effort should focus on key economic sectors, such as those targeted by the MIPP, including textiles and garments, agroindustry and machinery assembly. As the bulk of existing linkages between Thilawa investors and domestic non-zone suppliers are in food processing, where 50% of inputs are sourced domestically, the agro-industry in particular could serve a good starting point for any pilot initiatives.

Thailand provides an interesting example of how a donor-supported industry initiative was scaled-up and institutionalised into an agency capable of providing technical and managerial support, and as supporting industries developed, gradually assumed a coaching role for fully privately-run industrial associations capable of delivering their own technical support (Box 7.5).

In parallel the government could target investments from strategic first-tier suppliers to advance the development of upstream activities in which Myanmar lacks capacity. The automotive industry is a good case in point, as global lead companies (e.g. Toyota) have shown interest in investing in assembly plants in Thilawa but are constrained by the absence of locally established suppliers. Myanmar companies are not yet at the stage of supplying automotive parts and components but have the potential to plug into the value chain as 3rd or 4th tier suppliers. Thus focusing Thilawa's investment promotion efforts to target international 1st and 2nd tier auto parts suppliers can be a way to promote the development of supporting industries, and ultimately linkages, in the automotive value chain.

Box 7.5. Thailand's approach to developing supporting industries

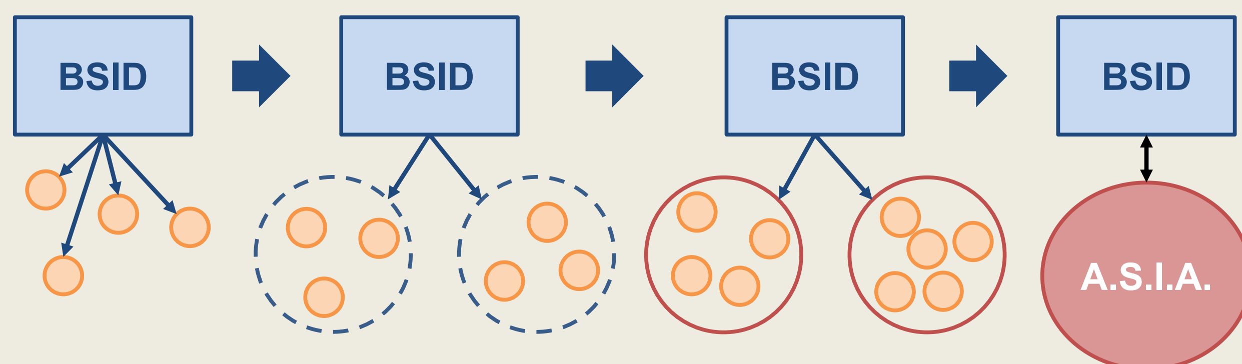
The Bureau of Supporting Industry (BSID) under Thailand's Ministry of Industry (MOI) is responsible for promoting Thai supporting industries. BSID originates from an agency established in 1987 with JICA technical cooperation to implement promotion measures for metal-related supporting industries in the wake of massive relocation of Japanese manufacturers to Thailand. The Machinery Industries Development Institute (MIDI) was scaled-up and upgraded to BSID with a higher organisational status and a broader scope of work (including plastic, packaging, and linkage), and focused on the three aspects: people, technology, and linkage.

BSID has taken a step-by-step approach to strengthening the capacity of Thai supporting industries. Initially, when the private sector was weak and the number of supporting industry firms was limited, BSID directly provided technical and managerial support to individual companies. When the number of companies grew to a thousand, BSID established and managed thematic forums of supporting industries (e.g. design, metal, machinery, foundry, etc.), serving as their coach and secretariat. Gradually, these forums gained experience and developed into truly privately-run industrial associations. Currently, there are twelve such industrial associations fostered by BSID, which are beginning to provide technical support and training to member companies independently.

In 2008, the Alliance for Supporting Industries Association (A.S.I.A.) was established, again with the support of BSID, to promote networking among existing supporting industry associations. A.S.I.A plans and conducts activities related to all industry associations, generating synergies for over 15,000 companies are involved in the alliance. While the organisation is young and its capacity limited, A.S.I.A has proven effective for promoting cooperation among different supporting industry firms toward a common goal of becoming competitive regionally and globally.

