

ILO Asia-Pacific Working Paper Series

ASEAN Community 2015: Managing integration for better jobs and shared prosperity in Myanmar

Myat Khet Nyo
February 2015



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Regional Office for Asia and the Pacific

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Preface

By 2015, the ASEAN Economic Community (AEC), envisioned as a single common market and production base, will become a reality. This will lead to the freer flow of goods, services, investment capital and skilled labour in the region. Tariff and non-tariff barriers will be reduced, which will have implications for intraregional trade and investment. New opportunities for growth and prosperity are likely to emerge, but the challenge is to ensure that growth is inclusive and prosperity is shared.

Ultimately, the success of ASEAN regional integration will depend on how it affects the labour market and therefore how it improves the quality of life of women and men in the region. To prepare for the impact and find the opportunities to seize, the International Labour Organization initiated with the Asian Development Bank a joint study to examine the impact of the AEC on labour. Findings from the series of studies that were initiated are collected in the 2014 publication ASEAN Community 2015: Managing integration for better jobs and shared prosperity. That report highlights the challenges and opportunities that will accompany the AEC, including managing labour migration, boosting productivity and wages and improving job quality. The report offers policy recommendations for creating better jobs and ensuring that the benefits of the AEC are equitably shared among different countries and sectors.

The background papers to the joint publication are available as part of the ILO Asia–Pacific Working Paper Series, which is intended to enhance the body of knowledge, stimulate discussion and encourage knowledge sharing and further research for the promotion of decent work in Asia and the Pacific. This paper by Myat Khet Nyo looks at how the AEC is likely to impact economic growth and social progress in Myanmar.

The ILO is devoted to advancing opportunities for women and men to obtain decent and productive work. It aims to promote rights at work, encourage decent employment opportunities, enhance social protection and strengthen dialogue in handling work-related issues. As countries in the Asia and the Pacific region continue to recover from the global economic crisis, the ILO's Decent Work Agenda and the Global Jobs Pact provide critical policy frameworks to strengthen the foundations for a more inclusive and sustainable future.

Tomoko Nishimoto
Assistant Director General and
Regional Director for Asia and the Pacific

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Abstract

The paper explores the potential impact of regional economic integration on Myanmar, a country that has suffered from more than 20 years of Western sanctions. The country's accession into the Association of Southeast Asian Nations (ASEAN) offered economic and trading opportunities, while the regional body arguably catalysed a regime change. Now, realization of the ASEAN Economic Community is challenging Myanmar. Having a low-skilled and poorly educated workforce with inadequate infrastructure, Myanmar must strive harder than other ASEAN Member States to narrow the regional inequality gaps. Improving skills among the labour force and in prioritized sectors of the economy, as well as strengthening the formal education system, will be critical if Myanmar is to compete. Improving infrastructure, such as electricity, roads and information communication technology, is equally salient. These measures must be coupled with effective institutions for social security and insurance, labour relations and business social responsibility. Narrowing inequality is a long-term project with an urgent start for Myanmar – the latecomer to growth.

About the author

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Abbreviations

AEC	ASEAN Economic Community
AFTA	ASEAN Free Trade Area
ASEAN	Association of Southeast Asian Nations
ASEM	Asia-Europe Meeting
CMP	cutting, making and packing
CSO	Central Statistical Organization
DICA	Directorate of Investment and Company Administration
EIU	Economist Intelligence Unit
ERIA	Economic Research Institute for ASEAN and East Asia
FDI	foreign direct investment
GDP	gross national product
GSP	Generalized System of Preferences
IHLCA	<i>Integrated Household Living Conditions Analysis</i>
ILO	International Labour Organization
IMF	International Monetary Fund
IOM	International Organization for Migration
MDRI–CESD	Myanmar Development Resource Institute’s Centre for Economic and Social Development
MMK	Myanmar kyat
MMRD	Myanmar Marketing Research and Development Co.
MOU	memorandum of understanding
NSW	National Single Window
TVET	technical and vocational education and training
US	United States

1. Introduction

Following decades of isolation, Myanmar began in the 1990s to become more engaged internationally. This shift was reflected in Myanmar's admission into the Association of Southeast Asian Nations (ASEAN) in 1997. ASEAN membership has offered Myanmar opportunities as well as challenges in reducing socio-economic inequalities among its population. This paper argues that Myanmar needs to focus on the skills development of its workforce for the present and near future, via expanded technical and vocational education and training (TVET) opportunities and formal education while creating more formal sector jobs. It is this approach that will likely enable Myanmar to reduce within 20 years the relative poverty gap between its population and the populations of the most affluent ASEAN countries.

This paper makes its case in four main sections. The first section describes Myanmar's socio-economic context. Section 2 presents an analysis of the motives behind the Government's international engagement and highlights the historic events between Myanmar and ASEAN. Section 3 explores how realization of the ASEAN Economic Community (AEC) is likely to impact long-pending structural transformation and emerging industries, human resources and skills development, productivity, wages and labour migration in Myanmar. This exploration is built on the assumption that Myanmar will not experience any major political disturbances that would damage the ongoing reform process.

The last section concludes with policy considerations on resolving issues that Myanmar is likely to encounter when the AEC comes into effect. After analysing the potential impact of ASEAN integration on Myanmar's labour market, this paper contends that policy-makers should pay special attention to prioritizing the skills development needs in five key sectors: manufacturing, energy and resources, infrastructure, agriculture and hotel and tourism via TVET, improved general education, job-related social security and corporate social responsibility within the capacity of firms. Additionally, policy-makers need to promote workforce education on current labour laws, labour standards and labour relations between employees and employers, enforcement of labour laws and social insurance for informal workers and a favourable business environment.

This paper was prepared for the International Labour Organization (ILO) as a background study. It is based on data from previously published sources, information gathered in Myanmar employees' and employers' forums and primary data collected through the Myanmar Marketing Research and Development Co. labour survey. The primary data were collected from a sample of 410 respondents (328 of them who worked from the employee level up to the mid-manager level and 82 owners or senior managers) from 82 manufacturing, trading and service firms. Because the sample was not randomly selected, it is not representative of the population. Despite this limitation, the survey findings offer some information about the workforce and add to the information provided in previous publications.

2. Country context

This section analyses Myanmar in four aspects: (i) the macroeconomic situation; (ii) household income; (iii) poverty and inequality trends; and (iv) the labour market situation and Western sanctions. These aspects offer background detail to Myanmar's historical move currently to fully integrate into the ASEAN Economic Community by the end of 2015.

2.1 Macroeconomic situation

Among the current ten ASEAN Member States, Myanmar is the only country that has endured more than two decades of political and economic sanctions imposed by the United States and the European Union. Deliberately discouraging trade via sanctions in order to damage the military regime negatively impacted on the country's macroeconomic situation. Misguided domestic policies further damaged the economy. For example, the 2003 ban on products of Myanmar origin led by the United States severely affected businesses and workers in Myanmar. This issue was exacerbated by the then military Government's formalized control over the flow of exports and imports (Myo Myo Myint and Rasiah, 2012). The trade authorities imposed strict limits on businesses, such as requiring those that wanted to import raw materials, machinery or other products to generate exports of at least equal value to what they needed to import.

