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The Effect of Myanmar's Foreign Investment Policies on FDI Inflows: An Analysis of Panel Data across ASEAN Member Countries

By Blake Tretter

A Thesis Submitted to the Department of Economics of Trinity College in Partial Fulfillment of the Requirements for the Bachelor of Science Degree

Economics 498-99

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Thesis Abstract

Once one of the richest countries in Southeast Asia, Myanmar has suffered the effects of a closed economy for over 50 years to become one of the poorest and most corrupt countries in the world. Though excited international investors wait to exploit Myanmar's large labor force and natural resources as it reopens its markets, the country is currently far behind its potential. In such a small economy, large FDI inflows would have a significant impact on the country's path going forward. Whether or not it receives these inflows depends on how multinational enterprises view Myanmar's investment environment. In particular, it's recently enacted foreign investment law as well as the status of sanctions on the country. By looking at a cross-section of ASEAN-member countries from the period 1995-2011, this thesis studies the effect of foreign investment policies on FDI flows using a fixed-effects regression.

A special thanks to my parents, Professor Gunderson, Professor Ramirez, Professor Hoag, Professor Zannoni, Rachel Barlow, Rob Walsh, David Tatem, and to my friends in Dubai. Without your assistance and guidance along the way, this would not have been possible.

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"This is Burma, and it will be quite unlike any land you know about."

- Rudyard Kipling, 1899

1. Introduction

Myanmar

In the early 19th century, Britain saw potential in a small Southeast Asian nation and by the end of the third Anglo-Burmese war in 1885, Burma had been engulfed by the British Empire. Britain immediately began to exploit the small Southeast Asian country's vast natural resources. However, by the middle of the 20th century, a heavy-handed British rule drove Burma into numerous protests and rebellions leading to its independence from Britain in 1948. Though Burma continued to grow economically from 1948 through 1962, political instability under its transitioning democratic government led to conflict and opposition. Not long thereafter, instability originating from varying political and religious views drove General Ne Win to exercise a coup d'état in 1962 ousting the prime minister. Military General Ne Win's initiation of "The Burmese Way to Socialism" marked the beginning of Burma's socialist regime. With this

transition, Ne Win nationalized the economy and formed a single-party socialist government under military control.

Before the socialist takeover, Myanmar[1] had become one of the richest countries in Southeast Asia amidst the political unrest (Groff). Prior to 1962, Myanmar and Thailand, two bordering countries, had similar sized populations and levels of GDP. In the following 50 years, their populations grew at similar rates while Thailand's economy grew to over five times the size of Myanmar's (Worldbank.org). The lack of growth in Myanmar can be seen through its low GDP per capita of just US$875.1 (ASEAN.org), and in real-world terms, its peoples' extremely poor quality of life. Rich in natural resources and favorably located in the Bay of Bengal, one of Asia's major shipping regions, Myanmar had much potential. It even became a world leader in rice exports signifying its importance in regional agriculture. Yet, 50 years under the rule of its ruthless military junta brought Myanmar's progress to a standstill and it quickly fell behind its neighbors. To this day, Myanmar still appears to be stuck in the 1960s and is known globally as one of today's least developed countries.

2010 marked Myanmar's initial steps towards its first civilian government since 1962. Among numerous changes, the country elected new members of the Pyidaungsu Hluttaw (Union of the Republic of Myanmar) on November 7th 2010 and enacted a new constitution only a year later.[2] With hopes of encouraging this momentum, many countries have either waved or given extensions on debts owed to them by Myanmar. Additionally, many non-governmental and intergovernmental organizations have promised financial assistance during Myanmar's

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[1] Note: Since 1989 the Burmese military and parliament have promoted the name Myanmar; the US Government has not adopted the name, which is a derivative of the Burmese short-form name Myanma Naingngandaw (www.cia.gov).

[2] This election would be the country's first since 1990 and first to include civilians such as the leader of the opposition party Aung Sang Suu Kyi that was not conducted in a corrupt manner.

transition. For instance, the World Bank and the Asia Development Bank have either announced plans to, or have already provided grants to Myanmar that intend to help the country repay debts or develop its infrastructure (worldbank.org). Even President Barack Obama, alongside Secretary of State Hillary Clinton, spoke at the University of Yangon in November of 2012 after suspending a large portion of US economic sanctions just months earlier. As the first American President to set foot on Burmese soil, President Obama attempted to inspire the citizens of Myanmar in hopes of encouraging them further down a path of change (CNN.com).

Though the sustainability of these reforms remains in question by the country's international audience, the country has still received significant attention from abroad. Multinational enterprises (MNEs) and individual investors alike believe the country has substantial opportunity as its economy begins to open up to the world and the world begins to accept it as a transitioning nation. In addition to Myanmar's many attractive qualities for investors, two of Myanmar's five bordering countries, China and India, contain the two largest and fastest growing populations in the world (CIA.gov). Renowned investor Jim Rogers famously said at a Conference in Singapore in early 2012, "If I could put all of my money into Myanmar, I would." Even large corporations such as Coca-Cola and General Electric have shown interest in investing in the country. In March of this year, Coca Cola made its first shipment to Myanmar in over sixty years. Until then, it was just one of a few countries globally where the company had not sold its products (http://www.coca-colacompany.com/press-center).

Attraction of foreign investors can be explained through John Dunning's OLI framework (also known as the Eclectic Paradigm) in which he argues that firms look for three components in a host country. Assuming the presence of these incentives – which are Ownership, Location, and Internalization (this framework described in greater detail in the next section.) – Myanmar's

success in further securing capital most likely depends upon two specific factors. One factor is the openness of its foreign investment laws and the government's ability and transparency in enforcing these laws. The second factor is the status of international sanctions which similarly depend upon the status of the government but also on the status of ongoing ethnic and religious conflicts. These laws and sanctions, until only recently, changed on a daily basis.

After ten months of strenuous negotiations between the government of Myanmar and its President, Thein Sein, they have designed a foreign investment policy that aims to attract investment from abroad while simultaneously protecting the interests of domestic firms. Frequent reports in the media attempting to predict the nature of the policy throughout this time was a sign of the policy's importance to firms internationally. In designing the law, Myanmar's government and President considered two main factors. Notably, the first factor is to protect the people and the economy of the host country. However, if a set of policies is geared too disproportionately toward domestic firms without benefits to foreign firms, the second factor, and debatably more important purpose of promoting investment from abroad would be unsuccessful. In this case, overly protectionist policies protect existing domestic producers but often at the cost of domestic consumers and workers. The key is to find the balance in a set of policies that successfully fulfills both parties' interests consistently and transparently. Fortunately, Myanmar has had the ability to learn from fellow ASEAN member countries in their past experiences of attracting FDI. ASEAN member countries have benefitted greatly from FDI and their investment policies have evolved around this development. From a foundational standpoint, early drafts of Myanmar's Investment Law appeared to be overly strict, causing distress among potential investors. However, with the push by President Thein Sein for greater

investment liberalization, the resulting law introduced this past November appears to be less strict than originally anticipated.

Furthermore, the degree to which capital and knowledge reach the people of Myanmar could determine the success of a full transition to a democracy and open market economy, or at least keep Myanmar from reverting back to its old ways. Applying Dunning's framework to the past experiences of fellow ASEAN member countries should indicate which policy changes have occurred that may have attracted or detracted from the desire to invest. This change in the investment environment represented through net changes in FDI flows. Myanmar has been presented with an incredible opportunity. Now known by many as the final frontier in Southeast Asia, international awareness could translate into capital that would significantly impact the growth of its underdeveloped economy. However, Myanmar must first prove to be a worthy destination of investment to attract capital and knowledge. By analyzing the institutional determinants of FDI flows to other ASEAN member countries, Myanmar should adjust its own policy according to the successes and failures of its neighbors.

The OLI Framework

In his framework known as the Eclectic Paradigm, or the OLI-Framework, John Dunning believes a host country must satisfy three basic fundamentals to attract FDI. They are Ownership, Location, and Internalization (Dunning 1981). This framework, developed in the early 1980s, provides a clear breakdown of the characteristics that MNEs theoretically look for when investing abroad. These components are affected by investment policies in various fashions, hence the importance of the broad yet clear picture they provide in understanding the incentives of MNEs.

The first component, ownership, refers to protection of the firm's intangible assets such as rights to patents, trademarks and their own production processes. When investing abroad, especially in emerging markets where property rights are not always established or sufficiently enforced, most MNEs consider their ability to enforce ownership of specific technologies, techniques and other intangible assets exclusive to them. If a country does not satisfy this component, the MNE's competitiveness would be driven lower as other firms, domestic and international; would gain access to these intangible assets thereby discouraging MNEs to invest by threatening profits and their competitive advantage more broadly. If this component is in place, on the other hand, a MNE would gain the competitive advantage.

The next part of his framework, locational advantages, refers to the advantages that are characteristic of the particular country and though not always direct, can still be affected by investment laws. Locational advantages generally refer to the proximity to developing markets in which an MNE can sell their products, access to natural resources, availability of low-cost labor and little to no tariffs and/or taxes. Referred to by Ramirez (2010), Michael Mortimore (2003) argues that the importance of some of these characteristics depends upon the nature of business in which the MNE operates. Many industries do not require all of these characteristics be

present. For instance, if a mining company is looking to invest abroad, it would first look for access to natural resources but perhaps the presence of a growing market in which to market its products is not necessary as it would look to sell their products in developed markets. Furthermore, though MNEs generally look for low-cost labor when investing in emerging markets, this qualification is not very specific and limits itself to only emerging markets. Rather, (again depending on the labor-intensity of the industry) MNE's might consider the cost of labor per unit. A MNE should be willing to pay a price equivalent to the marginal return on labor. Lastly, the presence of special economic zones (SEZs) can often satisfy one or more of these advantages such as tax breaks and non-tariff barriers.

Dunning's third factor is Internalization, essentially the advantages that pertain to why a company would want to make a direct investment or create a subsidiary in a host country rather than entering a joint venture with another firm. In doing so, as Ramirez (2010) describes, they undertake the costs of "research, development, production, and marketing," but avoid costs of organizing new patents and licenses as well as avoid the distribution of their products through local businesses. Furthermore, Ramirez (2010) refers to Spitaler (1971) and Markusen (1995) who argue that firms can more successfully protect their intangible assets such as licenses when held internally rather than by a domestic partner that could open their own operation and become a competitor.

While Dunning's theoretical framework still strongly applies today, Ramirez (2010) points out that it may need to be updated or supplemented as it was developed over thirty years ago. As the world has become more financially interconnected since the early 1980's, Dunning's framework must be modified to incorporate this important new element. While fiscal policy appears to be accounted for through Dunning's Locational and Internalization components,

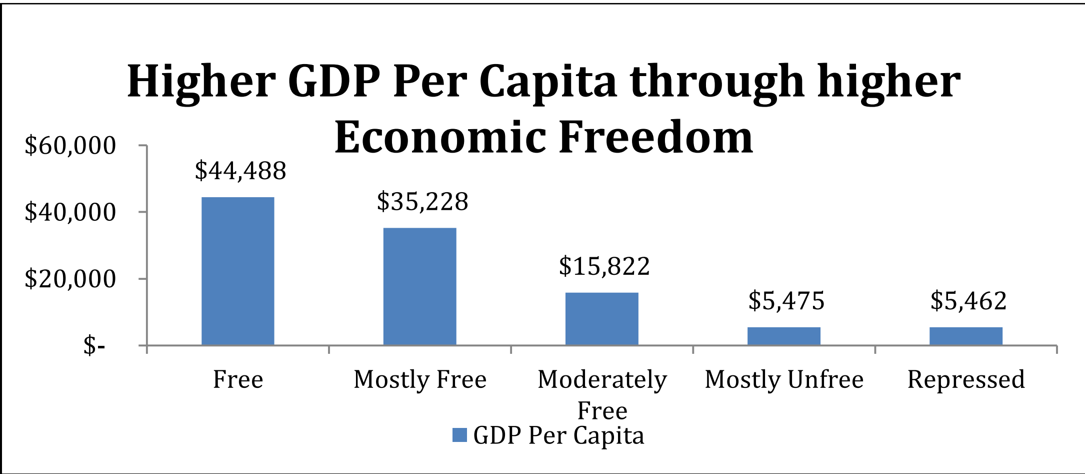
Ramirez (2010) recognizes that monetary policy is not sufficiently represented in Dunning's framework. As is common in developing economies, uncertainty stemming from inconsistent interest rates and exchange rates that have historically been manipulated or fixed rather than market-defined may also cause discomfort on the part of foreign investors. In this way, the general lack of private banking sectors outside of the state-owned banks in emerging markets could also turn away MNEs that cannot find funding from sources outside of the host country.

The application of this framework allows for a streamlined comparison of investment environments in ASEAN countries as well as makes the connection between the investment policies and the Index of Economic Freedom, the basis of the analysis on these investment policies, much more transparent.

Effect of Foreign Direct investment and Importance of Policies

Adam Smith, in writing the *Wealth of Nations* over two hundred years ago, argued in favor of free and open markets. It is his theories on free markets, which the Index of Economic Freedom is based. Co-produced by the Heritage Foundation and the Wall Street Journal, the index is an annual report on economic freedom of countries around the world. The index finds year after year that the countries with the highest standard of living have generally been the most open economically (chart shown below). Many of the components on which the index is based are greatly impacted by the investment laws that the countries impose.

Figure 1: Higher GDP per capita through higher economic freedom



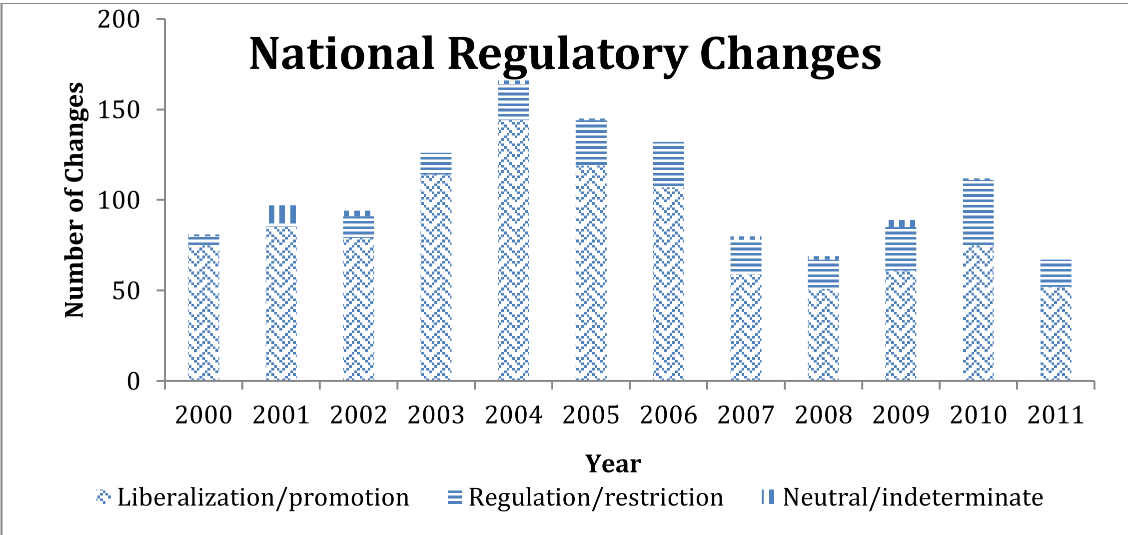
Source: The Heritage Foundation. *Economic Freedom: Global and Regional Patterns 2013*

With this evidence, the logical question remains: why might countries design characteristically strict laws if general economic openness is becoming the global trend for improving living standards? Foreign investment can be related to economic, political and social development but it can also lead to corruption and economic distortion, by relation if not causation. Many years ago, economic theory would have strongly argued that FDI would always

prove beneficial to host countries, that more capital should mean higher growth.[3] (Moran 2012) However, recent paths of development for certain host countries of foreign investment may tell a different story. As countries spread farther away from each other on the spectrum of development, policies must be in place to protect underdeveloped host countries against profit-seeking firms looking to exploit underdevelopment to their advantage. While economic theory suggests that both the investor and the host of capital benefit when engaging in their comparative advantages, it is often those in power of the host country who disproportionately profit rather than the economy as a whole.

In an attempt to prevent potentially negative effects from FDI, these underdeveloped countries often impose restrictive policies against foreign firms causing further detriment to their own economies. The UNCTAD reported in its 2012 *World Investment Report* that while the changes countries made to their investment policies generally leaned towards liberalization, many policy changes resulted in increased restriction (as can be seen below).

Figure 2:National Regulatory Changes (Global)



Source: UNCTAD *World Investment Report, 2012.*

[3] Though the effect of FDI on economic growth in Myanmar is not the main element of this thesis, analysis of the incentives of the parties involved is vital in the overall picture.

Government responses to recent economic crises thought to have been associated with the openness of the policies is a possible explanation for the few changes that resulted in the opposite.

Depending on the particular characteristics of the country that attract MNEs, host countries face various difficulties regarding foreign investors' approach to their investments. First, it is important to understand the incentives behind an MNE's decision to invest in a particular country. Generally, the assumption that the OLI components are present provides a strong reference, more specifically which components are actually relevant to the firms investing. Depending on these specific intentions and relevant qualities for MNEs, FDI can affect a host economy in a few different ways. Therefore, a host country's ability to mitigate significant FDI inflows lies in the establishment of a clear-cut dynamic foreign investment law that is designed with these specific incentives in mind.

Because Myanmar is rich in natural resources, a large portion of FDI will likely be concentrated on extraction. Countries seemingly blessed with natural resources, as is Myanmar, often suffer from an unfortunate phenomenon known as the "resource curse," or the "paradox of plenty." Generally occurring in emerging market countries, the countries too often become overly dependent on their non-renewable resources. In this case, a corrupt political structure can distort the returns from the development of its own natural resources. The riches go to the hands of a few, generally governmental, individuals and not to the indigenous people and their welfare. For instance, the IEF argues that corrupt governments in Nigeria and Venezuela have led to falling standards of living despite both countries receiving substantial revenues from oil exports. (Heritage.org) However, it was the "strong system of private-property protections within a market-based democracy, protected by government institutions dedicated to transparent rule of

law" (heritage.org, "Property Rights Can Solve the "Resource Curse") which kept other natural resource rich countries such as Canada and Norway from a similar fate.

Regulation of investments in natural resources often presents specific issues related to policies and their efficiency, consistency, and transparency by governments making well-designed policies even more vital. As explained by Theodore H. Moran, a Senior Fellow at the Peterson Institute for International Economics and Professor of International Business Diplomacy at Georgetown University, in his book *Foreign Direct Investment and Development* (1998), policies often do not recognize that factors change throughout the life of an investment. In the case of natural resources, as Moran explains, "What adds dynamism to the foreign-investor/host-country relationship is the evolution of risk and uncertainty over the life of an investment project" (142). Investors generally take on most of the burden of the initial investment, as this is when most of the risk and uncertainty in the success of the project is present. Host countries commonly offer specific benefits to investors in this sector, such as fewer tariffs or taxes, and special rights to land ownership. However, as the MNEs begin to see their investment become profitable, the government oftentimes steps in to renegotiate the terms of the agreement. More likely the case in economies during a time of transition is that the successor authorities would be incentivized to renegotiate the original terms that the former government had agreed upon.