Currently, BSID, industrial institutes, A.S.I.A., and A.S.I.A.-affiliated industrial associations collectively work to strengthen supporting industries. BSID is responsible for overall policy for supporting industry promotion, and initiates and implements innovative pilot projects, which are then managed by the private sector (A.S.I.A. and its industrial associations). Industrial institutes play a key role in drafting and implementing industrial master plans in their respective sectors, acting as the hub for businesses, government (BSID), experts, and other organizations. A.S.I.A. and its industrial associations are the initial point of contact for member companies for information, training, and business matching. BSID, industrial institutes, and industrial associations all work very closely in Thailand, and are for the most part housed in the same complex in Klong Toey, Bangkok, allowing for frequent interaction and collaboration.

Figure 7.8. A step-by-step approach to develop Supporting Industries



Source: Based on GRIPS Development Forum (2016, 2015) and OECD-UNIDO (2019). Figure elaborated by GRIPS Development Forum (2016), based on interview with Mr. Panuwat Triyangkulsri, Director of BSID of the Ministry of Industry, Thailand, May 26, 2015.

Actively promoting business linkages

Even when local SMEs are competitive enough and technologically ready to engage with foreign investors, these linkages may not materialise. Many MNEs are bound by contracting arrangements that tie them to international suppliers. In some other cases, MNEs rely on their usual overseas business partners for convenience or because of lack of information, and do not make the effort to look for local firms that can act as suppliers. In such cases, the government can bridge information gaps with targeted measures to facilitate exchange of information. Such soft policy tools can both inform MNEs of local sourcing opportunities and their reliability, and inform SMEs of foreign investors' needs in terms of products and services, standards, and delivery. Whether or not foreign affiliates have an interest in creating and strengthening local linkages, their willingness to do so can be reinforced by government policies designed to:

- Provide information on local suppliers;
- Ensure that linkage programmes address SME capabilities

- Value the knowledge transfers from foreign investors to SMEs;
- Expand markets through MNE networks.

Southeast Asian peers have, to varying degrees and with varying levels of success, put in place a range of policies and programmes designed to raise the capabilities of domestic firms and deepen linkages between local SMEs and foreign MNEs. These initiatives can be grouped into seven broad categories (OECD-UNIDO, 2019):

- *SME centres* offer a wide array of services designed for SMEs including business matching activities.
- *Matching services* provide direct assistance in identifying business partners or buyers, and in setting up meetings or on-site factory tours.
- *Networking events* include SME showcase events and exhibitions and business matching sessions that bring together SME suppliers and prospective MNE buyers.
- *SME portals* provide SMEs with listings of commercial and government opportunities, networking events, or directly connect businesses through online channels
- *Supplier databases* provide lists of local suppliers by product or sector of activity.
- *Training and supplier development* initiatives offer funding to MNEs that support local SMEs in acquiring skills or technology, or in meeting specific vendor requirements.
- *SME solutions* initiatives offer funding for collaboration to develop solutions to help SMEs improve operational efficiency, adopt new technologies, upgrade capabilities, or develop new offerings.
- *MNE specialist secondments* provide financial and organisational support to MNEs whose specialists are seconded to SMEs to assist them in meeting vendor requirements.