Myanmar's poor macroeconomic environment meant that it could not keep up with Asian gross domestic product (GDP) growth when the Asian economy, as a whole, grew much faster than the rest of the world. While Asian neighbours were growing at an average of 6 per cent from 1990 to 2010, Myanmar was growing, as estimated by McKinsey Global Institute, at an annual average of only 4.2 per cent (MGI, 2013, p. 17).¹ The growth that Myanmar did gain was largely attributable to population increase rather than productivity improvement. Myanmar's growth, according to the McKinsey estimate, at least surpassed the average global annual growth rate of 3.2 per cent but was well below its Asian counterparts.

Contrary to the McKinsey estimates, Myanmar's Central Statistical Organization (CSO) claimed double-digit growth rates, at an average of 12 per cent from 1990 to 2010 – double the Asian average growth for that same period. International economists and organizations, however, consider the CSO data unreliable. For instance, the Ash Center for Democratic Governance and Innovation at the Harvard Kennedy School, the International Monetary Fund (IMF) and the Economist Intelligence Unit (EIU) have found conflicting relationships between GDP growth and other indicators, such as trade patterns and private consumption. Moreover, other international and even national experts have seen no evidence of double-digit growth or other indication that the Myanmar economy could be bigger than other Asian economies (MGI, 2013, p. 16). This paper uses the relatively reliable and widely accepted GDP figures reported in the IMF report of the Article IV Consultation of August 2013 (2013a).² Myanmar's GDP grew by 5.3, 5.5 and 6.4 per cent in 2010–11, 2011–12 and 2012–13, respectively, due to growth in the gas production, manufacturing, service and construction sectors.³

Inflation was moderate, at 2.8 per cent in 2012–13; the rise that was observed was primarily due to increased food, fuel and real estate prices. Despite an estimated decline in global commodity prices, inflationary pressures are building due to wage increases and increased asset prices (IMF, 2013a). Monthly inflation peaked at 7.3 per cent in August 2013 (World Bank, 2013) and is expected to average approximately 6.5 per cent for the whole of 2013–14 (IMF, 2013a). Regarding trade in 2012–13, net exports were negative, at 3.9 per cent of GDP (with exports at 18.6 per cent and imports at 22.5 per cent) (World Bank, 2013, p. 9). However, gross official reserves grew to \$4.8 billion in 2012–13, from the previous year's balance of

¹ McKinsey Global Institute figures are based on the IMF and the Burma Economic Review's GDP estimations. See MGI, 2013.

² IMF advice to Asian countries, such as Thailand and the Republic of Korea, to overcome Asian financial crisis was criticized as exacerbating the crisis by a number of critics and Asian government officials. However, its technical expertise in calculating macroeconomic indicators is considered reliable worldwide. Considering Myanmar's still-weak statistical capacity due to decades of isolation, the paper relies on the IMF estimated indicators, unless otherwise stated.

³ Myanmar fiscal years start at April 1 and end at March 31.

\$4 billion.⁴ Revenues from the sale of natural resources were the main contributor to growing reserves. Thus, the reserves could cover more than the current account deficit. Moreover, foreign direct investment (FDI) grew, from \$1.9 billion in 2011–12 to \$2.7 billion in 2012–13, representing 5.2 per cent of GDP in the latter fiscal year (World Bank, 2013). This indicates that FDI inflows could have financed the current account deficit even if the gross official reserves had been zero.

Accordingly, nominal GDP was estimated to grow to \$55.3 billion, with GDP per capita at \$868 (in current prices) in 2012–13 (IMF, 2013a). This figure is equivalent to \$1,612 in terms of purchasing power parity (IMF, 2013b).

GDP per capita of less than \$1,000 obviously demonstrates that Myanmar is still a least developed country, but the recent GDP growth and improving macroeconomic policy environment suggests that the \$1,000 per capita benchmark could be passed in the not too distant future if growth is associated with a decline in poverty and inequality. As discussed further on, recent GDP growth indeed appears to have been associated with a decline in poverty and inequality, which thus has considerable positive developmental implications.

2.2 Household poverty and inequality trends

The latest 2009–10 *Integrated Household Living Conditions Analysis* (IHLCA) found that the poverty rate in Myanmar fell by 6 per cent among the total population between 2004–05 and 2009–10, although a quarter of the total population remained poor (IHLCA, 2010). The IHLCA data were collected from a sample considered representative of most areas of the country. Despite not providing complete geographical coverage (see further on), the IHLCA survey is an outcome from ongoing collaborative efforts between the Government of Myanmar and several international and bilateral organizations that offered strong technical support; it provides the most reliable data on poverty and inequality in Myanmar. As is common with such surveys throughout Asia, it measures poverty in terms of consumption expenditure rather than household income because measuring consumption is less erroneous and is subjected to less fluctuation than measuring income. Drawing on the IHLCA survey findings, this paper presents household consumption trends as a proxy for household income trends.

When conducting the IHLCA survey in 2004–05 and 2009–10, two poverty lines (food poverty and poverty) were calculated to measure household consumption expenditure. The food poverty line was based on the assumption that all income was used for food alone – thus reflecting extreme poverty. To develop the line, the second-lowest quartile (25–50 per cent) of the household consumption distribution, was selected as the “poor” reference group first. Then, the number of calories actually consumed by this group was calculated from collected data on the quantities of food items consumed and the caloric content of those food items. Next, the minimum required caloric intake was calculated in accordance with nutritional norms. After that, the food basket actually consumed by this group was adjusted to produce the minimum required intake. Finally, the cost of the already-adjusted food basket was calculated and defined as the food poverty line. Food poverty incidence, or percentage of households living below the line, is compared between urban and rural populations in Table 1. Food poverty declined from 10 to 4 per cent of the population between 2005 and 2010, by more than half (IHLCA, 2010).

⁴ All \$ currencies are US\$.

Higher than the food poverty line and representing a more comprehensive measure of poverty, the poverty line is based on the assumption that total consumption was divided between food and non-food consumption. The poverty line was calculated by adding non-food consumption expenditure of the same reference group to the food poverty line. As shown in table 1, the poverty incidence declined, from 32 to 26 per cent of the population between 2005 and 2010. Hence, even though poverty in Myanmar is still among the highest levels in Asia, it appears to be moving on a downward trend.⁵

Table 1. Trends of food poverty and poverty incidence in Myanmar, 2005 and 2010

	Urban		Rural		The whole country	
	2005	2010	2005	2010	2005	2010
Food poverty	6.1	2.5	10.9	5.6	9.6	4.1
Poverty	21.5	15.7	35.8	29.2	32.1	25.6

Source: IHLCA, 2010.

As is the case with poverty, inequality also appears to be declining in Myanmar. Table 2 shows the share of the bottom 20 per cent of the consumption distribution, or the poorest group. This group's share of total consumption of all five household groups increased in both urban and rural areas between 2005 and 2010. Consequently, in Myanmar as a whole, the poorest group's consumption share rose from 11 to 12 per cent. As well, the consumption gap between the richest 20 per cent and the poorest 20 per cent narrowed in both urban and rural areas. A consumption gap can be measured as the difference in consumption expenditures between two groups. The survey findings indicate that the consumption gap for the whole country declined by 8 per cent between 2005 and 2010.