In host countries, investment policies are important on a broad basis due to the role that foreign firms often play in their development. FDI repeatedly has proven to be both harmful and beneficial to host countries. A common factor that differentiates the outcome in countries such as Canada and Nigeria is often governmental intention. If a country's government has the opportunity to profit and chooses to do so in a corrupt manner, it is emblematic of the overall

government influence that detracts from the overall investment climate. Similarly, profit-seeking MNEs theoretically invest in countries that do not present overwhelming risk or uncertainty. Unfortunately, the absence of corruption in governments does not always encourage investment. For instance, if an MNE can shorten the time to begin operating in the country via a crony payoff or arrangement, this results in a greater ease of conducting business as well as more immediate economic growth. In these few instances, undesirable qualities can be beneficial in the short run, but these few instances rarely come without negative effects in the long run. Therefore it is the role of governments in host countries to provide transparent and stable investment environments. Through consistent regulation, their presence should not influence market activity and, consequently, decisions made by investors.

2. Regional Foreign Direct Investment

ASEAN

Broader Asia was once, and in many instances still is, a region relying on the extraction of its natural resources and the utilization of its low-wage labor. However, countries such as China are increasingly beginning to produce value-added technology for domestic demand. Furthermore, as costs of labor and production continue to rise in East Asian countries such as China, increasing amounts of FDI to the region are going to the southeast region (UNCTAD *World Investment Report 2012).* According to UNCTAD, Southeast Asia took in 22% of global FDI flows in 2011, compared with 12% prior to the financial crisis (UNCTAD *World Investment Report 2012).* This substantial investor activity has contributed to high economic growth across Southeast Asia. FDI from developed nations has and continues to play a significant role in the region's development. Similarly, FDI will likely be responsible for an analogous transition in Myanmar if the country receives capital inflows similar to its neighbors. As Myanmar is a member of ASEAN (Association of Southeast Asian Nations), it can benefit from the ability to observe the experiences of other member states with FDI as well as have a baseline of regulations of which to follow and align its own policies. In doing so, Myanmar would look to those policies implemented by other ASEAN countries that have successfully attracted foreign investment.

Though ASEAN member countries have only seen substantial capital flows in the last two or three decades, much of the region has cooperated and developed together for almost fifty years. In 1967, the Foreign Ministers of Indonesia, Malaysia, the Philippines, Singapore and Thailand signed the ASEAN Declaration. With the aim of cooperation between these countries in economic, social, cultural, technical, and educational realms, and upholding peace and stability

in the region, the Declaration symbolized “the collective will of the nations of Southeast Asia to bind themselves together in friendship and cooperation and, through joint efforts and sacrifices, secure for their peoples and for posterity the blessings of peace, freedom and prosperity" (ASEAN.org). When establishing ASEAN, the leaders recognized the regions’ economic disintegration, conflicting objectives and reliance on developed nations. Uplifting, however, was their collective aim to becoming a more independent region. By forming different agreements of the declaration such as the ASEAN Free Trade Area (AFTA), ASEAN Investment Area (AIA) as well as sector-specific councils representing agriculture, forestry, and minerals, member countries have had a common goal and structure that Myanmar now has the option to follow.

Though Myanmar will take time to adapt to these agreements, they provide clear goals and toward which for Myanmar to aim. For instance, one of the goals of AFTA is to encourage member countries to lower intra-regional tariff rates. The latest agreement, named the Common Effective Preferential Tariff (CEPT) Scheme, member countries are encouraged to reduce their tariffs to 0-5%. Though the AFTA agreement has encouraged trade regionally, it is the AIA that appears to be of greater relevance to FDI. Promotion of FDI in ASEAN originated with the ASEAN Investment Guarantee Agreement (IGA) of 1987 and more recently, in 1998, with the formation of the AIA. In 2009, foreign ministers signed the ASEAN Comprehensive Investment Agreement (ACIA) which consolidated the AIA and the IGA with the main components of liberalization, protection, facilitation and promotion of investment remaining intact along with new provisions improving these previous agreements (ASEAN.org). Lastly, the UNCTAD reported in its March 2013 issue of Investment Policy Monitor that negotiations for a Regional Comprehensive Economic Partnership Agreement (RCEP) began at the 21st ASEAN Summit in November, 2012. The agreement reaches out to Australia, China, India, South Korea, Japan, and

New Zealand and further promotes the four pillars between ASEAN member countries and these listed countries (OECD *Investment Policy Monitor Mar 2013)*.

Early on, as OECD Senior Economist Stephen Thomsen (1999) explains, governments of ASEAN countries believed that intervention in their markets would encourage economic growth. Their policies were import substitution-based for much of the 1960s and 1970s whereby the countries tried to promote domestic production against imports by restricting sectors or enforcing high sector tariffs. However, the lack of competition and technology from abroad limited the effectiveness of the policies and economic growth in the region fell through the mid-1980s. With Malaysia and Thailand in the 1970's and 1980's, and Indonesia and the Philippines making a similar transition in the 1990's, the ASEAN4 began to experience economic growth as they began adjusting the theme of their policies towards export-led growth. With currency adjustments and policy liberation due to the transition to export-based policies, the ASEAN4 made a dramatic recovery after 1985 following the poor growth of the previous decade.

Export-oriented countries have generally seen more immediate growth that appears to be less sustainable. Thomsen (1999) argues, "exports can drive rapid economic growth over a long period, but technology transfers can do much more to promote sustainable development by enhancing indigenous capabilities." It is generally the transfer of knowledge which encourages sustainable long-term economic growth, however, in with export-oriented policies, this phenomenon is minimal. Export-oriented policies generally attract firms to extractive or manufacturing sectors that only require low-skilled labor. These industries generally involve intensive labor which is great for the host country in the short term because a MNE hires a large work force at low wages. However, these types of jobs have steep marginal returns to knowledge transfer. Workers receive paychecks for wielding axes in mines but they do not learn managerial

know-how or even more efficient techniques and technologies of the business. In the short term, the economy benefits from newfound consumers but in the long term, the value of their jobs does not increase.

Fortunately for the development of the ASEAN4, the general trend has been to liberalize investment policies. Through the 1990s, the policies led to a few key themes with respect to FDI restrictions that still exist today. The common themes in FDI policies across the ASEAN4, as Thomsen explains, were screening, foreign equity limits, negative lists, and restrictions on land ownership. These laws generally played both a political as well as an economic role in the host country. Governments believed that by manipulating the path of capital, they could directly impact growth in particular sectors they believed would benefit from most. Alternatively, they often restricted investment to those sectors, which they wanted to develop on their own or were afraid of losing a competitive advantage to foreign firms. Host countries implemented barriers to entry in these sectors through outright restriction to foreign firms, investment through partial ownership of a company with a domestic partner, or heavy regulation through taxes and tariffs. Additionally, foreign investors shares of domestic companies were limited and foreign investors could not own land outright.

Foreign investors are screened by a country's Board of Investment, or something of the like. The process is meant to both enforce restrictions to certain sectors and prove to the indigenous people that foreign companies are being monitored. While the agency through which foreign companies are screened and the specifics of the process vary by country, the common theme of this process has developed from rejecting FDI to promoting FDI to permitted sectors. Because companies need to be compensated to invest in a more heavily regulated country, these

investment ministries now aim to promote these incentives such as exemption from tariffs or the right to own land in hopes of bringing in more investment.

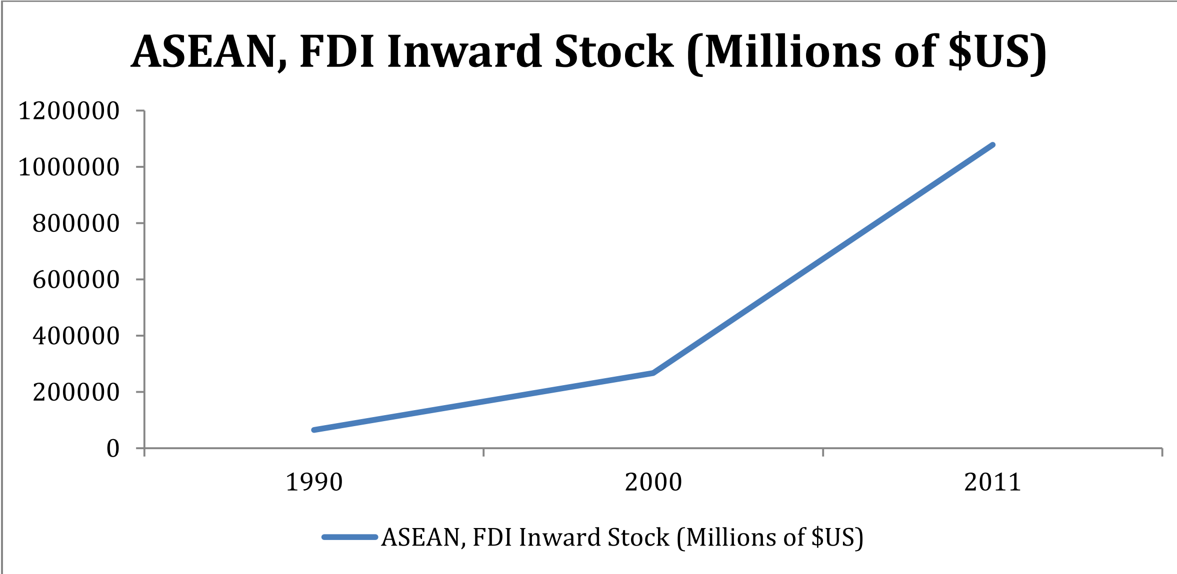
Foreign investment policies also generally include restrictions of foreign ownership of equity. Acquisitions of local companies by foreign investors can be a faster way to enter a market. However, until recently, foreign investment policies generally limited foreign investors to minority stakes. As mentioned on Dunning's OLI theory, a restriction of ownership can be seen as a significant barrier to entry and ultimately a deterrent to investment. Furthermore, depending on the method of financing, foreigners may also need further approval from other agencies. For example, investors in Malaysia may require other permissions from agencies such as Malaysia's Investment Development Authority (MIDA) in which case they must prove how their acquisition leads to net economic benefits for the host country.

The third theme that can be seen across investment policies are lists with investable or non-investable sectors. This means their investment commissions now provide a list of sectors in which foreign companies cannot invest, rather than providing a list of sectors in which they can invest. When providing a negative list, the number of sectors that foreign investors can conduct business is greater than the number of sectors in which they cannot. Indonesia for instance, switched from a positive list to a negative list in the last 1990's representing the growing number of available sectors to invest. Thomsen explains how the characteristics of these lists, and there evolution over time, are a good indicator of the openness of an economy and its development. For instance, most ASEAN countries still restrict foreign participation in their banking sectors. Furthermore, following the Asian crisis of the late 1990's, many countries shortened their negative lists with hopes of encouraging investment and reintroducing capital into other sectors.

The fourth trend that can be found across these countries are restrictions on land ownership. Foreign investors prefer to own the land where they operate. Thomsen explains the two major disadvantages concerning investors as the insecurity about the future policies with respect to land ownership as well as the inability of investors to finance other investments against their land as collateral. Though Malaysia does offer opportunities to own land through state approval, the other three countries in the study restrict land ownership to time-specific leases, generally with only one opportunity to extend the lease.

The attraction of FDI to the region can be explained through John Dunning's framework. Increasing openness to investment has been the general trend of ASEAN member countries' investment policies. As the foreign investment policies and investment environments in these countries have evolved to better attract FDI, MNEs have increased their investment activities in the region.

Figure 3: FDI Inward Stock ASEAN



Source: UNCTAD *World Investment Report, 2012.*

Commitments to the WTO and ASEAN have pushed the policies, and bodies of government that enforce these policies, to become more transparent and further open their economies allowing for

increased confidence on the part of investors. With this trend, their policies have increasingly satisfied the OLI framework. In terms of ownership, the first component of OLI, host countries have strengthened their policies on property rights. In return, an investor would have greater confidence in bringing their production techniques to a host country without fear of having them stolen by a competitor. With respect to improved locational advantages, firms would find fewer tax or tariff barriers, increasingly skilled labor forces, and growing markets in which to sell their goods, not to mention the regions' established stock of natural resources. Lastly, greater openness of policies specific to foreign ownership have allowed for MNE's to invest from an internal standpoint rather than risking a partnership with a local firm which may have different goals. With a domestic partner, there is risk that they could defect once they have learned the techniques and have adopted the technologies of the MNE. In this case, the MNE loses a degree of competitiveness in the country as well as any licenses or permits that were registered to the domestic partner. With the ability to internalize operations, MNEs would still hire domestic workers who would gain industry knowledge, but at the same would not be concerned with said risks.

OECD Policy Review

One of the foremost organizations on current global economic activities and issues is the Organization for Economic Co-operation and Development (OECD). The OECD has produced a guideline for investment promotion in host countries called the "Policy Framework for Investment" (PFI). With these guidelines, the OECD produces policy reviews of investment policies and procedures with the aim to help host governments "mobilize private investment that supports steady economic growth and sustainable development, and thus contribute to the prosperity of countries and their citizens and the fight against poverty" (PFI Preamble). In the case of ASEAN, the OECD has published policy reviews for Indonesia and Vietnam. Following the basis of their PFI, these reviews provide analysis of these country's investment environments, specifically any major developments with respect to relevant policies, economic conditions, and government presence. Furthermore, they make invaluable suggestions for improvement of anything investment-related. These reviews provide invaluable insight into the development of these countries investment environments and assist in analyzing the important aspects that prove relevant to Myanmar.

Policy Review: Vietnam

In the OECD's recent review of Vietnam's investment policies (2009), the authors look at the previous investment laws and the change to the newly enacted Investment Law, which was implemented in 2006. Furthermore, Vietnam also enacted a new Enterprise Law and Intellectual Property Rights Act as recently as 2006. With this investment law, the ministries and local governments relinquished their power over investor activities to the government in order to ensure consistency and enforcement of the new law. In aligning its new policies with those of the WTO, Vietnam had to conform to WTO agreements such as TRIPS (intellectual property), TRIMS (investment measures), GATS (services), SCM (subsidies and countervailing measures) and ITA (information technology). Prior to these reforms, investment in Vietnam was regulated by four different sets of policies set forth during the Doi Moi renovation period following 1986. With Doi Moi, Vietnam began its transition to a market-oriented economy from a centrally planned economy. One of the key factors in further developing its economy was to understand the importance of foreign investment and therefore aimed to be much more open to incoming capital, cooperate economically on an international level, and liberalize foreign trade (Hoang, Nhue, Houtte, and Dung 2011). Therefore, as part of this transition came the liberalization of its foreign investment and trade policies to develop its private sector. During this time, Vietnam introduced the Law of Land (1988), the Law on Foreign Direct Investment (1988), and the Law on Private Enterprises (1990), followed more recently by the Enterprise Law (1999). These policies drastically changed the investment environment in Vietnam.

Though the investment environment had improved drastically, it was not until the mid-2000s when discrimination against foreign investors was tackled. Under WTO criteria, discrimination between domestic and foreign investors through policies was prohibited. With

Vietnam's aim to join the WTO, it was forced to address this issue. Though adopted in its new investment reforms, Vietnam continued to restrict foreign investment in service industries through 2007 when it accessed to the WTO when it agreed to begin releasing many of those restrictions. Though the enactment of the new investment policy can be seen though the increase in the country's Business Freedom score from 40 to 60 in 2006, the country's Investment Freedom Score actually slipped from 2009 through 2011 from 30 to 15 and its Property Rights score has remained at a low 10 or 15 since the index began in 1995.

Previously, domestic investors followed the Law on Domestic Investment Facilitation whereas the Law on Foreign Investment governed foreign investors. Due to the various inconsistencies between these sets of policies, including additional sector-specific provisions, there was a lack of clarity and coherence of regulation which likely deterred investors. In 2005, Vietnam incorporated the laws regulating foreign and domestic investors into one set of policies with the aim to create a more level playing field for all investors (OECD Investment Policy Review: Vietnam 38). Though the implementation of this new Investment Law (2005) has been set in motion, the OECD reports that at the time of review, Vietnam had not achieved full unity. According to the review, there are still many general restrictions applicable to all investors, sector-specific restrictions applicable to all investors, as well as a slightly longer sector-specific list applicable only to foreign investors. The first list (below) consists of four areas in which certain types of private investments are forbidden by domestic and foreign investors including the following:

1. Projects that may be detrimental to national defense, security and the public interest;
2. 2. Projects that may be detrimental to historic relics, culture, ethics, good customs and practices in Vietnam;
3. Projects that may be detrimental to peoples' health or destructive to natural resources and the environment;

4. Projects involving treatment of toxic waste imported in Vietnam, manufacture of toxic chemicals or use of toxic agents prohibited by international treaties.

Followed by nine specific sectors in which neither domestic nor foreign firms can invest:

1. Sectors having effect on national defense, security, and social order;
2. Finance and banking;
3. Sectors impacting community health;
4. Culture, information, press and publishing;
5. Entertainment services;
6. Real estate;
7. Survey, search, exploring and exploitation of natural resources; ecological environment;
8. Education and training development;
9. Other sectors as specified by the law

And lastly, there are fourteen more areas in which foreign investors must meet special conditions or requirements such as "company establishment, project coverage, ownership pattern, both in and outside the country of a project and forms of permitted legal entities" or are restricted entirely. In other words, foreign investors are much less likely than domestic investors to be able to invest in these sectors. These areas include the following:

1. Radio and television broadcasting;
2. Production, publishing and distribution of cultural products;
3. Mining and processing of minerals;
4. Infrastructure development for telecommunications networks, transmission, provision of telecommunication and internet services;
5. Development of public post networks; provision of post and delivery services;
6. Construction and operation of river and sea ports, airports, airfields;
7. Transportation of goods and passengers by railroad, air, road, sea routes and inland waterways;
8. Sea fishing;
9. Production of tobacco;
10. Real estate;
11. Import, export and distribution;
12. Education and training;
13. Hospitals and clinics; and
14. Other investment areas included in international treaties of which Vietnam is a member, committing limited opening doors to foreign investors.

As can be seen in the above groups of restricted sectors and activities, the policy is generally broad and can be interpreted by the ministry of investment to mean just about anything. For instance, there are many broadly defined sectors such as "sectors impacting community health" or "import, export and distribution." It is in the very distinct differences between these last two lists where we can still see the discrimination against foreign investors. While these restrictions are expected to be significantly toned down by the end of 2013, according to OECD and requirements by the WTO, the stint against foreign investors may remain for some time within backhand policies or provincial laws. Furthermore, investments made in sectors specified by these conditional lists require that specific conditions be met; however, these "conditions" are not clearly defined in the Investment Law. Rather, they are explained in sector-specific laws regulated by specific sector ministries where those in power have much more discretion. These conditions applying to such large sectors, including "other investment areas included in international treaties of which Vietnam is a member" add considerable uncertainty on the part of investors. The substantial lack of transparency in this list means that any commitments by investors are subject to the interests of the regulators thereby encouraging payoffs and crony arrangements. Lastly, as the OECD review argues, Vietnam restricts participation by both domestic and foreign investors in important sectors such as finance and banking, entertainment, and education and training development thereby limiting the transfer of knowledge from foreign firms in these sectors.