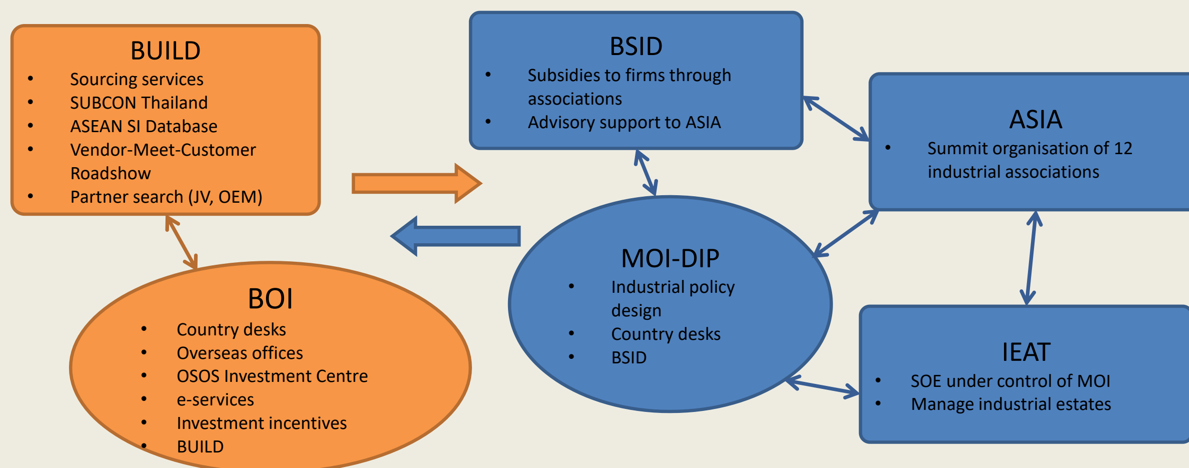
Given the still limited base of local suppliers, Myanmar is still at an early stage with respect to linkage programmes, and still relies heavily on donor support to develop the necessary framework for integrating SMEs in the supply chains of foreign investors. Going forward, successful special economic zones and industrial zones, like Thilawa and Mingaladon, offer a good starting point for implementing pilot linkages programmes. The TSMC could also promote the matching of buyers and sellers, for example, through networking events, or by providing zonal firms with a list of firms in the Yangon region, and in neighbouring IZs that are producing the relevant inputs and that meet the relevant international standards, both related to product quality and to responsible business practices. Regional initiatives like the ASEAN Supplying Industry Database will also benefit information provision and business match-making efforts.

Moreover, the example of Thailand's illustrates that successful linkage promotion needs to be part of a longer-term development plan that is coordinated across multiple government bodies (Box 7.6).

Box 7.6. Thailand's strategic network approach to linkage promotion

In Thailand, the Board of Investment (BOI) and the Ministry of Industry (MOI) are the key official actors responsible for the three core elements of linkage policies. They flexibly and informally coordinate activities of related agencies and units affiliated with BOI or MOI, as well as private sector bodies such as the Alliance for Supporting Industries Association (ASIA). In addition, there are academic institutions and non-profit organisations that provide technical support and business consulting, among which the Technology Promotion Association is the most prominent. The resulting network is neither dominated by a single organisation nor governed by explicit rules. Each member organisation performs its functions separately, and refers customers to other organisations wherever they can fill required functions better.

Figure 7.9. A strategic network approach to linkage promotion



As an investment promotion agency, the BOI is the first point of contact for foreign investors and is charged with attracting FDI strategically (based on the published list of priority activities and products) and linking it with local companies, through its BOI Unit for Industrial Linkage (BUILD). BUILD receives inquiries from foreign investors through various channels (including the One Start One Stop Investment Centre and BOI's overseas offices), announces the specification and volume requirements of foreign buyers in its website, and solicits expressions of interest from Thai suppliers. It also subsidises Thai firm participation in overseas trade shows (Vendor-Meet-Customer Roadshows).

Source: reproduced from OECD-UNIDO (2019). Figure elaborated by GRIPS Development Forum (2015) mission interview with the Board of Investment of Thailand, September 5, 2013.

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[3] The tax holiday lasts 6 years in Cambodia and the Philippines; 8 years in Thailand; 10 years in Indonesia and Lao PDR; and 4 years in Viet Nam, followed by a 5% CIT rate for 9 years.

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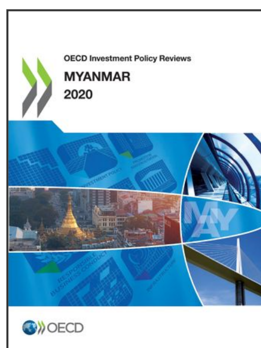

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