Additionally, the highest consumption expenditure increase of the lowest decile (one tenth) suggests a narrowing of inequality within that same five-year period. The lowest decile represented the poorest 10 per cent of the consumption distribution. While the consumption expenditure of the lowest decile increased by 14 per cent – the largest increase of any decile, consumption of the highest decile (the richest) declined, by 3 per cent, to further narrow the inequality gap.

However, the IHLCA data appear to understate inequality. Analysis of the original dataset used for the 2010 IHLCA report carried out by the Myanmar Development Resource Institute's Centre for Economic and Social Development (MDRI-CESD) reveals that a household in the sample with the highest observed consumption of goods and services had a total consumption valued at less than 200,000 kyats (MMK) per person per month, which seems an improbably low figure. Thus, households at the very top end of the expenditure/income distribution do not appear to have been included in the survey. Further, some of the most inaccessible areas of Myanmar (parts of Naga Self-Administered Zone and Chin State and the conflict-affected areas) were not covered by the survey. These areas can reasonably be expected to have a higher-than-average incidence of poverty and extreme poverty. It is not clear what effect this would have on the measurement of inequality for 2010 or what it means for the figures that indicate a decline of inequality for 2005–10.

⁵ The IHLCA figures for poverty in 2009–10 are likely to understate poverty. However, the figures for 2005–06 may also do the same, so the downward trend apparent in the IHLCA still may be valid.

Table 2. Trends of consumption share of the bottom 20 per cent

Area	2005	2010
Urban	10	11.1
Rural	11.8	12.6
Whole country	11.1	12.0

Source: IHLCA, 2010.

Table 3. Trends of consumption gap between richest and poorest 20 per cent, December 2009 (MMK)

Area	2005	2010	% change
Urban	836 180	736 008	-12
Rural	445 046	415 457	-7
Whole country	573 260	525 929	-8

Note: MMK=kyat.

Source: IHLCA, 2010.

Table 4. Consumption expenditure, by decile in Myanmar, 2005–10 (MMK)

Consumption decile	2005	2010	% change
1st decile (lowest 10%)	247 827	281 494	14
2nd decile	319 508	348 782	9
3rd decile	366 053	391 039	7
4th decile	407 208	429 125	5
5th decile	447 008	464 807	4
6th decile	488 661	504 432	3
7th decile	537 609	550 423	2
8th decile	602 177	608 931	1
9th decile	696 612	698 597	0
10th decile (highest 10%)	1 017 433	983 550	-3
Whole country	513 003	526 110	3

Source: IHLCA, 2010.

The next section argues that poverty in Myanmar is primarily a result of the low returns from work. The section also discusses the nature of the labour force, employment, productivity and wages. The nexus among these factors depicts the unique labour market situation of Myanmar.

2.3 Labour market situation

Myanmar's level of labour force participation is high. The latest IHLCA survey finds that around two-thirds of the total population aged between 15 and 60 years participates in the labour force. Myanmar's official statistics also indicate that half of the total population is employed, slightly more than the average of 45 per cent in neighbouring economies (MGI, 2013, p. 19). Thus, the high level of poverty in Myanmar is not because a greater proportion of the population is economically inactive. In fact, people living below the poverty line participate even more in the labour force than the non-poor population, at 70 per cent and 60 per cent, respectively (IHLCA, 2010).

On the other hand, Myanmar's labour productivity is significantly lower than other Asian countries, having missed out on Asia's impressive improvement in labour productivity within the past two decades (MGI, 2013, p. 3). A Myanmar worker only produces around \$1,500 economic value in a year of work, which is some 70 per cent less than the average of seven other Asian economies: China, India, Indonesia, the Philippines, Sri Lanka, Thailand and Viet Nam (MGI, 2013, p. 2). Hence, low rates of return from work leads to poverty in Myanmar.

Together with abundant labour, the low labour cost offers a comparative advantage for Myanmar in the production of goods and services. Myanmar labour costs are among the lowest in Asia. For example, the average daily wage in a Myanmar factory is only \$3 per day, compared with \$4 in Indonesia, \$5 in Viet Nam and \$18 in China and Thailand (MGI, 2013, p. 69). Nonetheless, this advantage is undermined by the weak labour productivity in every sector of the economy, as previously noted. Labour productivity per worker is approximately \$1,300 in agriculture, \$1,700 in construction, \$3,600 in utilities and \$5,500 in manufacturing (MGI, 2013, p. 22). The low levels of human capital and weak infrastructure result in Myanmar's labour productivity lagging behind other Asian economies. Accordingly, Myanmar's GDP per capita is lower than other ASEAN Member States. The low-productivity agriculture sector employs the majority of labour. Table 5 shows poverty status, area and sex-disaggregated employment data in different sectors of the economy. While agriculture employed half of the labour force in 2010, the more productive manufacturing sector only employed 6 per cent.

Table 5. Employment by industry in terms of poverty status, residence area and sex (%)

Industry	2010				2005			
	Poverty status		Area		Sex		Total	Total
	Poor	Non-poor	Urban	Rural	Male	Female		
Agriculture, hunting and forestry	54.2	48.9	7.1	63.8	52.3	47.4	50.2	50.2
Fishing	3.4	1.7	0.9	2.5	3.2	0.7	2.2	2.8
Mining and quarrying	1.7	1.5	1.6	1.6	2.2	0.7	1.6	1.2
Manufacturing	6.3	5.8	9.8	4.7	5.0	7.2	5.9	7.4
Electricity, gas and water supply	0.5	0.5	1.2	0.3	0.7	0.2	0.5	0.3
Construction	4.6	3.8	5.8	3.4	6.1	1.1	4.0	2.7
Wholesale and retail trade and repair of motor vehicles, motorcycles and personal and household goods	7.0	11.7	22.9	6.6	8.0	13.9	10.5	11.6
Hotels and restaurants	1.3	1.4	2.6	0.9	1.3	1.4	1.3	0.9
Transport, storage and communications	2.8	4.1	8.9	2.2	6.1	0.7	3.8	3.3
Financial intermediations	0.1	0.2	0.6	0.1	0.1	0.3	0.2	0.2
Real estate, renting and business activities	5.1	7.8	15.1	4.6	4.4	10.8	7.1	5.8
Public administration and defence, compulsory social security	0.6	1.6	4.0	0.5	1.5	1.1	1.3	2.0
Education	1.0	3.2	5.6	1.8	1.0	4.9	2.7	2.0
Health and social work	0.4	0.8	1.6	0.4	0.6	0.8	0.7	5.6
Activities of private households as employers and undifferentiated production activities	10.8	6.9	12.1	6.6	7.3	8.7	7.9	1.5
Extra territorial organizations and bodies	0.1	0.1	0.3	0.1	0.1	0.1	0.1	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: IHLCA, 2010.