The Investment Law also provides various methods in which a foreign investor can conduct or engage in business, subject to the above sector-specific restrictions. According to the policy review, foreign ownership of listed companies is limited to 49% in most industries. Though this is increased from 30%, this is still a minority stake which means internalization is

not nearly as possible for publicly listed companies. However, foreign investors are less restricted if associated with privately held companies. The following are potential approaches to conducting business as suggested by the Investment Law:

1. Establishment of wholly domestic- or foreign-owned companies;
2. Establishment of joint venture business institutions between local and foreign investors;
3. Investment in the form of business co-operation contracts (BCC), build-operate-transfer (BOT) contracts, build-transfer-operate (BTO) contracts and build-transfer (BT) contracts;
4. Investment in business development;
5. Purchasing shares or contributing capital to join the management of investment activities;
6. Investment in mergers and acquisitions; and
7. Other forms of direct investment.

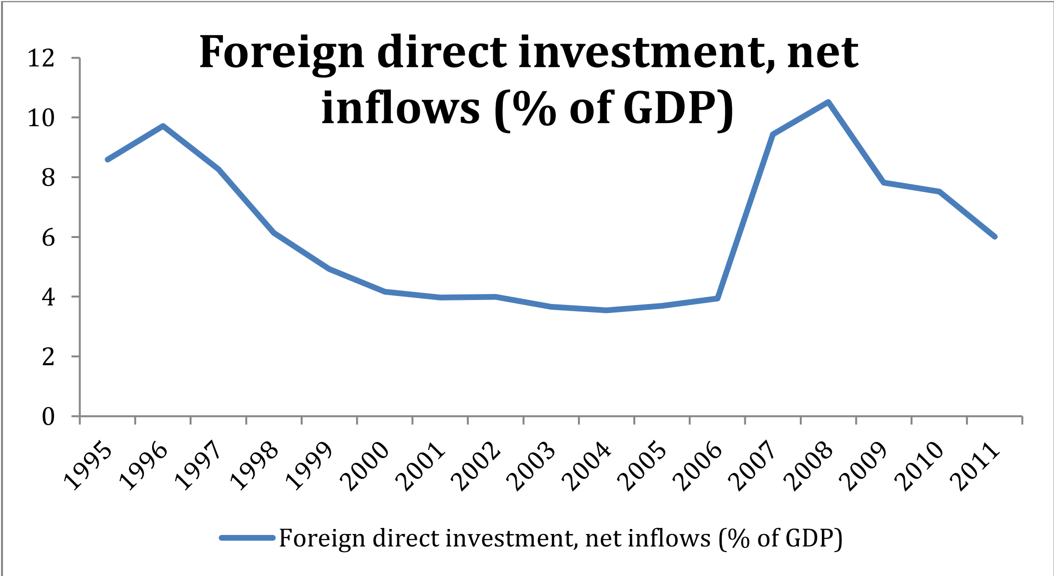
For instance, for certain levels of capital for domestic investors, businesses may not be required to complete specific procedures such as registration with all institutions. On the other hand, all foreign investors still need to complete all of the registration processes to invest in Vietnam. Vietnam has also simplified its appraisal process for large scale or conditional investment projects though the OECD suggests that instead of reviewing each individual investment project that it implements an overall legal framework for each project to follow. After foreign investors complete the registration and appraisal process, if necessary, an investment is issued a certificate by certain authorities depending on the sector or area (such as a special economic zone). Again, this process adds time onto the preliminary investment process and further discriminates against foreign investors. Adding complexity to the registration process has been the decentralization of government power by handing over specific licensing responsibilities to provincial governments with little training or guidance.

Moreover, the OECD review reports that different rules apply to nearly every type of investment, which can be categorized by size, ownership, or investment incentive. To further

streamline this process and assist in enforcing the Enterprise Law and Investment Law, the Prime Minister formed a Task Force in September of 2007.The Task Force is charged with aiding various Ministries and provincial governments in implementing these laws. They are also responsible for further improving the investment process after experiencing case-specific obstacles by proposing reforms to policies or practices. The formation of the Task Force has helped significantly in the process of decentralization (OECD Investment Policy Review: Vietnam 40).

As can be seen in the graph below, FDI inflows have reacted immensely to the changes in Vietnam's investment policies, especially following the revised laws after 2006. In only one year from 2006 to 2007, FDI flows as a % of GDP increased from almost 4% to almost 9% indicating a positive response to the newly enacted laws.

Figure 4: FDI Inflows to Vietnam



Source: World Bank Data.

Furthermore, the Economists Intelligence Unit reports in its March 2013 analysis of Indonesia that as a result of these policies that initially intended to generate rapid economic growth, Vietnam experienced macroeconomic instability in 2011 and 2012. To counteract this

instability, a more conservative approach to economic policies is expected to take hold through 2020 in an attempt to stabilize the country's GDP growth and inflation. While the response to this instability is to be expected, the need to impose greater restrictions is unfortunate. It would be in Vietnam's best interest to avoid policies that further restrict investment and discriminate against foreign investors. However, in review of policy changes that have occurred over the last two decades, the World Bank and International Finance Corporation have reported that doing business in Vietnam has improved, with specific reference to the shortened time of registration and access to loans, however that certain areas such as starting a business, taxes and protection for investors still requires improvement.

Policy Review: Indonesia

In the late 1950s, Indonesia made a switch from small scale, private-owned industry to large scale, state-owned industry mainly run by military officers. It even nationalized foreign owned land. With little FDI outside of the oil sector, Indonesia began experiencing high inflation and deficits in their budget and trade following this drastic transition. With an economic crisis imminent, the government significantly liberalized their economy such as by introducing the Foreign Capital Investment Act of 1967, the basis of the country's FDI policies until just recently. Combined with tax reliefs, improved investment protection, and a faster investment approval process, the new investment act propelled Indonesia's strong economic growth into the early 1970s. According to the OECD Policy Review, this framework was considered liberal compared to other developing countries at the time. However, once the country began experiencing strong economic growth and high revenues from increased commodity prices, the government reverted back to its SOE driven economy and phased out the liberal investment environment for foreigners. Foreign investors at the time were to progressively decrease their presence to minority stakes and joint ventures were required for new investments.

Indonesia again changed the direction of their policies to support exports and once again, attract more FDI. Price declines in oil and a failing economy in the early 1980s encouraged Indonesia to create a negative list of sectors that were restricted to foreign investment thereby increasing simplicity for investors. In doing so, Indonesia drastically increased the number of sectors accessible by foreign investors. Moreover, by 1986,[4] policies related to foreign ownership were also significantly relaxed and the joint venture requirement lifted allowing for full foreign ownership. Though SOEs still had a strong presence in various sectors, with further

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[4] See the end of this section for a timeline of investment-related events from 1986-2010.

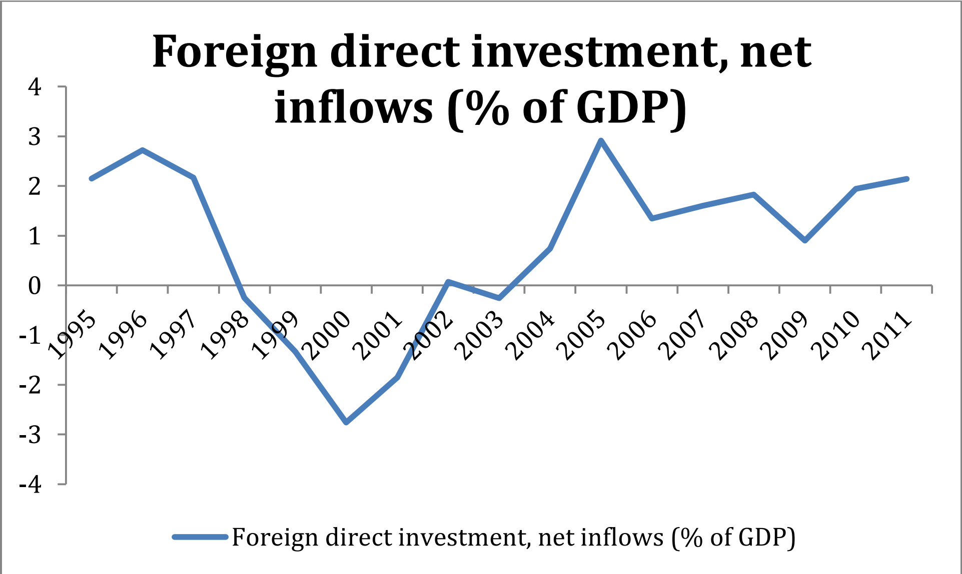
liberalization of ownership policies in 1993 and other investment policy reforms throughout the mid-1990s, Indonesia received strong FDI flows during this period, the highest just prior to the Asian financial crisis.

During the crisis, uncertainty with respect to economies across Asia as well as Indonesia's investment policies and government, Indonesia saw FDI inflows switch to outflows and its GDP collapse. With help from the IMF, Indonesia relieved SOEs and domestic firms of their holds on various sectors by allowing for further foreign investment across sectors, lifted tariffs and price controls in various commodities, and stopped certain export taxes. The country also experienced the resignation of President Suharto in 1998 and a major decentralization in 1999 transferring power from the government to the various provinces. With a new president, and the realization of the importance of FDI in economic growth, Indonesia implemented a medium-term growth plan for the period 2004-2009. A new investment law comprised of an updated negative list, a new tax plan for investment, new economic zones, and further decentralization of the government was passed in 2007. Though the previous law created in 1967 had been revised several times, it was not until 2007 that a fully new law was introduced. The OECD commended the law for being better suited for foreign investors. In addition to consistently erasing lines between domestic and foreign investors through many revisions of the previous law, the new law was more transparent, allowed for greater land use, and improved administration services. Lastly, in 2008, a third bundle of economic reforms were introduced. These economy-wide reforms were aimed to improve the overall economic environment thereby intending to attract higher quality projects and generate more jobs.

As can be seen in the graph below, FDI inflows as a percentage of GDP fluctuated greatly during the time period. In some years even experiencing net outflows which were likely due to

uncertain economic conditions in the early 2000s leading up to significant changes in government structure. Furthermore, while the ratio to GDP appears to be on a much smaller scale than was see in Vietnam, it should be noted that Indonesia's GDP is significantly larger in absolute terms thereby giving an illusion that FDI inflows to Indonesia are not significant. Also, the substantial fall in FDI inflows in the late 1990s can be credited as a result of the Asian Financial Crisis.

Figure 5: FDI Inflows to Indonesia



Source: World Bank Databank.

A few notable fluctuations are those in the 2000s which were can be attributed to Indonesia's implementation of a growth plan as well as further investment policy changes. Furthermore, the inconsistency may also be seen related to Indonesia's inconsistent approach to its policies over the last three decades. In this respect, the EIU reported in its March 2013 Indonesia Country Report that economic policy is again trending towards nationalistic. For instance, in early 2012, President Yudhoyono signed a policy stating that all mines must be at least 51% owned by Indonesians in their tenth year of operation. A fall in FDI inflows as a result of this

implementation would not be unlikely as the mining sectors attracts substantial FDI inflows to the country.

Throughout the period from 1995 to 2011, Indonesia's scores in the various freedom index components fluctuated, sometimes considerably. For instance, the country's Investment Freedom score began at 50, increased to 70 through the end of the century, and then dropped considerably over the next four years to a 30. The index cites "corruption", "unpredictable" and "non-transparent" regulations and that foreign exchange and capital transactions are "subject to approvals and restrictions" as causes for the country's low score in this area. Furthermore, Indonesia also received noticeably low scores for their protection of property rights and freedom from corruption. The IEF refers to the country's inconsistent court rulings that often end in favor of the domestic party and the inability to own land as issues that still need to be addressed.

Though the country has made an effort to attract investment from abroad, its own policies are still improving. In particular, the enforcement of the policies rather than the policies themselves can be the biggest drawback. Unlike Vietnam, Indonesia has been more actively attempting to attract investment by considerably improving its investment approval process to a one-stop service (OECD Investment Policy Review: Indonesia 20). The government is constantly improving the protection of land and property as well as intellectual property. However, similar to Vietnam, restrictions still exist on foreign equity ownership, though however; the country's move to a negative list of sectors for restrictions on both domestic and foreign investments has increased clarity for investors. The OECD reports that "the 2007 Investment Law gives standard protection to investors against expropriation and enshrines national treatment" (19).

Table 1: Timeline of FDI liberation in Indonesia, 1986-2010

1986	• Relaxation of limits of foreign ownership for export-oriented firms • Several sectors previously closed to FDI are opened, including retail trade
1987	• Foreign investors allowed on stock exchange

1988	• 16-year ban on new foreign bank entry removed • Joint ventures allowed to distribute their products locally
1989	• Switch from Positive to Negative list, with hundreds of Sectors opened to foreign investment under certain conditions (e.g. export requirement, co-operation with SMEs) • Foreigners allowed to purchase 49% of shares of listed companies
1994	• Minimum capital requirement for foreign investment eliminated • Nine strategic sectors opened to 95% foreign ownership • Up to 100% foreign ownership permitted throughout Indonesia (80% previously) • Divestiture requirement reduced to only a token amount of local equity • Domestic partnership requirements relaxed
1995	• Ten sectors removed from Negative List, including motor vehicles
1997	• Presidential Decree removes 49% foreign equity limit on purchases of listed shares
1998	• Full foreign ownership allowed in banking
1999	• BKPM no longer requires Presidential signature for approvals • Local content programme for motor vehicles phased out • Full foreign ownership of holding companies allowed, including through acquisitions • Several sectors opened further to FDI, including retail, general importing, palm oil plantations, broadcasting and downstream operations in the oil sector.
2007	• Investment Law does away with general divestiture requirements • New Negative List opens some sectors to greater foreign participation
2009	• Mining Law allows foreign ownership of concessions • Electricity Law allows for private operators in areas not served by PLN
2010	• New Negative List opens some sectors to greater foreign participation

3. FDI in Myanmar

OLI in Myanmar

As mentioned earlier, John Dunning's OLI framework is applicable in the case of Myanmar as well as in other ASEAN member countries. Because the three components of Ownership, Location, and Internalization can be found in many cases throughout the country, Myanmar should theoretically attract FDI. However, as discussed previously with reference to ASEAN member countries, the presence of these components only prove as relevant as the particular sectors in which foreign investors are not restricted from investing. With the components that are present in Myanmar, one might be able to infer that firms are likely to search out sectors which do not require highly skilled labor, the use of technologically advanced techniques, or to make immediate returns from developing consumer markets within the country.

In the case of Ownership, explained previously as the rights and protection of intangible assets such as copyrights and trademarks, Myanmar is far behind. As reported in the Herbert Smith Freehills' Myanmar investment guide, the only functional law in place is the Copyright Act of 1914, which has not been updated for application to contemporary issues. Although Myanmar has been a member of the WTO since 1995 and is a participant of the TRIPS agreement, which provides protection of intellectual property to other WTO members, Myanmar has been granted a grace period for the implementation of these laws through the end of 2013. Similarly, there are few laws protecting trademarks or patents. Though trademarks can be registered during the registration process with MIC thereby providing some protection against particular claims, the registration alone does not provide any sort of absolute guarantee of protection. With respect to patents, there are no laws that offer protection to modern standards. Under these conditions, firms utilizing more advanced techniques or technologies may refrain from bringing these methods to Myanmar altogether. This impedes potential efficiency on the

part of the foreign firm and is a loss of potential technology of which Myanmar could benefit. Though minimal, other laws do exist that provide some protection with respect to intellectual property, however, it is clear that Myanmar in general does not meet international standards.

On the other hand, locational advantages might prove to be the most apparent component of the framework found in emerging countries such as Myanmar. As previously described, there are numerous advantages related to this component that firms might find in these developing countries. Firstly, firms looking to invest in Myanmar may be attracted by the proximity to developing markets where they can find low-cost labor and sell their products. Myanmar's sizable population of over 50 million people whom will be looking to become consumers will require jobs. Because of the lack of education in Myanmar, these jobs will consist of more labor-intensive roles and require mainly low-skilled and low-wage labor. These qualifications are the beginning of a sequence of development that is commonly seen across much of Southeast and East Asia. Though the proximity to potential markets does not seem as relevant today as increasingly more goods are being shipped to their final destination rather than being manufactured nearby as previously discussed (Larkin 2012), this sizable population will increasingly become comprised of consumers looking to purchase goods and services.

Also, foreign firms are oftentimes attracted to developing countries for their stock of natural resources. Though the government has been largely funded from the extraction of natural resources over the years, the country's intention to join the EITI should decrease the level of corruption in the industry and increase confidence for foreign firms. Myanmar has significant established reserves of both onshore and offshore natural gas and oil, rare earth metals, and a substantial teak industry. The teak industry, in particular, known historically for its poor treatment of its labor force, has caused the implementation of sanctions by the US specifically

against this industry.

Furthermore, foreign firms may find locational advantages through the host country's investment policy. Myanmar's ASEAN membership and overall need to promote foreign investment will lead to lower tariffs (as described in the ASEAN CEPT agreement) and tax incentives. The government's approach will be to provide lower tariffs to those firms that decide to operate within special economic zones. According to the Special Economic Zone Law (2011) and Dawei Special Economic Zone Law (2011), these areas provide investors with various incentives and benefits such as tax reliefs to qualified investors (Herbert Smith Freehills Investment Guide). Many investors not interested or not able to invest in these zones due to irrelevance will still receive tax breaks for an initial period of time when upfront costs are greatest and risks are highest. It is through these promotions that Myanmar is attempting to compensate for other difficulties involved in investing in its country. Again, depending on the specific asset in which foreign firms are interested will ultimately decide on their decision to invest however, investors who may find similar assets and conditions in other countries may be attracted to Myanmar with these incentives.

The presence of Dunning's final component, internalization, was less apparent until the completion of the 2012 FIL in November 2012. Initial drafts of the law required that a foreign firm enter into a partnership or joint venture with a domestic partner, provide minimum levels of capital, and rent land from a local partner. Under these requirements, many firms would have been deterred from investing in the country. By implementing these laws Myanmar would have forgone advantages foreign firms find through internalization. Fortunately, the final law is not as strict. For one, there are no requirements forcing foreign firms to enter into joint ventures with domestic firms, there are no capital requirements, and foreign investors can lease land without a

domestic partner for up to 50 years, with the option to extend by two additional 10 year periods. Under these new circumstances and providing that the investment is approved by MIC (explained in the next section), a firm will be able to invest in Myanmar on a more direct basis. Therefore, the firm will have the ability to further internalize their operations and therefore be more compelled to invest.

With the further development and modernization of policies, firms will find Myanmar improving their laws on intellectual property. They are the locational advantages, the second component of the framework, where most firms will seek the greatest rewards. Lastly, the advantages firms will find through internalization will be an added benefit, and certainly one that was previously unexpected. Though more specific analysis of the new foreign investment law may rescind or add to the advantages discussed above, it would appear that Myanmar currently satisfies the better parts of two of the three components.

