Economic Zones in Kayin and Mon States

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I. Introduction

1. Myanmar economy is entering a rapid growth period
   i. Some economic reforms done
   ii. Strong exports (pulses, jade, gas, fisheries)

2. Sustained/long term development however requires:
   i. smart use of economic cooperation with regional neighbors, e.g. EWEC
   ii. Industrialization

3. Myanmar industrialization history is over 60 years but experience with economic zones/industrial estates is very limited , e.g. post 1988.

II. Economic Zones

1. Many different terms but basic idea is clustering of economic activities in specific designated geographical area which will receive special preferential treatment, i.e. economic incentives, physical infrastructure, combined with geographical favorable location
2. High relevance for Myanmar given
   - i. Need for accelerated economic development
   - ii. Lack of good physical infrastructure generally
   - iii. Ability to experiment with new economic policies in a controlled setting/environment

III. Myanmar Economic Zones

1. Officially 18 around the country
   a. Yangon area: 4 big ones which cover 19 smaller zones
   b. Upper Myanmar: Mandalay, Monywa, Meiktila, Myingyan, Pakokku
   c. Delta: Myaungmya, Hinthada, Pathein
   d. Other: Pyay, Yenangyaung, Mawlamyine, Myeik, Taungyi
2. New ones are being planned
   a. Paan, Myawaddy and Phayar Thonzu
   b. Yatanabon and Muse
   c. Naypyitaw
   d. Ponnarkyun
3. Some are private initiatives
   a. Mingladon (with Mitsui of Japan)
   b. Mandalay Myotha
   c. Lao Cai ‘125 mile’
4. Special Economic Zones (SEZ)
   a. Thilawa
   b. Dawei
   c. Kyaukphyu

Note: Difference between Industrial Zone (IZ)and SEZ is not clear. SEZs however have access to economic incentives and special policies.

Note: Many of the economic zones are linked closely to new/improved transport investment and economic corridors, e.g. EWEC.

IV. Economic Zones in Kayin/Mon States (1)

1. Four EZs exist (within very close proximity)
   a. Mawlamyine
   b. Hpaan
   c. Myawaddy
   d. Phayathonzu

Note: EWEC study identified Myanmar area economic zones in 2001. Thai Cabinet approved Mae Sot SEZ in 2002.

2. Rationale is very strong
   a. Large domestic market which is expected to grow very strongly
   b. ASEAN 2015/2020
   c. Location: East West Economic Corridor/GMS
   d. Political: normal relations with West and domestic peace dividend
   e. ‘Thailand plus one strategy’
3. Thailand plus one strategy: Japanese investment which is very heavily concentrated in Thailand needs to move to neighboring countries for three reasons:
   i. Climate change (flooding near Bangkok)
   ii. Wage costs (8x higher than in Myanmar)
   iii. Political uncertainty

IV. Economic Zones in Kayin/Mon States (2)

4. Possible economic activities in Kayin/Mon economic zones
   - i. Agriculture (rice, rubber, fruit)
   - ii. Fisheries (offshore, coastal, onshore)
   - iii. Forestry
   - iv. Manufacturing, e.g. garments, toys, footwear
5. Possible benefits
   - i. Direct and indirect employment generation/poverty reduction
   - ii. Export earnings
   - iii. Technology and management skills transfer
   - iv. Regional development
6. Other benefits
   - i. Development of tourism industry
   - ii. Development of logistics, e.g. dry port, tunnels, train, shipping, and air services
   - iii. Development of other service industries, e.g. banking, insurance, accounting

V. Many challenges need to be effectively addressed (1)

Myanmar Economic Zones in general

1. Lack of clear industrialization policy
2. Lack of clear leadership on economic zones (responsibility, data, policy uncertainty, no coordination)
3. Low standards of existing zones
   i. Wrong location
   ii. Not even basic infrastructure
   iii. Not professionally managed
4. Land issues
   i. Squatter issues
   ii. Land speculation which keeps out real investors
   iii. Small size of plots
5. Labor
   i. Availability is not assured due to migration to other countries
   ii. Low productivity
   iii. Limited training facilities

V. Many challenges need to be effectively addressed (2)

6. Linkage with transport networks are poor
   i. Shipping costs are high
   ii. Air cargo still limited
   iii. Rail is cheaper than road but not efficient
   iv. Road transport via EWEC hindered by: i) bad roads/vibration; ii) informal payments; iii) poor customs procedures at border which increase time and cost
7. Others
   i. Limited support to SMEs
   ii. Competition from smuggled or fake goods
   iii. Lack of environmental controls
   iv. Lack of support from financial and capital markets, e.g. banks are small and weak, procedures are complicated