Countries step up their economic development stage by shifting the bulk of their labour force from agriculture to manufacturing. In this process, manufacturing growth and urbanization occur together as rural workers migrate to cities where better job opportunities are typically provided by the more productive manufacturing sector and where better social services tend to exist. In Myanmar, the manufacturing sector is still small, and urban infrastructure, such as housing, water and electricity, is inadequate, contributing to low levels of rural-to-urban internal labour migration (MGI, 2013, pp. 8, 91). As much as 87 per cent of the country's total population still lives in rural areas and continues to heavily rely on agriculture for their livelihood (IHLCA, 2010). This proportion is expected to change as Myanmar's economy opens up and grows.

Due to the long-running civil strife, low rates of return from work and prevailing poverty, labour migration outflow has been a major phenomenon in Myanmar. Thailand, Malaysia and Singapore are common destination countries. Among them, neighbouring Thailand is the destination for most migrants, who easily move across the 1,800 km-long porous border. But undocumented Myanmar migrants in Thailand are often subject to mass repatriation.

Because of its ageing population, Thailand has grown to depend on the foreign labour to maintain its high rate of economic growth (Pasadilla, 2013). According to the International Organization for Migration (IOM), there are 2.3 million Myanmar migrant workers in Thailand, representing a majority of the estimated 3 million migrants employed in Thailand (Thin Lei Win, 2013). Since the late 1980s, Myanmar workers have crossed the border, either through the formal or irregular channels, to work in mostly dirty, dangerous and demanding (3D) jobs, significantly contributing to the Thai economy while supporting relatives in Myanmar (SERC et al., 2013). Thailand and Myanmar signed a memorandum of understanding (MOU) in 2003 to regularize the irregular migrant workers through a nationality verification process (issuing a temporary passport or Certification of Identity) (Chantavanich, 2013). By 5 March 2010, only 41,770 migrants from Myanmar had passed the verification process because of the cumbersome, costly and unrealistic procedures adopted under the agreement between the two governments (Vasuprasat, 2010).

Eleven Myanmar reported that Myanmar authorities signed a new MOU with the Thai Government in February 2013 to reduce difficulties associated with the regularization procedures. Myanmar workers can re-enter Thailand after only a one-month stay in Myanmar instead of the three-year stay required in the previous MOU, once they complete a work contract. The Myanmar Government has asked Thailand's Ministry of Labour not to arrest Myanmar migrant workers whose visas have expired but to provide assistance when they are fined. There are more than 30,000 Myanmar migrant workers whose visas have expired, which makes them vulnerable to exploitation by the brokers they approach to extend their visas. Myanmar's Ministry of Labour, Employment and Social Security is seeking to issue a red passport instead of previous temporary passport for the workers with expired visas by opening a one-stop centre at the Myanmar Embassy in Thailand. In accordance with this new agreement, the Ministry has already issued 1.7 million temporary passports to migrants in Thailand to obtain permission from the Thai authorities to remain there (*Eleven Myanmar*, 2013).

According to Thailand's *The Nation*, official Thai statistics indicate that some 750,000 Myanmar workers with passports have applied for Thai work permits. Among them, only 200,000 are registered for social security and eligible for health protection. Yet, the Thailand–Myanmar migrant policy lacks clarity. In a joint statement, the State Enterprise Workers' Relations Confederation of Thailand, the Thai Labour Solidarity Committee, the Migrant Worker Rights Network and the Human Rights and Development Foundation asserted, "We therefore would like to urgently ask Thailand and Myanmar governments to

clarify policy and practice” (*The Nation*, 2013). Clarity on whether those who are registered are legally entitled to social insurance is critical for the Myanmar migrant workforce in Thailand.

Most of the documented migrants, including some skilled labourers (university graduates), are employed in semi-skilled and unskilled occupations in agriculture, fishing, the domestic sector and factories (Pasadilla, 2013). Thailand has a social insurance scheme for migrant workers, including provisions for an old-age pension, disability and survivor benefits (Pasadilla, 2013). It also provides medical care, maternity, sickness and employment injury cash benefits to migrants. The informal sectors, such as agriculture, fishing and domestic service, are not covered by the social insurance scheme and other social security benefits. The social insurance scheme also requires a minimum 15-year contribution. Yet, for many years Myanmar migrants were only allowed to re-enter Thailand after three years since their last departure and that only changed under the 2013 MOU. Thus, most of the migrant workers are ineligible for any social protection scheme in Thailand (Pasadilla, 2013).

Unlike Thailand, Singapore offers a provident fund instead of social insurance to migrant workers. But migrant workers can access the provident fund only if they receive permanent residence status. The provident fund does not limit the minimum period of contribution to obtain benefits. In-kind medical care is also available to permanent resident workers, but sickness, maternity and employment injury cash benefits are the responsibility of the employers and not the Singaporean Government (Pasadilla, 2013).

In Malaysia, Myanmar migrants can voluntarily contribute to the provident fund. They can also withdraw their contribution to the provident fund when they return home. Malaysia offers migrants medical care coverage (mostly in-kind benefits) but no other social security, such as sickness and maternity benefits (Pasadilla, 2013).

With relatively high employment in Myanmar, compared with other countries, unemployment is not a major issue. Given Myanmar's lack of social safety nets, low unemployment is not surprising. However, underemployment appears to be a major cause of low incomes and low total labour productivity. Seasonal unemployment exists mainly in agriculture, but rural people engage in off-farm activities. Table 6 presents the poverty status, area and sex-disaggregated employment data for three age groups. Open unemployment, which is the percentage of the labour force aged 15 or older who did not work within six months prior to the time when they were asked, is extremely low, at only 1.7 per cent. Youth unemployment (aged 15–24) is also low, at 3.6 per cent, even though it is more than three times the rate of unemployment for those aged 25–59.

Table 6. Unemployment rate, over a six-month period, 2010 (15 years or older)

Age group	Poverty status		Area		Sex		Total
	Poor	Non-poor	Urban	Rural	Male	Female	
Age 15–24	4.0	3.4	9.8	2.4	3.3	4.1	3.6
Age 25–59	3.6	0.9	2.3	0.6	1.0	1.1	1.0
Age 15–59	3.7	1.4	3.5	1.1	1.5	1.9	1.7

Source: IHLCA, 2010.

2.4 Western sanctions against Myanmar

The European Union imposed an arms embargo (the first Western sanctions) on Myanmar in 1990, when the military regime refused to recognize the landslide victory of the Daw Aung San Suu Kyi-led National League for Democracy (EU, 2003). This was followed by other sanctions, such as a visa ban, an asset freeze on members of the regime and their family members and a halt to bilateral aid in 1991 (EU, 2003). Myanmar had little access to foreign aid, and thus the European Union's punishment hurt the country considerably (EU, 2003). Moreover, in 1997 the European Union's Generalized System of Preferences (GSP) privileges were withdrawn from Myanmar due to forced labour being used in the country (EU, 2003). (The European Union's GSP usually grants least developed countries duty-free and quota-free access to the European market for all products except arms and ammunitions (European Commission, 2013).)