Myanmar's Foreign Investment Law

Firms seeking specific characteristics, especially those explained by Dunning, have found these across much of Asia; especially as countries have become more open to foreign investment from a policy standpoint. However, firms are always looking for the next hotspot where labor is less expensive than its neighbors or markets have not yet been saturated with similar products. International firms are extremely excited as they consider Myanmar to be the "last frontier" in Southeast Asia, and globally, with respect to development. (Soon Kim et al. 2012) The authors of the International Enterprise of Singapore report argue, "It is the last sizeable economy and market in Asia that remains untapped." While the presence of Dunning's components is vital, Moran believes it is the overall investment environment that will play the biggest role. In an article he wrote in September of 2012 for the Democratic Voice of Burma, an unbiased Burmese media organization, he argued:

> The most important factor in attracting FDI is steady improvement in doing-business indicators, such as enforcement of contracts, lack of red tape, low incidence of corruption. Alongside progress in strengthening the local business environment, other powerful magnets to attract FDI are reliable infrastructure and access to well-trained workers and middle-level managers and engineers. (Moran 2012)

A potential misconception at this point is that foreign investment is alien to Myanmar and vice versa. Why, if Myanmar has always had natural resources and a large population, have firms not invested previously? Though attention has surrounded the most recent set of laws put in place in November of 2012, Myanmar first introduced a foreign investment policy in 1988 (the 1988 FIL). The policy aimed to attract foreign investment to energize the private sector. However, because sanctions from the US, EU and other developed countries have limited trade with Myanmar, the majority of the investment it has received has been from other developing countries. The lack of capital from more developed countries limited investments in Myanmar to

smaller capital projects or large projects that involved the government and therefore lacked transparency. Though Myanmar has been limited in the amount of foreign capital it received, neighboring countries such as China and Thailand have been investing in Myanmar for quite some time. For instance, Thailand imports much of its natural gas from Myanmar and China has been logging much of the northern region.

Prior to the most recent investment law of 2012, Myanmar put in place the Special Economic Zone Law of 2011 (SEZL) as well as the Dawei Special Economic Zone Law of 2011 (DSEZL), which provide foreign investors with further incentives such as tax reliefs and allow for a range of business activities providing the investors compliance with the specific regulations (Herbert Smith Freehill Myanmar Investment Guide). Myanmar enacted the Foreign Investment Law of 2012 (the 2012 FIL) on November 2nd, 2012. Long awaited, the policy took 10 months and many drafts between the government and President Thein Sein before approval. With the aim of the new investment law stated below, the law would appear to have been relatively liberalized and includes incentives to try to attract foreign investors.

> Aimed at the people to enjoy sufficiently and to enable the surplus to export after exploiting abundant resources of the country; causing to open up of more employments for the people as the business develop and expand; causing to develop human resources; causing to develop infrastructures such as banking and financial business, high grade main roads, highway roads connected one country to another, national electric and energy production business, high technology including modern information technology; causing to develop respective area of studies in the entire country including communication networks, transport business such as rain, ship, aircraft which meet the international standard; causing the citizens to carry out together with other countries; causing to rise economic enterprises and investment business in accord with the international norms. (The Foreign Investment Law November, 2012)

As stated in the unofficial translation of Myanmar's most recent investment policy, Myanmar hopes to develop much of its economy through the development and exploitation of its natural resources. Furthermore, economic development should benefit its own people while allowing foreign firms to enjoy the surplus with the help of the 2012 FIL. This set of regulations is

governed by a newly instituted Myanmar Investment Commission (MIC), which includes relevant personnel from existing government institutions. The Ministry of National Planning and Economic Development (MNPED) compensates these personnel on a salary basis, which should remove some of their incentive to approach their jobs in a corrupt manner.

Though Myanmar's investment policy reform is just one of many changes the government has concentrated on, it has certainly attracted the most international attention during this time of transition. Foreign investors are generally attracted to Myanmar because of the country's stock of natural resources. Myanmar was even the world's largest exporter of rice. While the natural resources and amount of usable labor has always been compelling to foreign investors, it has historically been the international sanctions and foreign investment policies that have had the largest effect on investors' ultimate decision, or ability, to invest in Myanmar. With sanctions currently suspended and likely discontinued in the near future, most of the attention has turned to its newly enacted foreign investment policy.

Because the capital flowing into Myanmar will be towards direct investments which are more sustainable and less responsive to economic conditions than financial instruments, Myanmar should be less concerned about economic volatility. While its final investment policy appears to be more liberal than originally expected, Myanmar still appears to be protecting its small economy by leaving much discretion to its Ministry of Investment. Though certain negative effects of potentially large capital inflows could result such as a deficit in its current account or volatility in its exchange rate and interest rates, it is unlikely with the help from development banks and other organizations. In this case, its initial investment policies, especially those regarding foreign ownership of equity, will be stricter than those of other neighboring host countries and slowly adjust the policies as its own economy develops. Under this assumption, the

policies should eventually become less restrictive to MNEs as has generally been the process in other ASEAN countries as they have evolved and have experienced the benefits of FDI.

More recently, in addition to the 2012 FIL, the Ministry of National Planning and Economic Development (MNPED) issued the "FIL Rules" in January 2013. These rules provide further detail with respect to regulations broadly described in the 2012 FIL. For instance, it repeats the requirements related to foreign ownership with added detail clarifying sector-specific regulations (O'Shea, Platts, Austen, Nelson and Henderson 2013). The main areas to which this set of rules applies are restricted businesses, conditional investments, investment impact assessments, as well as many other details. In its explanation of restricted sectors, a key characteristic is the considerable length of restricted sectors for full foreign ownership compared with those involving joint ventures or minority holdings. Moreover, though the FIL does provide further detail and clarification, certain reports explain its repetitiveness of the 2012 FIL therefore some uncertainty still remains.

List of economic activities which are prohibited:

1. Production of arms and explosives related to defense and its related services;
2. Economic activities that can damage the rain forest, religious and cultural conservation areas, raw lands, mountain farm lands, and water resources;
3. Economic activities carrying out productions in factories and workshops and carrying out agriculture that are in contradiction with the Fertilizer Law, Crop Seed Law, and any other agriculture related law promulgated from time to time;
4. Economic activities importing wastes from overseas, building a factory and carrying out productions domestically;
5. Production of prohibited substances that destroy the Ozone Layer under the Vienna Convention for the Protection of Ozone Layer and the Montreal Protocol such as Hydrobromo fluo-carbon (HBFC) 34 items, Bromo chloromehane 1 item; cholorofloruocarbon 5 items Halogenated (CFC) 10 items, Halon 3 items, Halogenated CFC 10 items, Carbon Tetrachloride 1 item, manufacturing activities;
6. Production of persistent organic pollutants including 21 organic pollutants prohibited under Stockholm Convention on Persistent Organic Pollutants;
7. Economic activities bringing used factories, equipments, and businesses from overseas and economic activities producing in factories or using in businesses products that are dangerous to surroundings, which are stipulated by Environmental Conservation Law,

Rules, and Procedures from time to time as those that can damage the environment profoundly immediately, in short term and in long term and not suitable for use domestically;

8. Economic activities managing and conserving natural forest;
9. Prospecting, exploration and production of jade and gemstones;
10. Small scale and medium scale production of minerals;
11. Manufacturing and distribution of Asbestos based construction materials;
12. Administering electricity system;
13. Trading electricity;
14. Inspection services related to electricity;
15. Oil refineries that produce or use substances such as MTBE and TEL that can damage the environment and health;
16. Factories and workshops capable of producing pollutants that can damage the public health and dangerous to the public such as environmentally (land, water, and air) harmful fumes, smells, powders, sounds, chemicals, and minerals and radiations;
17. Mining of metallic minerals that include gold in river way areas
18. Air navigation;
19. Sea navigation;
20. Jointly conducting printing and broadcasting media businesses;
21. Printing and distribution of newspapers, magazines and journals in Burmese and national ethnic languages.

Furthermore, the FIL notification rules next provide a list of economic activities which are allowed only in joint ventures with citizens of Myanmar:

1. Production and marketing of mixed seeds;
2. Production and marketing of native seeds;
3. Manufacturing and marketing of bakery products including biscuits, wafers, noodles, macaroni, spaghetti, etc…;
4. Manufacturing and marketing of all kinds of confectionery including those of sweets, cocoa, and chocolate;
5. Preserving, manufacturing, canning and marketing of other food products other than milk and milk-based products;
6. Manufacturing and distribution of malt and malt liquors and other brewery products;
7. Distilling, blending, rectifying, bottling and marketing of all kinds of sprits, beverages and non-beverages;
8. Making and distribution of ice;
9. Purified Drinking Water business;
10. Manufacturing and marketing of textile threads;
11. Manufacturing and marketing of household goods such as enamel ware, cutlery, crockery of all kinds;
12. Manufacturing and marketing of all kinds of plastic wares;
13. Manufacturing of rubber and plastics;
14. Packaging business;

15. Processing of hides, skins and leathers of all kinds, excluding synthetic leather, and manufacturing and marketing thereof, including foot wears, handbags, etc.;
16. Manufacturing and marketing of paper of all kinds;
17. Manufacturing and marketing of paper, paper board including carbon paper, waxed paper, toilet paper, etc.;
18. Manufacturing and marketing of chemical products using domestic natural resources;
19. Manufacturing and marketing of flammable substance, liquid, and gas and aerosol (Acetylene, Gasoline, Propane, Hair sprays, Perfume, Deodorant, Insect spray, etc.);
20. Manufacturing and marketing of oxidizing chemical products (Oxygen, Hydrogen) and pressured gas (Peroxide, Acetone, Argon, Hydrogen, Nitrogen, Acetylene);
21. Manufacturing and marketing of burnable chemical products (Sulfuric Acid, Nitric Acid);
22. Manufacturing and marketing of industrial chemical gases including compressed, liquefied and solid forms;
23. Manufacturing of raw materials for medicine, pharmaceuticals and drugs, etc...;
24. Manufacturing of vaccinations using advanced technology;
25. Prospecting and exploration of industrial minerals;
26. Large scale exploitation and production of minerals;
27. Construction of buildings, and manufacturing of prefabricated frames and concretes to be used in building bridges;
28. Transport infrastructure development projects such as bridges, highways, underground railways, etc...;
29. Development of international standard golf-courses and recreation areas ;
30. Development, sales and rental of residential buildings;
31. Development and sales of office buildings;
32. Development, sales and rentals of residential buildings in area connecting to the industrial zones;
33. Development of affordable housing for the public;
34. Development of new towns;
35. Domestic air transport services;
36. International air transport services;
37. Waterway transport services for travelers and goods;
38. Construction of new ships and repair services at shipyards;
39. Construction of warehouses and facilities and providing warehousing services at ports
40. Production of new trains and engine heads;
41. Private specialist hospitals and private traditional medicine hospitals;
42. Travel and Tours services.

Furthermore, while it is the MNPED, which designs the policies, it is the (MIC), a division of MNPED that enforces the policy and organizes investment in Myanmar including reviewing investment proposals. MNEs looking to invest in the country must comply and complete a 3-step process. Firstly, the company must submit an application to MIC to acquire a MIC permit,

followed by an application to DICA, another division of MNPED, to conduct business, and finally registering with the Companies Registration Office (CRO). Regulated by the 2012 FIL, and more specifically the rules, are the specific sectors in which foreign investors cannot conduct business. Most countries across ASEAN have switched to a negative list rather than a positive list. In the case of Myanmar, MIC and the State-Owned Economic Enterprises Law of 1989 (SOEEL) provide an additional list of sectors where investment by individuals other than the government is restricted. However, the investment guide continues to explain that the SOEEL does permit investments in such restricted sectors on a case-by-case basis providing that the investment is through a joint venture with the state, or, if independently by an individual, is consistent with the interests of the state. However, to invest in these sectors often requires special permission by the relevant ministries and the Central Bank of Myanmar (CBM). A summary by Herbert Smith Freehill includes the following:

- extraction of teak and sale of the same in the country and abroad;
- cultivation and conservation of forest plantation with the exception of village-owned firewood plantation cultivated by villagers for their personal use; exploration, extraction, and sale of petroleum and natural gas and "production of products of the same" (which is likely to mean derivative products);
- exploration and extraction of pearl, jade and precious stones and export the same;
- breeding and production of fish and prawns in fisheries, which have been reserved for research by the government;
- postal and telecoms services;
- air transport services and railway transport services;
- banking services and insurance services;
- broadcasting services and television services;
- exploration and extraction of metals and export of the same;
- electricity generating services other than those permitted by law to be carried out by private and co-operative electricity generating services;
- And manufacture of products relating to security and defense which the government has, from time to time, prescribed by notification.

While President Thein Sein has been able to reduce much of the strict characteristics that were present in previous drafts, the newest law seems to give much more discretionary power to MIC

which is likely comprised mostly of older military officials who assisted in designing the laws. In this case, a corrupt approach to regulation by MIC could prove detrimental to the law's effectiveness.

It seems that while the majority of the regulations included in the law align with those of neighboring countries, a law that initially stands out is the requirement of investors hiring unskilled labor that they hire only Myanmar citizens. A topic concerning most host countries with foreign investors is ensuring that there is transfer of knowledge. Furthermore, Myanmar citizens must be at minimum 25% of the skilled workforce by the end of two years, increasing to 50% and 75% by the 4th and 6th years, respectively. Of course, this timeline is at the discretion of MIC. Though requiring that a certain percentage of the workforce be of the local people should ensure this transfer of knowledge, countries that enact this policy risk losing the investment of companies that do not wish to spend time and capital training its workforce. Furthermore, they may be concerned that once they have trained their labor with their technology that the workers could leave the company to start their own utilizing the same knowledge and technology. However, it should be noted that this inclusive policy towards domestic workers allows for greater internalization on the part of foreign firms than would partnership or joint venture requirements.

Because foreign firms generally have more advanced technology, they are likely to be on the forefront of development of more technology-intensive sectors such as phone networks and internet because foreigners have developed the technology. Therefore, theoretically it should be to the advantage of both Myanmar and foreign investors to develop this sector. On the other hand, extraction of resources may be more detrimental to the host country as it can be easy for a corrupt government to sell off its natural resources without any return to the country. With help

from public and private institutions, including the World Bank, consistent regulation of transparency and accountability should theoretically help funds flow through to the people. However, a strong yet corrupt military presence in the government may harm this growth. (Further sectors might be natural resources as foreign firms buy up off-shore oil blocks or on-shore mines and timber plots. Manufacturing should be encouraged because of the country's vast labor force. The banking sector as there is currently little if any capital flow in the country. Developing a banking sector alone would encourage overall growth through encouraging loans.)

One danger concerning investors is the lack of privatization in sectors where the government has monopolies. In this case, it is likely that foreign investors will be discouraged by certain barriers to entry and therefore certain industries may not develop as quickly as others and may even limit the development of other sectors. Myanmar will characteristically protect its main industries. For instance, if the government has an inefficient monopoly on all construction work on roads and railroads, transportation-intensive industries may be limited as to the extent that they can transport goods and services. On the other hand, certain sectors will be affected more by foreigners than others, in which case it has been found that the concentration of FDI in certain sectors did not play a significant role in how fast the economy developed, of course, this will also depend on the level of education among other factors.

The presence of a third party to assist in regulation could be beneficial to both the host country as well as potential investors. Myanmar, in particular President Thein Sein, has been proactive in its request for assistance by the EITI (Extractive Industries Transparency Initiative). With the aim to combat the "resource curse," as it was becoming known by the late 1990's, the UK Prime Minister Tony Blair announced the initiation of the EITI in 2002. The EITI standard intends to hold governments accountable to higher levels of transparency. Additionally, the

standard aims to reduce governmental instability, which often turns investors away. Finally, the indigenous people benefit from the EITI's implementation through more transparent transactions between international corporations and governments, allowing the people to ensure that they are compensated for their country's natural resources. By 2012, the EITI was being implemented by 37 countries worldwide, with 18 compliant to the EITI standard.

Though membership to ASEAN, the WTO, and the EITI, are all a plus for foreign investors, it must be kept in mind that countries which are members to these organizations still set their own investment policies and agendas subject to their commitments. This means that, on occasion, a country will choose not to subject a specific sector to these policies and more broadly, that not all country's policies will be the same even if they do satisfy the requirements set forth by these organizations. Also, organizations such as the WTO are not always clear as to the membership status of a country. While a country may, in fact, be a WTO member, this does not always mean that they are satisfying all of the policies set forth by the WTO. Rather this can also mean that they are on the path to satisfying the policies. Drafts of the law have proposed such acts as the inability to own land or a business as a foreigner. Rather to invest in land, one must lease from a local, or invest in a joint venture for a business.

Will Myanmar's rich resource base and overall economic potential encourage growth or will it lead to a dysfunctional government and economy? If the right policies are in place, foreign investment should encourage growth positively, however, if there is no foreign investment, it cannot be a factor in positive growth. Time and time again, economists have seen foreign investment play significant roles in economic growth, and not just in the short term. Myanmar has been left under a rock for the last 50 years while its neighbors around it have surged in no small part due to FDI. Foreign investment could play a significant role in Myanmar's ability to

make a stride to catch its neighbors. The aim is to find the set of policies that have most successfully promoted capital inflows and compare this result to Myanmar's most recent set of investment laws.

A Risky Investment

When foreign investors perform due diligence on potential investment opportunities in another country, there are a series of factors they must consider. Even though the fundamentals of Dunning's OLI might be present, there are other country-specific factors that a firm must also consider. In addition to the generic policy issues, there are also country-specific issues. Just as much as low-cost labor or transparent and enforced property rights are present in a host country, risk and uncertainty must be absent. Of course, any kind of investment anywhere in the world involves taking on some degree of risk, regardless if it is in an emerging economy or a developed one. However, the risks present in America or the UK are very different from those in developing countries. For the purposes of clarification and simple application to ASEAN and Myanmar, country-specific risk can be described in two categories. The first being inherent in nature and cannot necessarily be foreseen such as a natural disaster and the second being risk that can be foreseen and can improve or worsen such as ethnic conflict or political unrest. Unfortunately, both are present and very relevant in a firm's evaluation of Myanmar.

Inherent risk is not limited to developing countries such as Myanmar but the institutions and infrastructure in place to handle such disasters are likely to be vastly different, or in some cases nonexistent. Additionally, while many countries in Southeast Asia are at risk of natural disasters, Myanmar is the "most at risk" country in Pacific Asia according to the UN Risk Model. OCHA believes that Myanmar is in danger of various hazards such as floods, cyclones, earthquakes, landslides and tsunamis. Furthermore, that risk is high for medium to large-scale natural disasters to come about every couple of years. Just in the last five years, Myanmar has endured two cyclones, two earthquakes with a magnitude of 6.8, and flooding that has occurred throughout much of the country (appendix A). To make matters worse, much of Yangon, the previous

capital of Myanmar and most heavily populated city, sits close to sea level and has a history of natural disasters. In 2008, the cyclone “Nargis” left close to 140,000 people dead or missing and 2.4 million homes destroyed in this region (OCHA). This could prove disastrous for firms in agriculture which could lose entire rice paddies, or those in extraction whose mines could flood, etc. A firm considering investing in Myanmar risks not only the loss of a factory but also the displacement of its workforce and valuable time during business cycles. While OCHA argues that increased cooperation between the government and international and local organizations has taken place as a result of these disasters, it is only in the aftermath of further disasters where this collaboration will prove helpful. Furthermore, while Myanmar will be able to better protect itself from natural disasters as it can build better drainage systems, dykes, and houses more adaptable to flooding, this will not occur in the immediate future.