VI. What needs to be done?(1)

1. Clear and strong government policy and investment that will help private investors needs to be established
2. Integrated package of economic policies and incentives is needed
   i. Fiscal (customs, VAT, turnover tax, land tax)
   ii. Monetary (access, high interest rates, short term, collateral arrangements complicated)
   iii. Subsidies
   iv. Public costs (security, red tape)
3. Land requirements for industry
   i. Clear land use policies (rent, lease, purchase)
   ii. Proper pricing of land sales and retail
   iii. Environmental policies
4. Ensuring adequate labor
   i. Skills upgrading/interacting with training centers
   ii. Protection
   iii. Integrating skilled returning migrants into local EZs

VI. What needs to be done?(2)

5. Developing proper institutions to run economic zones
   i. Professional management of EZs
   ii. SME and business support and advice
   iii. Establish cooperatives and business networks
   iv. Public-private consultation
6. Integrating IZs with transport and logistics
   i. Road development, e.g. EWEC
   ii. Non road(port, rail, air services, warehouse, internet, electricity) development
   iii. Customs and border facilities improvement
7. Attract financing and investment
   i. Market the area, e.g. "The New Golden Land"/ "Gateway to ASEAN"
   ii. Get foreign aid
      a. ADB (road, urban development), Japan (road), others
      b. Grant: NGO and CSR
      c. Private sector: domestic and foreign
      d. Remittances from workers: for SMEs, housing bank

VII. Priority Issues for Policy Makers

1. Create an integrated vision for Kayin/Mon states. Do not just look at individual economic zones.
2. Establish leadership and improve coordination with
   i. Union government
   ii. Different ministries (transport, construction, commerce, interior)
   iii. Neighboring states and divisions (how do four EZs fit in with each other)
3. Consult with all (especially private sector) through
   i. Meetings
   ii. Exhibitions
   iii. Draft reprints/studies which are shared with people
4. Use professional expertise to develop economic zones from the very beginning
5. Good understanding of regional cooperation and what it means for you
   i. Opening of economy brings opportunities but also challenges, e.g. Myanmar car assembly industry (2003-2010) wiped out by change in car import policies
   ii. 'Openness' by itself means nothing. China 1884 and China 1984 both open but one was good for the country
   iii. Foreign parties may have different objectives, e.g. Thailand wants to use EWEC to sell more goods to Yangon, Japan is more interested in finding low cost labor for its investments, Myanmar perspective is ?

VIII. Conclusions

1. Successful development of industrial zones will propel Myanmar economic development.
2. Rationale and potential for economic zones is very strong in Myanmar.
3. Existing economic zones have many challenges which must be overcome first.(Economic zone is more than a piece of land. It is the intersection of labor, logistics, land and economic policies.)
4. Kayin/Mon state economic zones have great potential if
   - i. Strong leadership, vision and integrated package of policies is provided
   - ii. Strong coordinated support is provided to transport (EWEC), logistics and customs and labor development
   - iii. Public and private sectors need to work very closely

Garments Industry

1. Myanmar garments industry developed at same time as Cambodia
   i. Did well until hit by sanctions in 2003
   ii. Currently about 200 factories employing 80,000 workers
   iii. $1 billion plus in exports but very small compared to neighboring Bangladesh and Thailand or Cambodia
2. Cambodia
   i. Currently about 500 factories employing 320,000+ workers (Note: Cambodia’s population is 1/5 of Myanmar)
   ii. 2002 exports $1 billion plus; 2012 exports $3.9 billion plus
3. Thailand
   i. 4,300 factories employ 1.05 million workers
   ii. Also has textile factories
   iii. But lack of labor and high cost of labor
   iv. Mae Sot had 470 garment factories with 20,000 workers at peak
   v. Draft master plan for Mae Sot SEZ in 2013
4. Myanmar advantage in short term should be
   i. Low cost labor
   ii. Flexible labor market
   iii. Potential for increasing productivity due to no language problems
   iv. Plentiful land

Urban Development

1. Urban areas can be centers of major economic growth
2. Kayin/Mon states have several towns in close proximity
   i. Maha Mawlamyine (Mudon, Paung, Bilugyun): pop. of 750,000
   ii. Hpaan
   iii. Myawaddy
   iv. Kawkareik
3. To make them competitive, two pronged approach needed
   i. Individual city/town development
   ii. Cluster: group of towns which are economically and physically linked to each other
4. Master plan for regional development needed
   i. Across states/divisions
   ii. Across ministries
   iii. Across sectors, e.g. industry, agriculture, etc.

Thank You!