Around the same time, the United States terminated its GSP for Myanmar because of a range of alleged human rights abuses, including those just noted (USDT, 2013). The United States and the European Union also halted preferential financing for exports to or investment in the country (EU, 2003). Additionally, the US President prohibited new investment in Myanmar by US citizens and any citizen's facilitation of new investment in Myanmar by foreign persons (EU, 2003). Other Western countries, such as Australia, Canada and New Zealand, followed the lead of the United States and the European Union by either imposing official sanctions on Myanmar or unofficially avoiding any relationship with the regime. Consequently, foreign investment dramatically reduced, for example, from \$2.8 billion in 1996–97 to \$19.1 million in 2001–02 (EU, 2003).

During the 2000s, the European Union and the United States extended the scope of existing sanctions, such as targeting more persons linked to the economic and/or political activities of the ruling regime. It added new sanctions, such as an export ban on any equipment that might be used for internal repression. In 2003, Daw Aung San Suu Kyi's convoy was attacked by suspected government agents while she travelled around Sagaing Region in central Myanmar, giving public speeches that promote democracy (Cheak, 2008). In response, the United States prohibited all imports, including garments, from Myanmar and exports of financial services from the United States or by US citizens to Myanmar (Cheak, 2008).

All these sanctions were renewed or extended in successive years in the absence of any satisfactory progress on human rights and democracy. In 2008, the United States enacted a law that prohibited the importation of jadeite and rubies mined or extracted from Myanmar and articles of jewellery containing such jadeite and rubies (considered the best quality in the world) (USDT, 2013).

The Western sanctions started to ease when U Thein Sein's administration came into power and began a process of political and economic reform towards democracy. In April 2012, the European Union suspended its sanctions against Myanmar for one year, although retaining the arms embargo (EU, 2013). In November 2012, the United States permitted all imports from Myanmar, except jadeite or rubies or articles of jewellery containing jadeite or rubies mined or extracted from Myanmar (USDT, 2013). After one year of suspension, the European Union permanently lifted all sanctions, except the arms embargo (McElroy, 2013). In May 2013, the United States also lifted its blanket visa ban on members of the military regime, their families and persons linked to the economic and/or political activities of the regime, while retaining visa and investment bans against specific individuals who were accused of human rights abuses (BBC, 2013). US President Barack Obama argued that his Government's goal in keeping some sanctions while gradually easing others is "to ensure that the democratic transition becomes irreversible" (Reuters, 2013). In July

2013, the European Union reinstated its trade preferences (GSP) to Myanmar. Other Western countries have followed their lead. The next section explores Myanmar's engagement with ASEAN, which has been a major consideration for how the country has coped with the sanctions.

3. Myanmar's historical engagement with ASEAN

Until the early 1990s, Myanmar tended to consider ASEAN a Western-influenced bloc and had no interest to engage. Roberts (2011) attribute this stance to the fact that the five founding members (Indonesia, Malaysia, the Philippines, Singapore and Thailand) are essentially capitalist countries, whereas Myanmar was a socialist country from 1962 to 1988. ASEAN demonstrated neutrality in the "ASEAN Way" throughout the Cold War. As well as shifting from a socialist to a capitalist economic system, Myanmar's stance with ASEAN has changed for three other important reasons. The first is the ASEAN Way of non-interference, consensus-seeking and conflict-resolution (Mya Than, 2005). These norms favour politically and economically weak South-East Asian nations, which have also experienced internal problems, such as insurgencies and separatist attempts. As a least developed country with one of the longest civil wars and a volume of internal issues, Myanmar was attracted to ASEAN because of the ASEAN Way.

The second reason is the necessity of coalition and alliance in an increasingly globalizing world. No country can stand alone without participating in international trade and relations. Being isolated and burdened by sanctions from the Western powers, Myanmar lost out on trade opportunities and policy advice to develop its economy. It also lost out on development aid and technical support to develop its human capital. This forced the military regime to increasingly rely on China for political, economic and development assistance. Because of this dependency, Myanmar was seemingly not treated as an equal partner but as a subordinate state by China (Malik, 1997). As an isolated country, Myanmar was increasingly influenced by China. External pressure from the West and external influence from the East were irresistible to a stand-alone nation. This stressful situation urged Myanmar to seek external support to defend itself against the United States-led sanctions and balance China's influence on the country (Mya Than, 2005). "It needed to identify with a sympathetic group, which will treat it as one of them, and a group that will not exploit Myanmar's weak situation", Khin Ohn Thant pointed out (2001, p. 267). The military regime began to realize that the country needed to establish a close alliance with its neighbours to achieve international legitimacy politically and restore economic ties and development aid.

The third reason behind engagement with ASEAN is the cessation of the decades-long armed conflicts, allowing the Government to increasingly turn to external affairs (Khin Ohn Thant, 2001, p. 264). In the early 1990s, the Government successfully brokered ceasefire agreements with many of the ethnic armed groups, freeing up efforts and resources previously expended on internal security measures for use in regional relations. The political success permitted the regime to devote more attention on external relations, including ASEAN (Balakrishnan, 1998).

Because of these three imperatives, Myanmar began in 1994 to involve itself in ASEAN events, first attending the ASEAN Ministerial Meeting as a guest of the host country, Thailand, which was a major trading partner and buyer of Myanmar's natural gas exports. In 1995, after attending the ASEAN Summit

of Heads of Government as a guest of the organization, Myanmar then decided to apply for ASEAN membership. In 1996, the country was accorded observer status. One year later, it was admitted as a full-fledged member, along with the Lao People's Democratic Republic. Myanmar's accession to ASEAN was strongly opposed by the Western bloc (Mya Than, 2005). Nonetheless, ASEAN firmly held to its policy of constructive engagement towards Myanmar rather than give in to the United States and European Union-led policy of compulsion that comprised economic sanctions and diplomatic isolation.

ASEAN held the belief that sanctions on Myanmar were counterproductive, imposing adverse effects primarily on the general population rather than promoting the possibility of regime change (Cheak, 2008, p. 48). The travel bans, tourism boycotts and economic sanctions hurt the local population that relied on those activities for their livelihood. The enforced cessation of much Western investment left thousands of local workers unemployed. For instance, when the United States expanded its sanctions in May 2003 after the detention of Daw Aung San Suu Kyi under what the military Government called "protective custody", some 20,000 garment workers lost their jobs as garment factories closed down (Cheak, 2008, pp. 9, 38). Myanmar's instability and failed economy only triggered economic problems and social unrest within the population, leading to the undocumented cross-border migration to neighbouring countries and further undermining regional stability.

ASEAN also held the belief that the West's compulsion policy would only push Myanmar much closer to China for economic and military assistance (Cheak, 2008, p. 48). Despite China's actively self-proclaimed message of a peaceful rise, ASEAN and other regional countries became wary of its growing power, worried that if Myanmar became an instrument of China's interests (became the client in a "patron-client" relationship), then regional security would be highly threatened (Mya Than, 2005). Hence, ASEAN sought to address the regional stability and security issues and human rights and democracy issues in a "constructive engagement" approach.