Geopolitical risk, on the other hand, is mainly limited to developing and transitioning countries. According to the Index of Economic Freedom’s Methodology, “Corruption erodes economic freedom by introducing insecurity and uncertainty into economic relationship.” In the case of Myanmar, geopolitical risk applies in two different situations that may affect an investment. Firstly and most relevant to this study on policies, is corruption within the government. According to the Corruption Perceptions Index, which ranks countries “based on how corrupt a country’s public sector is perceived to be” according to various business surveys, Myanmar ranked 172nd out of 176 countries (Transparency International). Though the specific methods of this index, and its own particular flaws, will be discussed later in the analysis, firms cannot ignore this dismal ranking. Although this rank will improve with continued reforms, the military junta which governed the Southeast Asian country for half a century will not just fade in a matter of a few years. Much of the current government is still comprised of former military

generals whose incentives are not always in line with those of the country, and even those of the current President Thein Sein.

Throughout the time of military rule in Myanmar, those in power took advantage of their power and profited from Myanmar's vast resources, hence evidence that Myanmar has previously suffered the consequences of the "resource curse." According to Myanmar's Ministry of Energy, the state owned oil and gas company, MOGE (Myanmar Oil and Gas Enterprise), controls Myanmar's on and off-shore oil and gas fields for upstream production. In June 2012, the opposition leader, Aung San Suu Kyi, stated, "The Myanma Oil and Gas Enterprise ... with which all foreign participation in the energy sector takes place through joint venture arrangements, lacks both transparency and accountability at present," (Nebehay and Miles, reuters.com June 14, 2012) thereby questioning the accountability of the company that runs some of Myanmar's most valued natural resources. The same article further explains how Chevron's shareholders have criticized the company for doing business with MOGE.

This corruption has also taken a more direct toll on the economy over the years. For instance, the government only recently reformed its currency according to its market value. In April 2012, Myanmar's central bank adjusted its currency, called the "kyat", to managed float at a rate of 818 kyats to the US dollar from its previous rate of 6.4 kyats to the US dollar (BBC News). Prior to the adjustment, the variation between the official rate and the black market rate (closer to the most recent managed float rate) deterred firms from investing in Myanmar. Furthermore, the country's central bank, a previously detrimental institution comprised of military officials rather than economists, is also making a significant transformation. As of February 7th, the government announced plans to end the military's role in the central bank. Previously, only military personnel were allowed to hold positions in the central bank but with new legislation, the country

hopes to have economists and bankers running the show (Ten Kate et al. 2013). With severe political risk, the policies themselves seem to fade to the background and the issue becomes a question of transparency and consistency. In other words, the specific tax rates or capital requirements become ambiguous. Rather the risk becomes the degree of corruption within the government and their consistency in enforcing the policies. Furthermore, especially applicable in transitioning countries, is whether or not the same government and policies will be in power just a few years down the line. As mentioned previously with respect to natural resources, this risk could result in renegotiations of agreements or even losing the ability to operate in Myanmar altogether.

Another geopolitical risk that can be just as concerning for an investor is the risk of a conflict between ethnic groups affecting their asset in the region involved. Myanmar is comprised of various religious and ethnic backgrounds, many of which have been engaged in conflict since the country's independence from Britain in 1948. Although ethnic conflicts arise across much of the country, the two that attract the most attention are the Kachin conflict and the Rohingya Conflict. According to the Institute for Peace and Conflict Studies, the conflict in Kachin, the northernmost state that borders China, has existed for over fifty years. Though a cease fire was agreed upon on January 13, 2013, the fighting between the Myanmar Army and Kachin Independence Army continues (Govindankutty 2013). Residing in the coastal state of Rakhine are the Rohingyas, who are of Muslim descent from neighboring Bengal and are a minority in Myanmar. Under Myanmar's 1982 Citizenship Law, they are not recognized as citizens and are referred to as illegal immigrants by the government. Most recently in 2012, a series of violent riots occurred between the Rohingyas and the Rakhine Buddhists resulting in many deaths. This particular conflict required President Thein Sein to declare a state of

emergency. The Eurasia Review reports that "only nine armed ethnic groups out of eleven have reached even a preliminary stage in the negotiation of peace pacts with the Myanmar government at respective levels." (Govindankutty 2013) In this case, armed conflicts put in danger not only a factory or farm, but also the wellbeing of a labor force and potential consumer markets.

In response to Myanmar's corrupt government, and its historically poor approach to these conflicts, many western countries have implemented economic and political sanctions against Myanmar since the early 1990's. The US, EU, Canada, and Australia, for example, put in place precise laws due to the fear that almost any exchange of a good or service could be traced back to funding Myanmar's government and therefore the military. The sanctions restricted almost all transactions with the Burmese people, limited travel to the country, and strongly enforced an arms embargo. With recent political reforms, many of these countries have suspended their sanctions against Myanmar; however, the removal or reinstatement depends on Myanmar's progress forward. The US, for example, intends to use the possibility of reinstatement of these sanctions to further encourage reforms in Myanmar. An unfortunate side effect of this strategy will be the added uncertainty in the eyes of investors. In an interview with the Financial Times on July 11, 2012, President Thein Sein asked desperately for the removal of sanctions. He told the FT, "It's only if you lift the lid entirely that it allows everything to come out…It is extremely important that sanctions be lifted – both financial and other economic sanctions – to make possible the sort of trade and investments that this country desperately needs at this time." (Robinson 2012) With the possibility for the sanctions to be reinstated looming, most investors from these countries will wait until there is more clarity.

The presence of these different risks, both climate-related and geopolitical, will likely hinder the amount of investment received from abroad but may also cause discrimination by the

backgrounds of investors. Investors in the region will have likely heard this ongoing story for quite some time compared to investors from America or the EU who have only shown interest since the reforms began in 2010. These regional investors will have a deeper understanding of the various conflicts, know the major players, and likely have connections to the area compared with western investors who do not have this depth of knowledge. Though a potential disadvantage for these regional investors may be their capital, their knowledge may provide a greater degree of comfort making them the more likely candidates to make the next step from interest to an investment. Alternatively, foreign firms may have a greater appetite for risk due to their willingness and ability to commit more capital to an investment.

Though much excitement surrounds the recent reforms in Myanmar, there are clearly some potential challenges that may evolve into substantial issues for a foreign firm. Foreign firms will make their decision to invest based on the quality of the asset and their evaluation of these risks that may arise. Consistent with other conclusions, the viability of the argument will ultimately depend on the relevance of the risk to the asset in which the firm seeks to invest. A firm looking to mine and extract rare earth metals will encounter different risks and obstacles than one looking to sell a certain technology. However, these general risks, both inherent to the country and not, will likely be the basis for the obstacles which most firms will encounter.

4. Econometrics Analysis

The majority of literature written on the determinants of FDI flows generally concentrates on the macro economical and institutional factors of the country or region. In these studies, investment policies are often recognized through the tax rates and government spending that result. However, because this analysis is designed to concentrate on the effects of the laws themselves, the variables must be designed to capture the particular laws. A straightforward approach to studying the effect of the specific laws would be to designate dummy variables to each law. For instance, if a country had a law in place, the value of the variable would equal 1 and if it did not implement that law, the variable would equal zero. Regrettably, a few issues arise with this method rendering it an ineffective and inefficient approach to this analysis.

Two major issues that arise with this approach seem to render this method ineffective. The first issue is the lack of variation across such a large number of independent variables. Foreign investment policies often consist of hundreds of regulations, most of which are similar but still oftentimes vary only slightly. How would one differentiate dummy variables for land ownership of 70% versus 30% by foreigners through a dummy variable? How would one capture the difference in capital requirements by multinational enterprises in a partnership with a domestic firm? With this many variables with value of only either 0 or 1, and many changing during the same year as countries revise or enact entire investment policies, the data would not generate enough variance for the variables to show significant relationships to the dependent variable.

Secondly, the laws themselves are not always enforced consistently by the government therefore the specific policy would be misrepresented in its effect on capital flows. In this case, not only would there be insufficient variation across the independent variables, but the little

variation that would exist is not always reliable. To solve for these issues, variables must be used that account for these inefficiencies. Ideally, the variables would capture these laws, their revisions on a yearly basis, and the efficiency with which they are enforced in a way that is consistent across countries but that also sees a greater variation than from only 0 to 1. Fortunately, the Index of Economic Freedom, an index generated and published by The Heritage Foundation and the Wall Street Journal, captures the essence of the regulations imposed by the country in combination with the efficiency with which they are enforced by that country's government. By using an index such as the Index of Economic Freedom, the issues mentioned above are accounted for because the countries are graded on both the policies that are in place as well as the efficiency and consistency with which the government enforces those policies. Furthermore, the grades given on the ten different components of economic freedom range from 0 to 100 thereby provide a much larger range of variation.

Originating on Adam Smith's theories dating back to 1776, the Index of Economic Freedom grades countries on the openness of their economies. The Heritage Foundation provides a specific framework and methodology that allows for identifying fluctuations in a country's score to specific changes or additions in their policies. Countries are graded from 0 to 100 on a culmination of 4 "pillars" which can be broken down further into ten different categories (see next page for general breakdown and the appendix for a more specific methodology). It then takes the grades from each component and calculates an equally weighted average for the country's overall economic freedom. Using these categories to represent the laws allows for more variation and is a consistent and reliable set of grades that date back to 1995, allowing for fluctuation across time as well.

Index of Economic Freedom	
Pillars	**Components**
Rule of law	Property rights
	Freedom from corruption
Limited government	Fiscal freedom
	Government spending
Regulatory efficiency	Business freedom
	Labor freedom
	Monetary freedom
Open markets	Trade freedom
	Investment freedom
	Financial freedom

As with any study with imperfect data, and especially those studying emerging markets, some issues with this approach remain. For instance, the index's analysis generally looks at data and conditions anywhere from 6 months to 1.5 years prior to the year the study is published. This means that policy changes occurring in 2005 will not be reflected until the 2006 or 2007 index therefore some degree of lag is needed to more accurately reflect changes in FDI flows resulting from changes in policies and governance. Another unfortunate issue is the reliability of the methodology as it pertains to emerging markets. For instance, the index's freedom from corruption component is based on Transparency International's Corruption Perceptions Index. Derek Tonkin, a member of the Advisory Board of Hong Kong-based investment and advisory company Bagan Capital and the Chairman of the website www.NetworkMyanmar.org, argues that the TI's index is not always as reliable with respect to ASEAN countries as may be perceived. Tonkin delves deeper into the most recent grade given to Myanmar as it was surprisingly given the 172nd place out of 176 rated countries, the same rating given to Myanmar prior to the government reforms. He argues that Myanmar's unfortunate grade is due to a

disproportional amount of weight given to the unfortunate human rights violations rather than the recent economic and political advances. He states:

> TI have traditionally, and not without justification, given considerable weight to the level of human rights violations in a country as a broad indicator of the level of corruption. As a result, in the virtual absence of reliable data, TI has been led to conclude that Myanmar must inevitably be close to the bottom of the list. The reality on the ground though is rather different. (Tonkin 2012)

With improvements in the construction of the variables themselves (in this case the use of an established index), of course, comes with some limiting factors. The reality is that while these difficulties will be accounted for as efficiently as possible, these types of misunderstandings in the specific methodologies of the index could prove to be a limiting factor. Furthermore, economic factors and country-specific dummy variables such as the size of the economy, the presence of conflict (mostly ethnic in Myanmar), and whether sanctions are or were in place will be necessary to represent the factors which the index does not reflect.

Model

In this model, FDI flows are a function of:

FDIRGDP=f(RGDP, REX, STDEV_REX, ECONFREE(PROPRIGHT, CORRPTFREE, FISCFREE, GOVSPEND, BIZFREE, LABRFREE, MNTRFREE, TRDFREE, INVESTFREE, FINFREE), CONFLICT, ECONSANC)

Where:

Dependent Variable:
FDIRGDP: The ratio of FDI inflows to real GDP.

Independent Variables:
The determinants of foreign direct investment in this model can be grouped into three different categories:

Economic Indicators:
LOGRGDP(-1): The log of the lagged real GDP.

LOGREX(-2): The log of the lagged real exchange rate (where 100=2005 dollars). The real exchange rate calculated as: (host country official exchange rate (LCU per US$, period average) x host country consumer price index (2005=100)) / US Consumer price index (2005=100)

STDEV_REX(-2): The lagged standard deviation of the real exchange rate. Calculated as: the variance of the yearly average for all countries of the real exchange rate (defined above).

FDIRGDP(-1): The lagged ratio of FDI inflows to real GDP.

Economic Freedom:
ECONFREE: The country's overall score in the Index of Economic Freedom Index.

PROPRIGHT: Score the host country received for its property rights.

CORRPTFREE: The score the host country received for its freedom from corruption.

FISCFREE: The score the host country received for its fiscal freedom.

GOVSPEND: The score the host country received for its government spending.

BIZFREE: The score the host country received for its business freedom.

LABRFREE: The score the host country received for its labor freedom.

MNTRFREE: The score the host country received for its monetary freedom.

TRDFREE: The score the host country received for its trade freedom.

INVESTFREE: The score the host country received for its investment freedom.

FINFREE: The score the country received for its financial freedom.

Other factors:
CONFLICT: A dummy variable where 1=Presence of armed conflict; 0=No armed conflict

ECONSANC: A dummy variable where 1=Existing economic sanctions on the host country by another country; 0=No economic sanctions

Therefore:

$$FDIRGDP = \beta_0 + \beta_{RGDP}RGDP_{it} + \beta_{REX}REX_{it} + \beta_{PROPRIGHT}PROPRIGHT_{it} + \beta_{CORRPTFREE}CORRPTFREE_{it} + \beta_{FISCFREE}FISCFREE_{it} + \beta_{GOVSPEND}GOVSPEND_{it} + \beta_{BIZFREE}BIZFREE_{it} + \beta_{LABRFREE}LABRFREE_{it} + \beta_{MNTRFREE}MNTRFREE_{it} + \beta_{TRDFREE}TRDFREE_{it} + \beta_{INVESTFREE}INVESTFREE_{it} + \beta_{FINFREE}FINFREE_{it} + \beta_{CONFLICT}CONFLICT_{it} + \beta_{ECONSANC}ECONSANC_{it} + \varepsilon$$

Economic Rationale and Expected Signs

The expected relationships and economic rationale behind the inclusion of each independent variable are explained below.

Economic Indicators

$\beta_{RGDP}>0$: As the market size increases in the host country, MNEs have more consumers of their products. The GDP is lagged for two reasons, the first is because firms are not able to know the level of the GDP until after an economic period, and it is even longer before the make the investment. The second reason is to avoid heterogeneity with the dependent variable.

$\beta_{REX}<0>$: As the real exchange rate either appreciates or depreciates, MNEs can be affected in various ways therefore the estimated effect is indeterminable. A depreciation of the real exchange rate should make an investment project less expensive and exports from the country more desirable and therefore would attract foreign firms to conduct business. However, this same fluctuation may also cause the exports to be less profitable in dollar terms thereby decreasing overall profits to the firms. On the other hand, an appreciation of the real exchange rate would cause an investment project to be more expensive for a foreign firm yet they would benefit from higher profits. A two period lag is imposed on the variable to avoid any reverse causality between the real exchange rate, real GDP and FDI inflows.

$\beta_{STDEV_REX}<0$: A wide standard deviation of the real exchange rate signifies instability in the exchange rate. Therefore investors are unable to accurately predict real profits which increase uncertainty surrounding an investment in the host country. A two period lag is imposed on the variable to avoid any reverse causality between the real exchange rate, real GDP and FDI inflows.

Economic Freedom Variables
$\beta_{ECONFREE}>0$: [Not included in the estimations] Though the rationale for each component of the index can be found below, economically free countries provide an environment in which "each person controls the fruits of his or her own labor and initiative." (Heritage.org) It is in these countries where governments provide protection for essential human rights but do not overly influence the economy.

Rule of Law
$\beta_{PROPRIGHT}>0$: The existence and enforcement of property rights that efficiently protect the assets of domestic and foreign firms should reduce the risk of losing those assets thereby increasing the firms comfort in investing in the country.

$\beta_{CORRPTFREE}>0$: As the level of corruption within the government falls, or in this case, the score based on freedom from corruption increases, more firms will invest in the country.

Limited Government
$\beta_{FISCFREE}>0$: A measure of taxes in the host country, a higher score indicates less tax burden on investors therefore giving them greater incentive to invest.

$\beta_{GOVSPEND}>0$: A measure of the amount of government expenditure in the host country, a higher score indicates less government spending therefore less risk of budget deficits, sovereign debt, and crowding out of the private sector allowing for investors to have greater confidence in the host economy.

Regulatory Efficiency
$\beta_{BIZFREE}>0$: A measure of the government's regulation of business, a higher score indicates greater efficiency in starting, operating and closing a business therefore giving firms more incentive to invest.

$\beta_{LABRFREE}$>0: A measure of the framework regulating the host country's labor market, a higher score gives indicates greater freedom from regulations such as minimum wages, severance requirements, and hiring and working hours. A higher score allows for firms to more easily utilize the host country's labor and therefore gives firms greater incentive to invest.

$\beta_{MNTRFREE}$>0: A measure of price stability through inflation and price controls, a higher score indicates less government intervention that distorts market activity therefore gives investors greater confidence in the market and more incentive to invest.

Open Markets

$\beta_{TRDFREE}$>0: A measure of the presence of tariff and non-tariff barriers, a higher score indicates less cost associated with imports and exports and therefore gives firms more incentive to trade with or from within the host country.

$\beta_{INVESTFREE}$>0: A measure of the freedom of capital flows, a higher score indicates greater ease for investment capital to flow without restriction into different investment activities and across borders therefore giving investors more confidence as to the liquidity of their investment thereby giving them more incentive to invest.

$\beta_{FINFREE}$>0:A measure of banking efficiency and the banking industry's independence from the government in the host country, a higher score indicates less government intervention and regulation, more development in financial and capital markets, and increased openness to competition. Therefore greater financial freedom is more attractive to firms.

Dummy Variables

$\beta_{CONFLICT}<0$: The presence of internal geopolitical unrest could result in disturbances to production and consumption therefore decreasing firms' incentive to invest.

$\beta_{ECONSANC}<0$: The presence of economic sanctions on the host country by another country could result in added instability or the direct restriction of investment in the host country therefore decreasing firms' incentive, or ability to invest.

Method

To estimate the model, a fixed effects regression was used to analyze panel data across eight ASEAN member countries including Cambodia, Indonesia, Laos, Malaysia,, Philippines, Singapore, Thailand, and Vietnam (Brunei was not included due to a lack of data for the time period). According to Baltagi (1995), panel data provides more informative results through greater variability, less collinearity between the independent variables, and more degrees of freedom. (p. 3) Baltagi also recognizes a common issue found in time series and cross-sectional data to be heterogeneity. With panel data, however, he argues that heterogeneity is generally not an issue though to still account for any possible time invariance, a lagged FDI flows variable is included in the estimation. Also, panel data provide many advantages in empirical analysis. A common characteristic of panel data is that its time series dimension is generally shorter than a time series of a single cross-section. The dataset used in this study ranges sixteen years across eight cross-sections providing a sizable number of observations.