ASEAN's constructive engagement policy encouraged economic and political dialogue with the military regime. The policy was premised on the assumption that "engagement rather than isolation would yield political change and progress in Myanmar" (Mya Than, 2005). It is a subset of the ASEAN Way, which is characterized by dialogue, consensus-building and strict adherence to the policy of non-interference and non-commentary on the affairs of fellow members. Nonetheless, the policy was also a slight departure from the ASEAN Way. On one hand, it sought to encourage reform in Myanmar by maintaining commercial and political ties and resisting Western pressure (Cheak, 2008, p. 59). On the other hand, the policy evolved to involve constructive criticism over the regime's policies and actions. This meant that constructive criticism was valid as long as policies involving political isolation, economic sanctions, use of force or any other subversive or coercive measures were not employed towards Myanmar (Cheak, 2008). Criticisms from ASEAN Member States towards Myanmar were moderated by the fundamental principle of non-interference espoused in the Treaty of Amity and Cooperation.

The Western powers strongly disapproved of ASEAN's policy and continuously exerted diplomatic pressure on the organization to encourage political reform in Myanmar, following the country's inclusion into the regional body. Relations between ASEAN and these powers, such as the United States and the European Union countries, were distorted on the grounds that those governments did not think that Myanmar ought to be an ASEAN Member State. The European Union postponed its ministerial meeting – Asia–Europe Meeting (ASEM) because of its sanctions on Myanmar (Gilson, 2005). For example, if Myanmar participated as a member of the ASEAN team in meetings, it would thus allow Myanmar to attain membership of ASEM. As a result, many development projects and economic cooperation between the two

supranational organizations were delayed. Likewise, the United States adopted a tough policy towards working with ASEAN on trade and investment because of the US administration's policy of isolating Myanmar for alleged human rights violations (Hiebert, 2012).

Myanmar recognized the international contentions that ASEAN was encountering due to its membership. Recognizing the United States and European Union's pressures ASEAN might face if it took up its rotational appointment as the ASEAN chair, Myanmar voluntarily passed over its scheduled turn in 2005 (Cheak, 2008, p. 38).

After that, Myanmar had less frequent relations with ASEAN and busied itself constructing a new capital (Nay Pyi Taw) in the centre of the nation. Then in 2007, the violent crackdown against protesters of the Saffron Revolution attracted strong criticism from ASEAN and the rest of the international community. And the effectiveness of ASEAN's constructive engagement policy was questioned (Hiebert, 2012). ASEAN was also strongly criticized and held to account for its Member State's behaviour. Nonetheless, ASEAN continued to keep Myanmar within its fold and avoided using tougher policies against the country.

In 2008, Cyclone Nargis devastatingly struck the Ayeyawaddy Delta. That provided a new role for ASEAN to proactively lead a coordinating mechanism for delivering emergency relief aid and recovery assistance to 2.4 million Nargis victims. Hence, ASEAN began to take a proactive role "in bridging the need of the affected communities with international assistance and an ASEAN that is increasingly competent in coordinating major humanitarian operations" (ASEAN, 2009). Based on the Nargis relief experience in Myanmar, ASEAN designated its Secretary-General as humanitarian assistance coordinator for ASEAN countries. If faced with a major disaster, the affected Member States can request ASEAN assistance at any time.

Despite criticisms of U Thein Sein administration's legitimacy, many democratic reformers, including Daw Aung San Suu Kyi, have participated in its nation-building efforts as members of parliament. The Framework for Social and Economic Reform has been prepared and is being implemented as an overall strategy towards people-centred development (Prakash, 2013). National reconciliation is underway, although continued battles in Kachin State remain (RFA, 2013a). More than 100 laws, including on foreign investment and a minimum wage, have been promulgated (*Myanmar's.net*, 2013). With recognition by the international community, including the United States and the European Union, Myanmar was granted its turn as chair of ASEAN in 2014.

The new engagement has provided Myanmar market access, invited FDI and liberalized trade relations with ASEAN Member States and partners within the ASEAN Free Trade Area (AFTA) and AFTA-plus arrangements. The decreasing reliance on China's goods and markets appears to have weakened China's political clout over Myanmar. To the world's surprise, U Thein Sein's administration decided to suspend the Ayeyawaddy Confluence Hydropower Project in 2011 against China's national interest. Stronger political and economic ties within ASEAN are likely to have been a contributing factor in that decision.

In terms of FDI, joining AFTA will attract multilateral corporations to Myanmar due to lower tariffs and the enlarged regional market. ASEAN's reputation as a good place for investment will encourage foreign investors to invest in Myanmar. Also, other ASEAN Member States have been Myanmar's largest trading partners as well as foreign investors. The ASEAN-10 offers a population of 620 million, a 4.5 million

square kilometre area, a total GDP of \$2.3 trillion, a total trade of \$2.5 trillion and an ample supply of cheap natural resources (ASEAN, 2013). Moreover, Myanmar has a large, young labour force, a consumer market of 51.4million people and abundant natural resources.

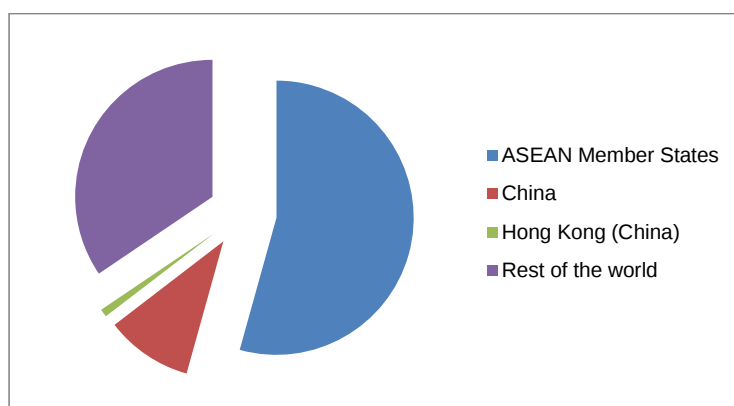
4. Impact of ASEAN integration on Myanmar's labour market

The forthcoming AEC will certainly affect all ASEAN Member States, including Myanmar. As a latecomer in economic development, the impact of the economic integration on Myanmar is expected to be more intense than on other ASEAN countries. This section examines the potential impact of the AEC on Myanmar's labour force in six aspects: trade, investment, industrial growth, structural transformation and emerging industries, human capital and skills development, productivity and wages, and labour migration. This analysis is based on the assumption that Myanmar's social and political reform process will continue.

4.1 Trade

As an outcome of joining ASEAN, trade with other Member States took the largest share in Myanmar's export and import markets in the years before the regime change. As illustrated in Figure 1, Myanmar's exports to ASEAN accounted for more than half (54 per cent) of total exports. Exports to Thailand alone represented 89 per cent of all exports to ASEAN (valued at \$15,302 million) and nearly half of the total exports to the world, as shown in table 7 (Ferrarini, 2013). Most (91 per cent) of what was exported to Thailand was fuels. Together with Thailand, Singapore and Malaysia were among the top nine importers of products from Myanmar, also largely fuels. The list of Myanmar's exports was headed by fuels, with food and non-food agriculture products in the middle and manufacturing goods in far last. Under the US-led sanctions and boycotts urging international consumers not to buy Myanmar products, the volume of Myanmar's manufacturing exports was especially small.

Figure 1. Myanmar's exports, by destination, 2006–10



Source: Ferrarini, 2013.

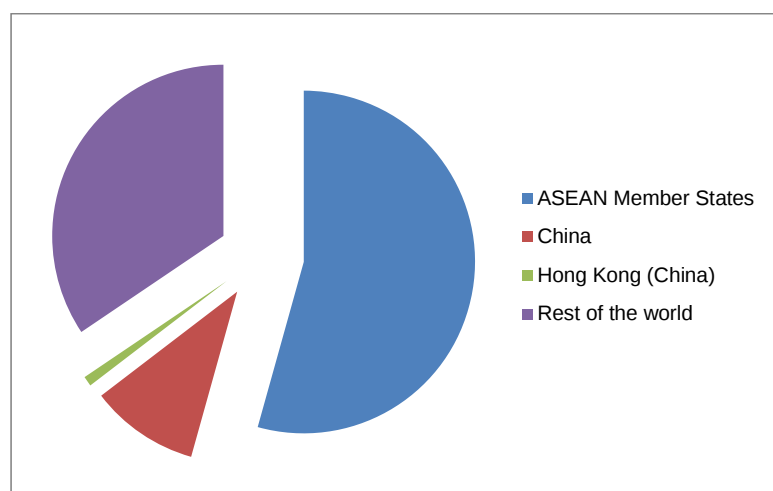
Table 7. Myanmar's exports composition, 2006–10

No.	Importer	\$ million	% of world total	Food (%)	Fuels (%)	Agriculture (%)	Manufacturing (%)
1.	Thailand	13615	48.4	3.3	91.3	4.5	0.9
2.	India	4 722	16.8	62.8	0	36.1	1.1
3.	China	2 891	10.3	25	3.6	67.5	4
4.	Japan	1 583	5.6	32.7	0	7	60.3
5.	Malaysia	812	2.9	48.1	0.1	43.1	8.8
6.	Republic of Korea	532	1.9	10.9	26.8	5.1	57.2
7.	Germany	515	1.8	2.5	0	6.9	90.6
8.	Singapore	421	1.5	37.8	0.7	46.3	15.2
9.	United Kingdom	304	1.1	30.2	0.7	2.2	66.9
10.	Rest of the world	2 763	9.8	41.4	0.1	26.2	32.4
World total		28 157	100	23.1	45.1	20.3	11.5

Source: Ferrarini, 2013.

As illustrated in figure 2, imports from the ASEAN region accounted for nearly half (46.5 per cent, and valued at \$13,866 million) of the total imports to Myanmar from 2006–10 (Ferrarini, 2013). Imports from Thailand were less than half of what Myanmar imported from ASEAN countries. China topped the list of importers, with Thailand second. As shown in Table 8, manufactured goods accounted for the largest share of Myanmar's imports. Less than 2 per cent of agricultural products were imported. Thus, Myanmar was a net exporter of agricultural products, while its manufacturing industries were nascent. In addition to bilateral trade, AFTA and other AFTA plus trade agreements offered Myanmar opportunities to export to and import from such countries as China, Japan, the Republic of Korea, Australia and New Zealand. Separate data on such multilateral trade agreements are not available, but aggregated trade data by country (including bilateral trade outside AFTA and AFTA plus arrangements) are reflected in tables 7 and 8.

Figure 2. Myanmar's imports, by origin, 2006–10



Source: Ferrarini, 2013.

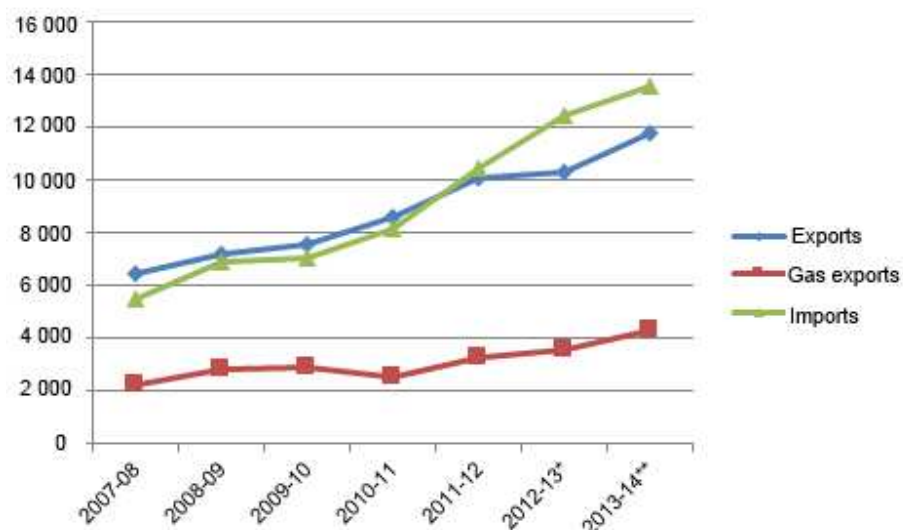
Table 8. Myanmar's imports composition, 2006–10

No.	Exporter	\$ million	% of world total	Food (%)	Fuels (%)	Agriculture (%)	Manufacturing (%)
1.	China	10 622	35.7	3.1	5.1	1.3	90.5
2.	Thailand	6 659	22.4	23.4	16.9	1.5	58.2
3.	Singapore	4 677	15.7	11.6	40.3	2.4	45.7
4.	Republic of Korea	1 542	5.2	0.2	1.6	5	93.1
5.	Malaysia	1 268	4.3	39.4	15.3	3.3	42
6.	Indonesia	1 110	3.7	58.6	0.3	0.3	40.8
7.	India	1 005	3.4	13.2	2.2	1.9	82.7
8.	Japan	931	3.1	0.5	0.3	1.4	97.8
9.	Rest of the world	1 977	6.6	16.6	5.2	2.7	75.5
Total		29 792	100	13.6	13.1	1.9	71.5

Source: Ferrarini, 2013.

In general, as indicated in figure 3, Myanmar's trade figures are on an upward trend in terms of both exports and imports (IMF, 2013a). Gas exports account for more than one-third of total exports. For the moment, both the lifting of sanctions and the AEC preparations do not seem to have had much influence on Myanmar's trade pattern. The European Union reinstated its GSP with Myanmar only in July, and preparations for trade with the European Union are expected to take some time. Nay Lin Aung (2003) reported that Myanmar may reach 84 per cent of the AEC targets, but trade facilitation still faces numerous barriers.

Figure 3. Export and import trends of Myanmar, 2007–08 to 2013–14 (\$ million)



Note: 2012–13* = IMF staff estimation; 2013–14** = IMF projection.
Source: IMF, 2012 and 2013a.