Similar to Ramirez (2010), the stacked model was estimated using the least squares method with fixed cross-sections and cross-section weights to account for varying country characteristics such as market size, and white period standard errors and covariances. He argues that significant economic events occurring in developed countries affect FDI flows to all countries in Latin America thereby causing cross-country correlations among error terms. A similar occurrence is likely in ASEAN countries. Lastly, Ramirez suggests that the fixed effects method is able to capture time-invariant differences across countries through the constant term.

Furthermore, it was necessary to impose a lag on certain independent variables to account for economic rationale and econometric concerns. For instance, when firms look for growing consumer markets in which to invest, they look to the size of the market, the GDP or GDP per

capita more specifically. Because economic indicators are not reported until the following economic period, it theoretically takes at least until the data is reported that firms can confirm quantitatively that the market is growing, and therefore their investment is lagged by at least this amount of time. Additionally, because real GDP is the denominator of the ratio that is the dependent variable, the real GDP is lagged in the estimation to avoid any heterogeneity. Furthermore, a log of the lagged FDI variable as a percentage of GDP was included in the estimation to account for potential autocorrelation in FDI flows. The economic rationale is that firms with investments in host countries must continue to invest capital in order to continue operating. Also, the characteristics that attracted FDI in the previous year are likely similar in the current year. Therefore the annual relationship between FDI inflows for a given country is not random. It should be mentioned, however, that by including the lagged dependent variable in the estimation, there is potential for downward bias in the fixed effects specification. Lastly, time series regressions often contain correlated residuals with their own lagged values. To account for this issue, a first-order autoregressive element is incorporated into the model. With this addition, the model accounts for each residual in the previous observation in the current observation.

In general, they were the macroeconomic indicators such as GDP that required a lag. While a similar situation would apply to firms waiting for changes in foreign investment policies, the index components used in this study do not account for policy changes until at least the following period therefore it is inherently lagged.

Data

For data, the study uses the World Bank as a resource for macroeconomic panel data for the countries mentioned above. On occasion, the IMF, and UNCTAD databases were also used. Data for Myanmar posed more challenges, as databases such as the World Bank and even the EIU believe the country has a history of falsely reporting their statistics. In this case, the quantitative analysis was limited to the countries mentioned above and was related qualitatively to Myanmar through the policies that it has implemented in its Foreign Investment Law of 2012.

Though the Index of Economic Freedom is very helpful, certain additions were necessary as not all of the components for every country are given back to 1995. For instance, the labor freedom component did not have given any scores for any countries for the period 1995-2004 therefore some revisions were necessary. In this case, the Economic Freedom of the World Index, published by the Fraser Institute was also very helpful as many of its own components are similar, however, until 2000; this index was only on a five year basis. Therefore, in the graded countries, the 1995 score was given and then a constant yearly change was applied to reach the 2005 score. In the case that the countries were not graded by this alternative index, the 2005 score was applied to the previous 10 years to prevent lost observations for other variables during this time period. This was necessary for Cambodia, Laos and Vietnam. Fortunately, in the case of these three countries, there is minimal variation of this particular variable for the years that were given by the index therefore it can be inferred that the previous decade would be similar.

Lastly, there are two dummy variables representing armed conflicts in the region and sanctions on the country. The armed conflicts data is from the Department of Peace and Conflict Research at the Uppsala Universitet. The variable accounts for both government and non-government associated armed conflict. The sanction variable uses the Peterson Institute for International Economics which provides a timeline of global economic sanctions.

Descriptive Statistics

A table outlining the descriptive statistics for the variables included in this study can be found below. Additionally, descriptive statistics for each country and a correlation matrix can be found in the data tables and descriptive statistics section.

With respect to the data, there are a few notable findings. For instance, the mean FDI inflows as a percentage of GDP over the time period was found to be 5.15%. However, Singapore's average FDI inflows ratio was 16.23%, roughly two standard deviations higher than the mean for the sample. This is likely due to Singapore's role as an international financial hub for Southeast Asia though Singapore's mean absolute real GDP is significantly smaller than other countries in the sample.

In addition, the correlation between many of the index variables is also of concern. One might argue that a country would be likely to receive similar scores on their business freedom and investment freedom, or government spending and fiscal freedom. Interestingly, these examples only received correlations of .71 and .29, respectively. More interestingly is the high correlation between business freedom and property rights of .87. A potential explanation is that in countries inefficient in regulating businesses are also likely to regulate property laws inefficiently. Furthermore, these variables also tend to have higher correlations with other variables in the index indicating that these two variables are strong representatives of the overall economic freedom in the countries studied. These correlations were considered prior to estimating the regressions.

Lastly, few ASEAN member countries had economic sanctions imposed upon them resulting in the very low mean seen below. Unfortunately, this variable is not expected to be strongly related to FDI inflows due to the characteristics of the dataset.

Table 2: Descriptive Statistics (all countries)

Obs.	Sum Sq. Dev.	Sum	Std. Dev.	Min	Max	Median	Mean	
136	3918.726	701.1861	5.387727	-2.75744	27.86247	3.710453	5.155781	FDIRGDP
136	6.63E+23	1.22E+13	7.01E+10	1.28E+09	2.92E+11	8.78E+10	8.98E+10	RGDP
136	5.40E+09	597363.9	6326.527	1.30588	35264.14	67.75477	4392.381	REX
136	2.52E+17	2.57E+09	43237568	17977.1	3.78E+08	7698664	18888401	STDEV_REX
136	45494.78	8444.8	18.35751	39.5	100	55	62.09412	BIZFREE
136	35981.62	5830	16.32576	10	70	50	42.86765	FINFREE
136	22240.71	10373.5	12.83534	32.2	91.7	77.5	76.27574	FISCFREE
136	82703.06	4944	24.75107	10	94	28	36.35294	CORRPTFREE
136	3637.218	11947.1	5.190603	73.4	95.4	89.7	87.84632	GOVSPEND
136	60640.44	6210	21.19407	10	90	47.5	45.66176	INVESTFREE
136	26691.75	8650.267	14.06118	43.6	98.9	63.02688	63.6049	LABRFREE
136	25701.29	9191.9	13.79782	15	90	68.6	67.5875	TRDFREE
136	99626.47	5880	27.16567	10	90	30	43.23529	PROPRIGHT
136	18090.03	10100.7	11.57585	13.8	93	76.1	74.26985	MNTRFREE
136	30.63971	41	0.476404	0	2	0	0.301471	CONFLICT
136	21.02941	26	0.394681	0	1	0	0.191176	ECONSANC

5. Results

Results for five estimations are given in table 2 below. As previously mentioned, the results were found using the least squares method with white period standard errors and covariances. The fixed-effect estimations below estimate the relationship between FDI inflows as a ratio to real GDP and each independent variable, with the 4th and 5th estimations further including the dummy variables econsanc and conflict. Additionally, a logarithmic function was imposed on all of the independent variables except for the dummy variables. This follows the expectation that none of the relationships between the independent variables and FDI inflows are linear.

The first interesting finding is that the constant term for each regression was found to be negative and statistically significant. This suggests that the functions estimated generally slope upward showing positive relationships with most of the independent variables. Furthermore, with some exceptions, almost all coefficients are in the expected direction, especially for those variables that were found to be statistically significant.

The lagged real GDP was found to be statistically significant in all regressions except for the second where the switch to the standard deviation of the exchange rate was also found to be insignificant. The positive significance of the lagged real GDP suggests that increased market size in the host country in the period prior to the MNE's investment attracts FDI flows therefore suggesting that firms are attracted to larger consumer bases. For instance, in the first regression, a 1% increase in the real GDP in the previous year increases the ratio of FDI inflows to real GDP by .55 percentage points, holding all other variables constant. In the case of regressions 3-5, real GDP is also found to be statistically significant with similar effects on FDI inflows. The slightly lower coefficient in the second regression may suggest the presence of negative bias between real GDP and the standard deviation of the real exchange rate. In this case, heteroscedasticity

could also be present. As the market size increases (an increase in real GDP), the corresponding currency is likely to become more liquid and stable thereby decreasing standard deviation.

Interestingly, the lagged real exchange rate was found to be statistically significant whereas the standard deviation of the real exchange rate was not in the second regression. One would expect that firms would consider the stability of the exchange rate to be of more concern than the real exchange rate, especially given that most of the currencies considered in this study are very inexpensive on a unit by unit basis compared with the US dollar. However, according to the results below, a statistically significant and negative relationship was found between the real exchange rate and FDI flows. For instance, in the third regression, a 1% increase in the real exchange rate (a depreciation of the host country's currency) would decrease FDI inflows by .15 percentage points, holding all other variables constant. A possible explanation could be that firms believe they can increase their profits from their investment in the host country if the host country's currency appreciates in value against the US dollar. The statistical significance of the last economic independent variable, the lagged FDI inflows, suggests that countries that attract FDI in the previous year would likely attract FDI in the current year. For instance, a 1% increase in FDI inflows in the previous year would increase FDI inflows in the current year by .43 percentage points (third regression). The inclusion of this variable in each estimation accounts for the heterogeneity that would otherwise bias the results.

With respect to the economic freedom variables, only the property rights variable (fifth regression), the government spending variable (first regression), the business freedom variable (fourth regression), the trade freedom variable (fourth regression), and the investment freedom variable (first and fourth regressions) were found to be statistically significant. A note to be kept in mind is that the index provides scores based on the overall component in the host country and

does not separate conditions for domestic investors and conditions for foreign investors. In the case of the property rights variable, a 1% increase in the score the host country received for its protection of property rights would increase FDI inflows by .74 percentage points, holding all other variables constant. This variable strongly represents the first component of Dunning's OLI framework, Ownership, and therefore the statistical significance of this variable is not surprising as MNEs should give considerable attention to the protection of their property in host countries. Somewhat surprising, though not statistically significant, is the positive relationship with the freedom from corruption variable. This may suggest, as discussed in the introduction, that corruption may not always be disadvantageous to MNEs. For instance, a firm would be better off if it can register their business in the host country more quickly through a corrupt-type agreement with the registration ministry rather than wait the seemingly long registration period. Though this would be considered in the corruption grade, it is this type of corruption that ironically can have a positive effect. Also surprising is the statistical significance of the government spending variable while the fiscal freedom variable was found not to be statistically significant. Generally, it would be in a MNE's interest to avoid taxes to the best of their ability and to endorse government spending. While government spending is often used to recognize the status of a country's infrastructure or school system, it also includes military expenditures. In the case of Southeast Asian countries, military expenditure could translate to armed conflict which would detract from FDI inflows, as is represented below. Furthermore, the Heritage foundation believes that government spending can cause budget deficits which ultimately have a negative effect on the overall economy.

One of the stronger relationships was found between FDI inflows and the business freedom variable. This variable represents the overall efficiency of the government in regulating

business. For instance, the score assigned by the Heritage Foundation captures, among other similar measurements, the cost and time necessary to start a business, obtain licenses and registrations, and close a business. The results show that for a 1% increase in the business freedom score, FDI inflows would increase by 1.19 percentage points, holding all other variables constant. The last two economic freedom variables that were found to be statistically significant were trade freedom and investment freedom. The trade freedom variable, a score awarded to each country based on their tariff rates and non-tariff barriers affecting imports and exports of goods and services, was surprisingly found to be negatively related to FDI inflows. A possible explanation for this finding could be that the countries that impose higher tariff rates and non-tariff barriers are those that already receive higher FDI inflows and thus present a reverse causation effect. On the other hand, the investment freedom variable was found to be statistically significant and positively related in both the first and fourth regressions, as expected. The investment freedom variable, based on the score the country receives for the ease with which investors can transfer their capital resources, is unlike the other economic freedom variables in that it more directly addresses the issues specific to foreign investors. For instance, it gives consideration to the variation in regulations applied to foreign investors compared with domestic investors. Therefore, a 1% increase in the score the host country receives on its investment freedom would increase FDI flows by roughly .5 percentage points, holding all other variables constant.

The positive and statistically significant relationship between FDI flows and sanctions was certainly unexpected. A possible explanation for this finding could be derived from the intention of countries when implementing sanctions in the first place. Oftentimes countries impose sanctions on other countries with the belief that by restricting capital flows to that

country, that country would conform to the desire of the imposing country or suffer the effects of losing significant capital flows. Under this assumption, the absence of capital from these countries may reduce competiveness in the host country and therefore actually increase capital flows from other countries.

Lastly, as can be seen at the bottom of the table, the adjusted R^2, the F-statistic, and the Durbin-Watson show that the independent variables, overall, are good indicators of FDI inflows. An adjusted R^2 of .7 shows that 70% of the variance in FDI inflows is explained by the variance in the independent variables. The F-statistics shows that, except for the final estimation, the variables are a good fit and finally, the Durbin-Watson statistic around 2 shows that there is no evidence of autocorrelation in any of the estimations.

Table 3: Estimation Results

Dependent Variable: log FDIRGDP (t-statistics shown below coefficients in parentheses).

Regressions	1	2	3	4	5
C	-2.86 *(-0.41)*	-3.52 *(-0.89)*	-13.42 *(-2.03)*	-16.55 *(-4.25)*	-20.40 *(-2.85)*
logRGDP(-1)	0.55 *(5.29)*	0.30 *(1.28)*	0.41 *(3.37)*	0.66 *(3.63)*	0.65 *(2.15)*
logREX(-2)	-0.19 *(-5.04)*		-0.15 *(-3.25)*	-0.26 *(-3.66)*	-0.20 *(-1.80)*
logSTDEV_REX(-2)		0.07 *(0.81)*			
logFDIRGDP(-1)	0.37 *(1.94)*	0.32 *(2.07)*	0.43 *(3.90)*	0.42 *(3.44)*	-0.04 *(-0.12)*
logPROPRIGHT	0.11 *(0.50)*				0.74 *(3.26)*
logCORRPTFREE		0.11 *(0.36)*			
logFISCFREE		-0.22 *(-0.39)*			0.09 *(0.21)*
logGOVSPEND(-1)	-2.46 *(-2.11)*	-0.73 *(-1.01)*			0.87 *(0.76)*
logBIZFREE				1.19 *(3.71)*	
logLABRFREE			0.30 *(0.22)*		
logMNTRFREE			0.42 *(1.37)*		
logTRDFREE				-0.94 *(-2.53)*	
logINVESTFREE	0.48 *(2.13)*			0.46 *(3.04)*	
logFINFREE			0.50 *(0.91)*		
CONFLICT					0.13 *(0.88)*
ECONSANC				0.31 *(3.08)*	
AR(1)	-0.15 *(-0.88)*	-0.09 *(-0.54)*	-0.21 *(-1.90)*	-0.28 *(-3.73)*	0.26 *(0.84)*
$AdjR^2$	0.71	0.70	0.71	0.76	0.69
F-Statistic	18.94	18.03	18.65	23.11	16.13
D.W.	2.01	2.01	2.03	2.08	1.97

6. Conclusion and application to Myanmar

This study conducted an econometric analysis on panel data from Southeast Asian Countries for the period 1995-2011 with the aim to finding the significant determining factors of FDI inflows to those countries. Using a fixed-effects regression, the analysis considered factors ranging across economic indicators, scores in the ten components measured in the Index of Economic Freedom, and the presence of economic sanctions and armed conflict. Though there were a few exceptions, the results obtained were generally expected and can be explained theoretically.

Overall, trends in the region are promising for economic growth in general and in growth of FDI inflows more specifically. Myanmar too has an opportunity to experience strong economic growth largely influenced by capital from abroad. However, to achieve this growth, Myanmar must first address a few issues that may very well override the recently enacted investment laws and therefore reducing the effectiveness of the results of this study.

Certain obstacles, which either did not prove their relevance in this study or were not able to be included, must be addressed before Myanmar can achieve its potential. The presence of economic sanctions as well as risk induced by internal conflicts and natural disasters could render the implementation of the new investment law irrelevant. The presence, and history, of economic sanctions taints the picture that foreign firms see of a country and often restricts investment altogether. The latter resulting in a net loss for all potential parties involved. Firms cannot simply bypass the direct restriction of capital flows to countries under economic sanctions. The unexpected result of the economic sanction variable in this study is an unfortunate misrepresentation of the true detrimental effect of these political hindrances. Myanmar should still strive for the full removal of sanctions which is highly correlated with the presence of

ongoing armed conflicts in the country. The presence of which, and the ongoing negative attention it brings, is a significant burden to the progress that Myanmar has achieved in the last few years and could also hinder its attractiveness to investors going forward.

Furthermore, the inherent risk from natural disasters should improve with time and development of the country's infrastructure; however, this element of risk in the country cannot be directly affected by political reforms and will remain a factor of uncertainty for investors. Lastly, to put itself into a position where it can experience growth similar to the countries studied, Myanmar must address any areas in which they remain an outlier. For instance, the country's 2012 score of just 0 for investment freedom represents the considerable difficulty in transferring capital resources in any capacity involving the country. In many cases, firms would be entirely unwilling to invest in the country without complete confidence in their control of their own capital.

Under the assumption that those obstacles that can be addressed will receive the attention they require, such as the full removal of economic sanctions, Myanmar should then concentrate on those factors that appear to correspond most strongly to increased FDI inflows to other ASEAN countries. According to the findings above, the positive and statistically significant economic indicator variables are the lagged real GDP and the lagged real exchange rate. While Myanmar's market is not particularly large, in fact it would be one of the smaller markets in this dataset by real GDP, a large population and therefore a large potential labor force and consumer base would likely drive the country's GDP significantly higher in the next few years. In this case, speculation on future growth may prove to be of greater importance to MNEs rather than the market size in the previous period. However, the rationale still applies that market size is an important factor in determining FDI inflows.

With respect to Myanmar's real exchange rate, the country's recent move away from a fixed rate has resulted in a significant depreciation, which according to the results found in this study, should have a negative effect on FDI inflows. Furthermore, with the switch to the market float, the rate lost considerable stability. While the fluctuation in the real exchange rate was not found to be statistically significant in this study, theory still suggests that a stable exchange rate is relevant to a MNE's decision to invest.

Additionally, many economic freedom variables were found to be statistically significant, including: Property Rights, Government Spending, Business Freedom, Trade Freedom and Investment Freedom. The statistical significance of many of the economic freedom components confirm this study's hypothesis that these index-based variables contain strong explanative power and can be stronger indicators than either investment policies or institutional factors alone. Furthermore, the significance of these components suggests that it is the overall investment climate which attracts MNEs. With respect to these variables, Myanmar should concentrate its resources toward its enforcement of property right. Its current score of only 10 is far below 43, the average score of the countries in this study over the time period. Myanmar's next area of concentration should be with respect to government spending. Myanmar's 2012 score of 96.8 is only slightly higher than the sample's average of 87.8. While the Heritage Foundation suggests this score is very good, and that government spending is only 10.4% of GDP, the military's decreasing role in government should allow for the country's military expenditure to fall and expenditure towards other, more productive areas such as education and infrastructure to rise. An area that requires drastic improvement to attract FDI inflows is the business freedom within the country. Myanmar's 2012 score of only 20 is far below the sample's average of 62. Though its recent implementation of the Foreign Investment Law and corresponding rules should drastically

improve the regulatory environment, efficient application of the policy may take a few more years. Lastly, the improvement of its investment freedom score is vital to attracting FDI inflows.

Myanmar has been presented with an opportunity that could propel strong economic growth forward. Before this can be achieved, Myanmar must address two important factors. Firstly, it must overcome the substantial obstacles mentioned above that will keep it from this growth until they are addressed. With the hope that it can overcome these obstacles, as it has overcome numerous other challenges in the last few years, Myanmar should have the ability to improve upon these significant factors. Secondly, the rationale behind the inclusion of the freedom variables applies to Myanmar's approach to its policies more generally. Now that the government has successfully designed investment laws that should attract FDI inflows, it must enforce these laws consistently and transparently otherwise their existence will be irrelevant.

7. Data Tables and Descriptive Statistics

Table 4: Cambodia Descriptive Statistics

	Mean	Median	Max	Min	Std. Dev.	Sum	Sum Sq. Dev.	Obs.
FDIRGDP	5.78	6.03	10.04	1.80	2.23	98.28	79.62	17
RGDP	5070000000.00	4570000000.00	8450000000.00	2570000000.00	2010000000.00	86100000000.00	64400000000000000000.00	17
REX	3995.04	3904.60	5531.21	1996.98	1042.48	67915.71	17388151.00	17
STDEV_REX	827023.90	348286.60	6843885.00	17977.17	1660396.00	14059406.00	44100000000000.00	17
BIZFREE	50.39	55.00	55.00	39.50	6.51	856.60	678.24	17
FINFREE	54.71	50.00	70.00	50.00	8.74	930.00	1223.53	17
FISCFREE	91.42	91.40	91.70	90.90	0.23	1554.20	0.87	17
CORRPTFREE	26.00	30.00	30.00	10.00	6.13	442.00	602.00	17
GOVSPEND	92.33	91.80	94.50	90.40	1.31	1569.60	27.28	17
INVESTFREE	51.18	50.00	60.00	50.00	3.32	870.00	176.47	17
LABRFREE	44.24	43.90	46.30	43.60	0.80	752.10	10.24	17
TRDFREE	53.65	62.80	70.00	15.00	19.70	912.00	6206.52	17
PROPRIGHT	30.00	30.00	30.00	30.00	0.00	510.00	0.00	17
MNTRFREE	75.38	78.00	87.00	62.10	8.38	1281.40	1124.39	17
CONFLICT	0.29	0.00	1.00	0.00	0.47	5.00	3.53	17
ECONSANC	0.88	1.00	1.00	0.00	0.33	15.00	1.76	17

Table 5: Indonesia Descriptive Statistics

	Mean	Median	Max	Min	Std. Dev.	Sum	Sum Sq. Dev.	Obs.
FDIRGDP	0.83	1.35	2.92	-2.76	1.66	14.09	43.99	17
RGDP	203000000000.00	187000000000.00	292000000000.00	156000000000.00	43700000000.00	3460000000000.00	305000000000000000000000.00	17
REX	7733.39	8087.38	13097.62	813.54	3877.84	131467.70	241000000.00	17
STDEV_REX	9922538.00	7470425.00	50704214.00	214935.80	11910294.00	169000000.00	2270000000000000.00	17
BIZFREE	53.15	55.00	55.00	46.60	3.22	903.60	166.12	17
FINFREE	37.65	40.00	50.00	30.00	8.31	640.00	1105.88	17
FISCFREE	78.81	79.40	83.00	73.10	2.26	1339.80	81.64	17
CORRPTFREE	20.41	20.00	28.00	10.00	5.28	347.00	446.12	17
GOVSPEND	88.59	89.10	95.40	76.50	4.13	1506.10	272.45	17
INVESTFREE	47.06	50.00	70.00	30.00	17.14	800.00	4702.94	17
LABRFREE	50.90	50.94	52.78	49.10	0.73	865.22	8.60	17
TRDFREE	71.68	73.00	77.90	45.00	7.49	1218.50	898.43	17
PROPRIGHT	37.06	30.00	50.00	30.00	9.85	630.00	1552.94	17
MNTRFREE	69.45	71.30	74.60	49.40	6.60	1180.60	696.24	17
CONFLICT	0.53	1.00	1.00	0.00	0.51	9.00	4.24	17
ECONSANC	0.41	0.00	1.00	0.00	0.51	7.00	4.12	17

Table 6: Laos Descriptive Statistics

	Mean	Median	Max	Min	Std. Dev.	Sum	Sum Sq. Dev.	Obs.
FDIRGDP	3.67	3.62	8.53	0.25	2.42	62.44	93.85	17
RGDP	2230000000.00	2060000000.00	3720000000.00	1280000000.00	753000000.00	37900000000.00	9070000000000000000.00	17
REX	6709.63	9317.36	10655.17	80.42	4080.52	114063.80	266000000.00	17
STDEV_REX	7557617.00	3378546.00	31809890.00	238631.40	8362837.00	128000000.00	1120000000000000.00	17
BIZFREE	45.98	40.00	60.80	40.00	8.67	781.70	1203.91	17
FINFREE	14.12	10.00	30.00	10.00	6.18	240.00	611.76	17
FISCFREE	60.32	70.60	80.10	32.20	18.92	1025.40	5724.61	17
CORRPTFREE	14.00	10.00	33.00	10.00	7.04	238.00	794.00	17
GOVSPEND	88.29	89.70	92.80	81.30	3.29	1501.00	173.19	17
INVESTFREE	20.00	25.00	30.00	10.00	9.84	340.00	1550.00	17
LABRFREE	60.88	61.30	63.50	49.90	3.01	1035.00	144.88	17
TRDFREE	64.06	66.00	81.00	55.60	7.95	1089.00	1011.66	17
PROPRIGHT	10.88	10.00	20.00	10.00	2.64	185.00	111.76	17
MNTRFREE	57.88	62.80	80.40	13.80	17.45	984.00	4869.95	17
CONFLICT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	17
ECONSANC	0.00	0.00	0.00	0.00	0.00	0.00	0.00	17

Table 7: Malaysia Descriptive Statistics

	Mean	Median	Max	Min	Std. Dev.	Sum	Sum Sq. Dev.	Obs.
FDIRGDP	3.52	3.71	5.13	0.06	1.48	59.91	35.06	17
RGDP	110000000000.00	105000000000.00	154000000000.00	74200000000.00	25400000000.00	1870000000000.00	10300000000000000000000.00	17
REX	3.52	3.68	4.13	2.52	0.50	59.81	4.03	17
STDEV_REX	10206148.00	8875556.00	30073545.00	1201321.00	8320767.00	174000000.00	1110000000000000.00	17
BIZFREE	75.05	70.00	85.00	67.60	7.60	1275.90	924.90	17
FINFREE	41.18	40.00	50.00	30.00	9.28	700.00	1376.47	17
FISCFREE	80.33	80.90	84.60	74.10	2.88	1365.60	132.30	17
CORRPTFREE	52.76	51.00	70.00	45.00	6.78	897.00	735.06	17
GOVSPEND	80.86	81.30	85.50	74.20	3.57	1374.60	203.82	17
INVESTFREE	39.71	40.00	70.00	30.00	11.52	675.00	2123.53	17
LABRFREE	71.23	70.23	79.20	68.47	2.28	1210.97	83.08	17
TRDFREE	71.47	73.00	78.70	55.00	6.45	1215.00	666.14	17
PROPRIGHT	57.35	50.00	70.00	50.00	9.70	975.00	1505.88	17
MNTRFREE	79.83	79.90	82.80	76.60	2.10	1357.10	70.50	17
CONFLICT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	17
ECONSANC	0.00	0.00	0.00	0.00	0.00	0.00	0.00	17

Table 8: Philippines Descriptive Statistics

	Mean	Median	Max	Min	Std. Dev.	Sum	Sum Sq. Dev.	Obs.
FDIRGDP	1.55	1.61	3.17	0.26	0.80	26.32	10.14	17
RGDP	95900000000.00	90700000000.00	134000000000.00	68000000000.00	21100000000.00	1630000000000.00	7120000000000000000000.00	17
REX	43.29	47.94	55.09	19.52	11.90	735.96	2264.89	17
STDEV_REX	10027073.00	8686373.00	29710956.00	1134281.00	8217794.00	170000000.00	1080000000000000.00	17
BIZFREE	55.07	55.00	70.00	43.40	6.48	936.20	671.96	17
FINFREE	48.82	50.00	50.00	30.00	4.85	830.00	376.47	17
FISCFREE	75.82	75.90	78.80	73.00	2.11	1288.90	71.20	17
CORRPTFREE	26.53	26.00	36.00	10.00	5.46	451.00	476.24	17
GOVSPEND	89.29	88.90	91.20	87.90	1.09	1517.90	19.16	17
INVESTFREE	43.53	50.00	50.00	30.00	8.62	740.00	1188.24	17
LABRFREE	54.81	54.55	59.17	50.70	2.61	931.75	109.06	17
TRDFREE	68.86	77.00	79.80	42.00	12.55	1170.60	2520.22	17
PROPRIGHT	46.47	50.00	70.00	30.00	17.66	790.00	4988.24	17
MNTRFREE	76.12	76.70	79.30	72.70	1.90	1294.00	57.86	17
CONFLICT	1.06	1.00	2.00	1.00	0.24	18.00	0.94	17
ECONSANC	0.00	0.00	0.00	0.00	0.00	0.00	0.00	17

Table 9: Singapore Descriptive Statistics

	Mean	Median	Max	Min	Std. Dev.	Sum	Sum Sq. Dev.	Obs.
FDIRGDP	16.28	14.65	27.86	7.07	6.72	276.76	721.59	17
RGDP	114000000000.00	103000000000.00	174000000000.00	72500000000.00	31600000000.00	1940000000000.00	16000000000000000000000.00	17
REX	1.67	1.68	1.93	1.31	0.21	28.40	0.69	17
STDEV_REX	10214198.00	8884043.00	30087659.00	1203942.00	8324564.00	174000000.00	1110000000000000.00	17
BIZFREE	99.18	100.00	100.00	96.70	1.21	1686.10	23.34	17
FINFREE	63.53	70.00	70.00	50.00	8.62	1080.00	1188.24	17
FISCFREE	86.05	87.80	91.10	80.60	4.05	1462.80	262.52	17
CORRPTFREE	91.65	92.00	94.00	87.00	2.03	1558.00	65.88	17
GOVSPEND	91.68	91.30	95.30	88.10	2.03	1558.50	65.93	17
INVESTFREE	86.47	90.00	90.00	75.00	5.80	1470.00	538.24	17
LABRFREE	89.91	93.08	98.90	72.62	9.19	1528.48	1352.66	17
TRDFREE	85.53	85.00	90.00	83.00	3.08	1454.00	152.24	17
PROPRIGHT	90.00	90.00	90.00	90.00	0.00	1530.00	0.00	17
MNTRFREE	87.92	88.00	93.00	80.90	3.14	1494.70	157.51	17
CONFLICT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	17
ECONSANC	0.00	0.00	0.00	0.00	0.00	0.00	0.00	17

Table 10: Thailand Descriptive Statistics

	Mean	Median	Max	Min	Std. Dev.	Sum	Sum Sq. Dev.	Obs.
FDIRGDP	3.38	3.13	6.54	1.23	1.43	57.47	32.56	17
RGDP	147000000000.00	141000000000.00	188000000000.00	112000000000.00	26400000000.00	2500000000000.00	11200000000000000000000.00	17
REX	36.26	38.40	44.50	23.20	6.25	616.41	625.69	17
STDEV_REX	10069041.00	8713085.00	29851951.00	1154189.00	8266985.00	171000000.00	1090000000000000.00	17
BIZFREE	70.63	70.00	73.80	69.90	1.21	1200.70	23.26	17
FINFREE	52.94	50.00	70.00	50.00	6.86	900.00	752.94	17
FISCFREE	74.84	74.80	75.50	74.20	0.41	1272.30	2.72	17
CORRPTFREE	37.35	33.00	70.00	28.00	12.51	635.00	2505.88	17
GOVSPEND	91.02	91.10	93.10	88.00	1.22	1547.30	23.74	17
INVESTFREE	48.82	50.00	70.00	30.00	16.16	830.00	4176.47	17
LABRFREE	71.52	73.60	77.70	61.08	5.53	1215.86	488.95	17
TRDFREE	71.40	71.60	77.80	64.80	4.60	1213.80	338.78	17
PROPRIGHT	63.53	70.00	90.00	45.00	16.08	1080.00	4138.24	17
MNTRFREE	77.19	76.40	88.90	66.40	7.00	1312.30	783.21	17
CONFLICT	0.53	1.00	1.00	0.00	0.51	9.00	4.24	17
ECONSANC	0.00	0.00	0.00	0.00	0.00	0.00	0.00	17

Table 11: Vietnam Descriptive Statistics

	Mean	Median	Max	Min	Std. Dev.	Sum	Sum Sq. Dev.	Obs.
FDIRGDP	6.23	6.01	10.52	3.54	2.45	105.91	96.25	17
RGDP	41200000000.00	38300000000.00	66500000000.00	22300000000.00	14200000000.00	700000000000.00	3220000000000000000000.00	17
REX	16616.24	14110.95	35264.14	9489.47	6872.61	282476.10	756000000.00	17
STDEV_REX	92283570.00	49656455.00	378000000.00	31490483.00	93095532.00	1570000000.00	139000000000000000.00	17
BIZFREE	47.29	40.00	61.70	40.00	10.19	804.00	1661.79	17
FINFREE	30.00	30.00	30.00	30.00	0.00	510.00	0.00	17
FISCFREE	62.62	63.40	76.10	42.80	12.53	1064.50	2513.27	17
CORRPTFREE	22.12	26.00	28.00	10.00	7.00	376.00	783.76	17
GOVSPEND	80.71	79.10	90.30	73.40	4.65	1372.10	346.00	17
INVESTFREE	28.53	30.00	30.00	15.00	4.24	485.00	288.24	17
LABRFREE	65.35	64.10	70.00	64.10	1.98	1110.90	62.68	17
TRDFREE	54.06	51.00	68.90	44.60	7.88	919.00	992.84	17
PROPRIGHT	10.59	10.00	15.00	10.00	1.66	180.00	44.12	17
MNTRFREE	70.39	69.30	86.50	55.20	8.64	1196.60	1194.60	17
CONFLICT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	17
ECONSANC	0.24	0.00	1.00	0.00	0.44	4.00	3.06	17

Table 12: Correlation Matrix

CORRPTFREE	FISCFREE	FINFREE	BIZFREE	STDEV_REX	REX	RGDP	FDIRGDP	
0.654	0.204	0.346	0.576	0.091	-0.089	-0.075	1.000	FDIRGDP
0.248	0.234	0.272	0.344	-0.044	-0.182	1.000	-0.075	RGDP
-0.407	-0.206	-0.488	-0.445	0.749	1.000	-0.182	-0.089	REX
-0.092	-0.109	-0.194	-0.076	1.000	0.749	-0.044	0.091	STDEV_REX
0.919	0.434	0.612	1.000	-0.076	-0.445	0.344	0.576	BIZFREE
0.583	0.596	1.000	0.612	-0.194	-0.488	0.272	0.346	FINFREE
0.416	1.000	0.596	0.434	-0.109	-0.206	0.234	0.204	FISCFREE
1.000	0.416	0.583	0.919	-0.092	-0.407	0.248	0.654	CORRPTFREE
0.132	0.293	0.411	0.120	-0.486	-0.410	0.037	0.163	GOVSPEND
0.711	0.541	0.746	0.707	-0.264	-0.434	0.214	0.516	INVESTFREE
0.754	0.008	0.225	0.766	0.111	-0.222	0.242	0.626	LABRFREE
0.516	0.180	0.253	0.534	-0.054	-0.311	0.528	0.267	TRDFREE
0.823	0.435	0.701	0.870	-0.283	-0.643	0.422	0.417	PROPRIGHT
0.615	0.430	0.635	0.595	-0.057	-0.301	0.253	0.371	MNTRFREE
-0.235	0.096	0.174	-0.135	-0.147	-0.250	0.258	-0.341	CONFLICT
-0.306	0.219	0.121	-0.330	-0.133	0.067	-0.260	-0.051	ECONSANC

ECONSANC	CONFLICT	MNTRFREE	PROPRIGHT	TRDFREE	LABRFREE	INVESTFREE	GOVSPEND
-0.051	-0.341	0.371	0.417	0.267	0.626	0.516	0.163
-0.260	0.258	0.253	0.422	0.528	0.242	0.214	0.037
0.067	-0.250	-0.301	-0.643	-0.311	-0.222	-0.434	-0.410
-0.133	-0.147	-0.057	-0.283	-0.054	0.111	-0.264	-0.486
-0.330	-0.135	0.595	0.870	0.534	0.766	0.707	0.120
0.121	0.174	0.635	0.701	0.253	0.225	0.746	0.411
0.219	0.096	0.430	0.435	0.180	0.008	0.541	0.293
-0.306	-0.235	0.615	0.823	0.516	0.754	0.711	0.132
0.165	0.244	0.217	0.286	0.131	-0.099	0.425	1.000
0.118	-0.002	0.581	0.796	0.346	0.388	1.000	0.425
-0.500	-0.285	0.374	0.588	0.479	1.000	0.388	-0.099
-0.300	-0.066	0.375	0.484	1.000	0.479	0.346	0.131
-0.224	0.027	0.596	1.000	0.484	0.588	0.796	0.286
-0.103	-0.053	1.000	0.596	0.375	0.374	0.581	0.217
0.006	1.000	-0.053	0.027	-0.066	-0.285	-0.002	0.244
1.000	0.006	-0.103	-0.224	-0.300	-0.500	0.118	0.165

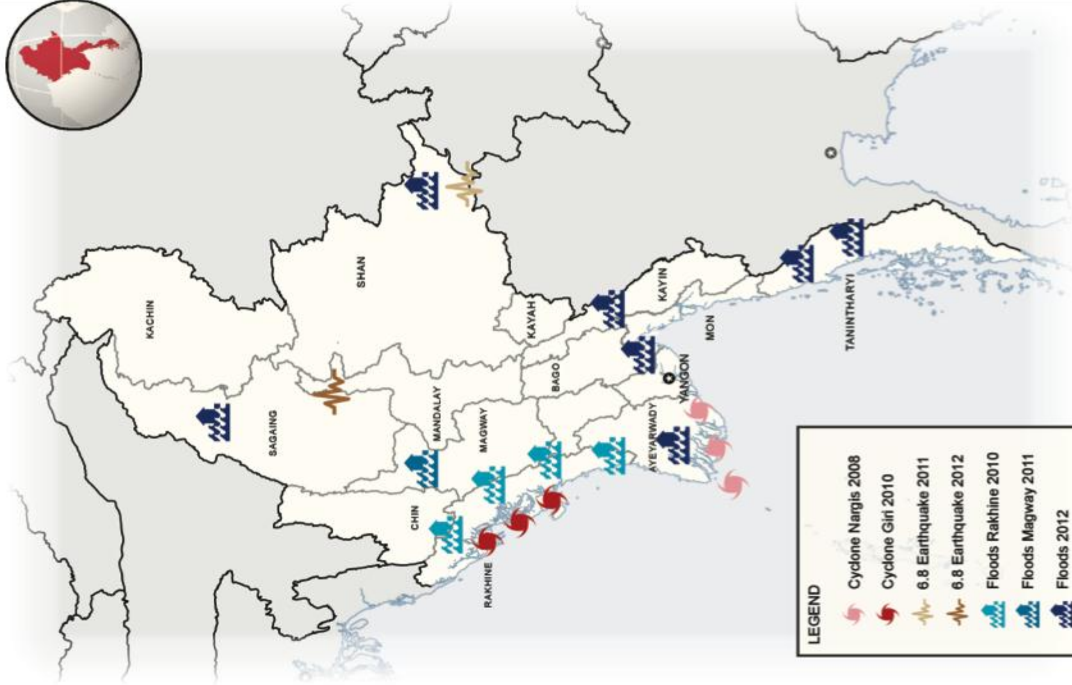
8. Appendices

Appendix A: Myanmar Climate Risk Map

Myanmar: Natural Disasters 2002 - 2012

Myanmar ranks first as the 'most at risk' country in Asia the Pacific according to the UN Risk Model. The country is vulnerable to a wide range of hazards, including floods, cyclones, earthquakes, landslides and tsunamis. The likelihood for medium to large-scale natural disasters to occur every couple of years is high, according to historical data.

Whilst these disasters have caused severe losses to the affected communities and delayed important development work, they have resulted in increased operation between the Government, the international community and local organizations.



MAY 2008 > **May 2008 (Cyclone Nargis):** Cyclone Nargis left some 140,000 people dead and missing in the Ayeyarwady Delta region. An estimated 2.4 million people lost their homes and livelihoods.

JUN 2010 > **June 2010 (Floods in northern Rakhine State):** The floods killed 68 people and affected 29,000 families. Over 800 houses were completely destroyed.

OCT 2010 > **October 2010 (Cyclone Giri):** At least 45 people were killed, 100,000 people became homeless and some 260,000 people were affected. Over 20,300 houses, 17,500 acres of agricultural land and nearly 50,000 acres of aquaculture ponds were damaged by the Cyclone Giri.

MAR 2011 > **March 2011 (6.8 Earthquake in Shan State):** Over 18,000 people were affected. At least 74 people were killed and 125 injured. Over 3,000 people became homeless.

OCT 2011 > **October 2011 (Floods in Magway Region):** Nearly 30,000 people were affected to varying degree. Over 3,500 houses and some 5,400 acres of croplands were destroyed.

AUG 2012 > **August 2012 (Floods across Myanmar):** The floods in different states and regions displaced some 86,000 people and affected over 287,000 people. Ayeyarwady Region was the worst affected with some 48,000 people displaced. Over 136,000 acres of farmland, houses, roads and bridges were damaged.

NOV 2012 > **November 2012 (6.8 Earthquake in northern Myanmar):** At least 16 people were killed and 52 injured, with over 400 houses, 65 schools and some 100 religious building damaged.

2002-2012

Three cyclones affected over 2.6 million people.

Floods affected over 500,000 people.

Two major earthquakes affected over 20,000 people.

Preparedness

OCHA is supporting the implementation of the **Minimum Preparedness Package** for emergency response in Myanmar as a tool aimed at strengthening emergency preparedness building upon existing efforts and capacities. OCHA has developed an action plan, which will guide the design and delivery of a support package for the coming months.

Appendix B: Index of Economic Freedom Methodology

	Criteria	Methodology / Measures
Rule of law		
Property Rights	• Ability of individuals to accumulate property • Degree of protection by laws and to which the government enforces them • Likelihood that property will be expropriated, independence of and corruption within the judiciary, ability of individuals and businesses to enforce contracts	• Qualitative scaling based on specific criteria • Each country is graded according to the following criteria: • 100—Private property is guaranteed by the government. The court system enforces contracts efficiently and quickly. The justice system punishes those who unlawfully confiscate private property. There is no corruption or expropriation. • 90—Private property is guaranteed by the government. The court system enforces contracts efficiently. The justice system punishes those who unlawfully confiscate private property. Corruption is nearly nonexistent, and expropriation is highly unlikely. • 80—Private property is guaranteed by the government. The court system enforces contracts efficiently but with some delays. Corruption is minimal, and expropriation is highly unlikely. • 70—Private property is guaranteed by the government. The court system is subject to delays and is lax in enforcing contracts. Corruption is possible but rare, and expropriation is unlikely. • 60—Enforcement of property rights is lax and subject to delays. Corruption is possible but rare, and the judiciary may be influenced by other branches of government. Expropriation is unlikely. • 50—The court system is inefficient and subject to delays. Corruption may be present, and the judiciary may be influenced by other branches of government. Expropriation is possible but rare. • 40—The court system is highly inefficient, and delays are so long that they deter the use of the court system. Corruption is present, and the judiciary is influenced by other branches of government. Expropriation is possible.

		• 30—Property ownership is weakly protected. The court system is highly inefficient. Corruption is extensive, and the judiciary is strongly influenced by other branches of government. Expropriation is possible. • 20—Private property is weakly protected. The court system is so inefficient and corrupt that outside settlement and arbitration is the norm. Property rights are difficult to enforce. Judicial corruption is extensive. Expropriation is common. • 10—Private property is rarely protected, and almost all property belongs to the state. The country is in such chaos (for example, because of ongoing war) that protection of property is almost impossible to enforce. The judiciary is so corrupt that property is not protected effectively. Expropriation is common. • 0—Private property is outlawed, and all property belongs to the state. People do not have the right to sue others and do not have access to the courts. Corruption is endemic.
Freedom from corruption	• The score is derived from Transparency International's Corruption Perceptions Index (CPI) two years prior to the Freedom Index, which measures the level of corruption in 183 countries.	• Qualitative scaling based on specific criteria • The CPI is based on a 10-point scale in which a score of 10 indicates very little corruption and a score of 0 indicates a very corrupt government. In scoring freedom from corruption, the Index converts the raw CPI data to a scale of 0 to 100 by multiplying the CPI score by 10.
Limited Government		
Fiscal Freedom	• Measures the tax burden imposed by a government	• Quantitative grading based on: • The top marginal tax rate on individual income, • The top marginal tax rate on corporate income, and • The total tax burden as a percentage of GDP. • Fiscal freedom scores are calculated with a quadratic cost function to reflect the diminishing revenue returns from very high rates of taxation. The data for each factor are converted to a 100-point scale using the

		following equation: Fiscal Freedomij= 100 – α $(Factor_{ij})^2$ • where Fiscal $Freedom_{ij}$ represents the fiscal freedom in country i for factor j; $Factor_{ij}$ represents the value (based on a scale of 0 to 100) in country i for factor j; and α is a coefficient set equal to 0.03.
Government Spending	• Level of government expenditures as a percentage of GDP	• The expenditure equation used is: $GE_i = 100 - \alpha (Expenditures_i)^2$ • where GE_i represents the government expenditure score in country i; $Expenditures_i$ represents the total amount of government spending at all levels as a portion of GDP (between 0 and 100); and α is a coefficient to control for variation among scores (set at 0.03). The minimum component score is zero.
Regulatory efficiency		
Business Freedom	• Efficiency of government regulation of business • Criteria include: • Starting a business—procedures (number); • Starting a business—time (days); • Starting a business—cost (% of income per capita); • Starting a business—minimum capital (% of income per capita); • Obtaining a license—procedures (number);2 • Obtaining a license—time (days); • Obtaining a license—cost (% of income per capita); • Closing a business—	• Each factor based on the World Bank's Doing Business study • Each of these raw factors is converted to a scale of 0 to 100, after which the average of the converted values is computed. The result represents the country's business freedom score. For example, even if a country requires the highest number of procedures for starting a business, which yields a score of zero in that factor, it could still receive a score as high as 90 based on scores in the other nine factors. • Each factor is converted to a scale of 0 to 100 using the following equation: • Factor $Score_i = 50\ factor_{average}/factor_i$ • which is based on the ratio of the country data for each factor relative to the world average, multiplied by 50. For example, on average worldwide, it takes 18 procedures to get necessary licenses.

	time (years); • Closing a business—cost (% of estate); • Closing a business—recovery rate (cents on the dollar).3	
Labor Freedom	• considers various aspects of the legal and regulatory framework of a country's labor market • Six quantitative factors are equally weighted: • Ratio of minimum wage to the average value added per worker, • Hindrance to hiring additional workers, • Rigidity of hours, • Difficulty of firing redundant employees, • Legally mandated notice period, and • Mandatory severance pay.	• In constructing the labor freedom score, each of the six factors is converted to a scale of 0 to 100 based on the following equation: • $\text{Factor Score}_i = 50 \times \text{factor}_{average}/\text{factor}_i$ • where country i data are calculated relative to the world average and then multiplied by 50. The six factor scores are then averaged for each country, yielding a labor freedom score.
Monetary Freedom	• Assesses price stability and price controls. • Specific factors include: • The weighted average inflation rate for the most recent three years and • Price controls.	• The weighted average inflation rate for the most recent three years serves as the primary input into an equation that generates the base score for monetary freedom. The extent of price controls is then assessed as a penalty of up to 20 points subtracted from the base score. The two equations used to convert inflation rates into the monetary freedom score are: • $\text{Weighted Avg. Inflation}_i = \theta_1 \text{Inflationit} + \theta_2 \text{Inflation}_{it-1} + \theta_3 \text{Inflation}_{it-2}$ • $\text{Monetary Freedom}_i = 100 - \alpha \sqrt{\text{Weighted Avg. Inflation}_i} - \text{PC penalty}_i$ • where θ_1 through θ_3 (thetas 1–3) represent three numbers that sum to 1 and are

		exponentially smaller in sequence (in this case, values of 0.665, 0.245, and 0.090, respectively); $Inflation_{it}$ is the absolute value of the annual inflation rate in country i during year t as measured by the consumer price index; α represents a coefficient that stabilizes the variance of scores; and the price control (PC) penalty is an assigned value of 0–20 points based on the extent of price controls. • The convex (square root) functional form was chosen to create separation among countries with low inflation rates. A concave functional form would essentially treat all hyperinflations as equally bad, whether they were 100 percent price increases annually or 100,000 percent, whereas the square root provides much more gradation. The α coefficient is set to equal 6.333, which converts a 10 percent inflation rate into a freedom score of 80.0 and a 2 percent inflation rate into a score of 91.0.
Open Markets		
Trade Freedom	• A composite measure of the absence of tariff and non-tariff barriers that affect imports and exports of goods and services. The trade freedom score is based on two inputs: • The trade-weighted average tariff rate • Non-tariff barriers (NTBs).	• Different imports entering a country can, and often do, face different tariffs. The weighted average tariff uses weights for each tariff based on the share of imports for each good. Weighted average tariffs are a purely quantitative measure and account for the basic calculation of the score using the following equation: • $\text{Trade Freedom}_i = (((\text{Tariff}_{max} - \text{Tariff}_i) / (\text{Tariff}_{max} - \text{Tariff}_{min})) * 100) - \text{NTB}_i$ • where Trade Freedom_i represents the trade freedom in country i; Tariff_{max} and Tariff_{min} represent the upper and lower bounds for tariff rates (%); and Tariff_i represents the weighted average tariff rate (%) in country i. The minimum tariff is naturally zero percent, and the upper bound was set as 50 percent. An NTB penalty is then subtracted from the base score. The penalty of 5, 10, 15, or 20 points is assigned according to the following scale:

		• 20—NTBs are used extensively across many goods and services and/or act to effectively impede a significant amount of international trade. • 15—NTBs are widespread across many goods and services and/or act to impede a majority of potential international trade. • 10—NTBs are used to protect certain goods and services and impede some international trade. • 5—NTBs are uncommon, protecting few goods and services, and/or have very limited impact on international trade. • 0—NTBs are not used to limit international trade. • We determine the extent of NTBs in a country's trade policy regime using both qualitative and quantitative information. Restrictive rules that hinder trade vary widely, and their overlapping and shifting nature makes their complexity difficult to gauge. The categories of NTBs considered in our penalty include: • Quantity restrictions—import quotas; export limitations; voluntary export restraints; import–export embargoes and bans; countertrade, etc. • Price restrictions—antidumping duties; countervailing duties; border tax adjustments; variable levies/tariff rate quotas. • Regulatory restrictions—licensing; domestic content and mixing requirements; sanitary and phytosanitary standards (SPSs); safety and industrial standards regulations; packaging, labeling, and trademark regulations; advertising and media regulations. • Investment restrictions—exchange and other financial controls. • Customs restrictions—advance deposit requirements; customs valuation procedures; customs classification procedures; customs clearance procedures. • Direct government intervention—subsidies and other aid; government industrial policy

		and regional development measures; government-financed research and other technology policies; national taxes and social insurance; competition policies; immigration policies; government procurement policies; state trading, government monopolies, and exclusive franchises. • As an example, Botswana received a trade freedom score of 79.7. By itself, Botswana's weighted average tariff of 5.2 percent would have yielded a score of 89.7, but the existence of NTBs in Botswana reduced the score by 10 points. • Gathering tariff statistics to make a consistent cross-country comparison is a challenging task. Unlike data on inflation, for instance, countries do not report their weighted average tariff rate or simple average tariff rate every year; in some cases, the most recent year for which a country reported its tariff data could be as far back as 2002. To preserve consistency in grading the trade policy component, the Index uses the most recently reported weighted average tariff rate for a country from our primary source. If another reliable source reports more updated information on the country's tariff rate, this fact is noted, and the grading of this component may be reviewed if there is strong evidence that the most recently reported weighted average tariff rate is outdated. • The World Bank publishes the most comprehensive and consistent information on weighted average applied tariff rates. When the weighted average applied tariff rate is not available, the Index uses the country's average applied tariff rate; and when the country's average applied tariff rate is not available, the weighted average or the simple average of most favored nation (MFN) tariff rates is used.8 In the very few cases where data on duties and customs revenues are not available, data on international trade taxes or an estimated

		effective tariff rate are used instead. In all cases, an effort is made to clarify the type of data used and the different sources for those data in the corresponding write-up for the trade policy component.
Investment Freedom	• In an economically free country, there would be no constraints on the flow of investment capital. Individuals and firms would be allowed to move their resources into and out of specific activities, both internally and across the country's borders, without restriction. Such an ideal country would receive a score of 100 on the investment freedom component of the Index of Economic Freedom. • In practice, most countries have a variety of restrictions on investment. Some have different rules for foreign and domestic investment; some restrict access to foreign exchange; some impose restrictions on payments, transfers, and capital transactions; in some, certain industries are closed to foreign investment. Labor regulations, corruption, red tape,	• The Index evaluates a variety of restrictions that are typically imposed on investment. Points, as indicated below, are deducted from the ideal score of 100 for each of the restrictions found in a country's investment regime. It is not necessary for a government to impose all of the listed restrictions at the maximum level to effectively eliminate investment freedom. Those few governments that impose so many restrictions that they total more than 100 points in deductions have had their scores set at zero. • Investment restrictions: • National treatment of foreign investment • No national treatment, prescreening 25 points deducted • Some national treatment, some prescreening 15 points deducted • Some national treatment or prescreening 5 points deducted • Foreign investment code • No transparency and burdensome bureaucracy 20 points deducted • Inefficient policy implementation and bureaucracy 10 points deducted • Some investment laws and practices non-transparent or inefficiently implemented 5 points deducted • Restrictions on land ownership • All real estate purchases restricted 15 points deducted • No foreign purchases of real estate 10 points deducted • Some restrictions on purchases of real estate 5 points deducted

	weak infrastructure, and political and security conditions can also affect the freedom that investors have in a market.	• Sectoral investment restrictions • Multiple sectors restricted 20 points deducted • Few sectors restricted 10 points deducted • One or two sectors restricted 5 points deducted • Expropriation of investments without fair compensation • Common with no legal recourse 25 points deducted • Common with some legal recourse 15 points deducted • Uncommon but occurs 5 points deducted • Foreign exchange controls • No access by foreigners or residents 25 points deducted • Access available but heavily restricted 15 points deducted • Access available with few restrictions 5 points deducted • Capital controls • No repatriation of profits; all transactions require government approval 25 points deducted • Inward and outward capital movements require approval and face some restrictions 15 points deducted • Most transfers approved with some restrictions 5 points deducted • Up to an additional 20 points may be deducted for security problems, a lack of basic investment infrastructure, or other government policies that indirectly burden the investment process and limit investment freedom.
Financial Freedom	• Measures banking efficiency as well as independence from government control and interference in the financial sector. State ownership of banks and other financial institutions such as	• These five areas are considered to assess an economy's overall level of financial freedom that ensures easy and effective access to financing opportunities for people and businesses in the economy. An overall score on a scale of 0 to 100 is given to an economy's financial freedom through deductions from the ideal score of 100.

	insurers and capital markets reduces competition and generally lowers the level of available services. • The Index scores an economy's financial freedom by looking into the following five broad areas: • The extent of government regulation of financial services, • The degree of state intervention in banks and other financial firms through direct and indirect ownership, • The extent of financial and capital market development, • Government influence on the allocation of credit, and • Openness to foreign competition.	• 100—Negligible government interference. • 90—Minimal government interference. Regulation of financial institutions is minimal but may extend beyond enforcing contractual obligations and preventing fraud. • 80—Nominal government interference. Government ownership of financial institutions is a small share of overall sector assets. Financial institutions face almost no restrictions on their ability to offer financial services. • 70—Limited government interference. Credit allocation is influenced by the government, and private allocation of credit faces almost no restrictions. Government ownership of financial institutions is sizeable. Foreign financial institutions are subject to few restrictions. • 60—Significant government interference. The central bank is not fully independent, its supervision and regulation of financial institutions are somewhat burdensome, and its ability to enforce contracts and prevent fraud is insufficient. The government exercises active ownership and control of financial institutions with a significant share of overall sector assets. The ability of financial institutions to offer financial services is subject to some restrictions. • 50—Considerable government interference. Credit allocation is significantly influenced by the government, and private allocation of credit faces significant barriers. The ability of financial institutions to offer financial services is subject to significant restrictions. Foreign financial institutions are subject to some restrictions. • 40—Strong government interference. The central bank is subject to government influence, its supervision of financial institutions is heavy-handed, and its ability to enforce contracts and prevent fraud is weak. The government exercises active ownership and control of financial institutions with a large minority share of overall sector assets.

		• 30—Extensive government interference. Credit allocation is extensively influenced by the government. The government owns or controls a majority of financial institutions or is in a dominant position. Financial institutions are heavily restricted, and bank formation faces significant barriers. Foreign financial institutions are subject to significant restrictions. • 20—Heavy government interference. The central bank is not independent, and its supervision of financial institutions is repressive. Foreign financial institutions are discouraged or highly constrained. • 10—Near repressive. Credit allocation is controlled by the government. Bank formation is restricted. Foreign financial institutions are prohibited. • 0—Repressive. Supervision and regulation are designed to prevent private financial institutions. Private financial institutions are prohibited.

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