Myanmar is endowed with abundant natural resources, including gas, oil, jade, gold, forestry products and various precious minerals. Since Myanmar moved away from its isolationist stance in the late 1980s, natural resources have dominated the country's exports. For fiscal year 2012–13, natural gas alone accounted for 35 per cent of total exports. Further gas extraction from new fields is due to begin, which will increase the value of gas exports. Many potential fields remain ripe for future exploration. There are considerable known and unknown reserves of other natural resources as well (MDRI-CESD, forthcoming). Although this natural resource wealth has been a vital source of revenue for the Government and benefited the balance of payments, the extraction sectors tend not to create many jobs relative to the value of their output. Further, the appreciation of the exchange rate that results from foreign demand for natural resources can make it harder for other sectors to be competitive, unless natural resource revenues are invested wisely by the Government to raise productivity (such as by investment in human capital or physical infrastructure) (Auty, 1998). Accession to the AEC should not have much effect on how foreign investment in and purchases of Myanmar's natural resources takes place, whereas the general reduction in restrictions on trade that will result may lead to growth of other sectors that can deliver greater levels of employment and broader-based growth.

The ASEAN Vision 2020 – the goal to establish an ASEAN community with three pillars, including the AEC, by 2020 – was introduced in 2003 at the Ninth ASEAN Summit. It was only in 2008 that the AEC Blueprint was developed and targets to realize the ASEAN community by 2015, instead of 2020, were produced with a timeline. Since then, Member States, in varying degrees of readiness, have been working against measures in the Blueprint. Because Myanmar suffered immense losses associated with Cyclone Nargis in 2008 and was also occupied with the referendum that was then followed by the 2010 general election and the 2011 regime change, it has fallen behind in its readiness.

Despite meeting the majority of the Blueprint's measures, Myanmar has not yet succeeded in removing major infrastructural barriers to trade. Development of a National Single Window and construction of roads to facilitate the movement of goods are not significantly progressing because of technological and financial difficulties. In terms of tariff barriers to trade with ASEAN countries, tariffs in Myanmar have been low since the time of AFTA. Moreover, some non-trade barriers are intrinsically difficult to define and identify. Daw Tin Tin Htwe, a Myanmar advisor on AEC realization, expressed concern that non-tariff barriers that cannot be identified will be difficult to remove.⁶ Non-tariff-barriers can be a common issue among Member States but are likely to be more serious in a country with high levels of corruption and poor rule of law.

Yet, Myanmar is preparing institutional reform to streamline the country's active participation in the AEC. The Department of Commerce, the central trade authority of Myanmar, is working on adjusting its procedures. According to a 2013 World Bank report, the Department of Border Trade was recently reconstituted as the Department of Commerce and Consumer Affairs, expanding its size and functions (World Bank, 2013). At the same time, the Ministry also reconstituted its Myanmar Agricultural and Farm Produces Trading as the Trade Promotion Department. The Commerce and Consumer Affairs Department will be formed with sub-departments for trade and trade flow, internal trade, trade coordination, competition policy and consumer affairs. The Department is also leading in preparation of two new laws: a consumer protection law and a competition law. Despite there being some existent laws that have provisions on consumer protection (such as the 1992 National Drug Law, the 1996 Traditional Drug Law, the 1997 National Food Law and the 2004 Electronic Transaction Law), Myanmar has no dedicated law for consumer

⁶ During an Expert Talk on Myanmar's Integration into ASEAN Economic Community at Union of Myanmar Federation of Chambers of Commerce and Industry, 22 November 2013.

protection. The new law will cover matters related to foodstuffs and drugs as well other commodities, such as refrigerators and cars. These laws will take effect in time for AEC realization.

It is reasonable to expect that most, if not all, of the National Single Window (NSW) and other measures in the Blueprint will be met in time for AEC realization because the mid-term review of the Economic Research Institute for ASEAN and East Asia's AEC Scorecard Phase II project finds that, together with the Lao People's Democratic Republic and Cambodia, Myanmar remains "committed to the live implementation of NSW by 2015, albeit likely more modestly in light of the tremendous technical, institutional, and regulatory advances that a fully functioning NSW entails" (ERIA, 2012). In addition to the European Union's GSP, other special and differential treatments for least developed countries are likely to be resumed for Myanmar by other industrialized states by that time. Thus, it is also reasonable to estimate a steeper slope for both export and import trends after the AEC comes into force.

4.2 Investment

Investment in Myanmar can be divided into Myanmar domestic investment and foreign investment. According to the figures presented in table 9, the manufacturing sector topped the list, at almost a quarter of total domestic investment. Agriculture, livestock and fisheries combined accounted for less than 1 per cent. According to government data, as of 30 November 2013, approved domestic investment had accumulated to MMK3.61 trillion since 1988 (DICA, 2013), equivalent to \$3.69 billion.⁷ This figure was only 8.4 per cent of foreign investment (table 10), which is not surprising in an impoverished country.

Table 9. Myanmar domestic investment of permitted enterprises, as of 30 November 2013, by sector

No.	Particulars	Permitted enterprises		
		No.	Approved amount (MMK million)	%
1.	Manufacturing	639	896 454.04	24.80
2.	Construction	60	733 314.00	20.29
3.	Power	8	290 483.76	8.04
4.	Others	31	474 745.60	13.13
5.	Hotel and tourism	32	433 298.35	11.99
6.	Transport	22	306 728.46	8.49
7.	Industrial estate	2	249 212.79	6.89
8.	Real estate development	34	195 081.96	5.40
9.	Livestock and fisheries	59	22 024.89	0.61
10.	Mining	52	13 007.92	0.36
11.	Agriculture	5	547.90	0.02
	Total	944	3 614 899.24	100.00

Source: DICA, 2013.

This paper assumes foreign investment figures presented here as FDI. Some media report figures as FDI, whereas others, including the Myanmar Investment Commission⁸ and the Directorate of Investment and

⁷ This figure was calculated at the exchange rate of US\$1 = MMK980. Because domestic investment was accumulated over 25 years, the calculated US\$ value could not be an exact equivalent of the MMK value.

⁸ Myanmar Investment Commission is the government authority that makes decisions on proposed foreign investment in particular sectors.

Company Administration (DICA),⁹ report figures for foreign investment. Given the highly undeveloped nature of Myanmar's financial markets, it seems probable that the non-FDI component of foreign investment is negligibly small or non-existent. Thus, this paper uses both terms interchangeably.

Since 1989, when Myanmar began moving towards an open market economy and enacted the 1989 foreign investment law to attract foreign capital, total approved foreign investment reached \$44.12 billion as of 30 November 2013, as shown in Table 10 (DICA, 2013). The investment was highest in the power sector, at about 44 per cent. Oil and gas was in second position, at 33 per cent of foreign investment, while mining was in fourth position, at 6 per cent.

The job-creating sectors of manufacturing and hotel and tourism took third and fifth, at 7.9 per cent and 4 per cent, respectively. These sectors received most of the foreign investment in 2013. Foreign investment in agriculture was in tenth place, at only 0.4 per cent, or about 1.2 per cent when combined with livestock and fisheries. The low labour productivity in the agriculture sector is attributed to poor capital investment due to the low levels of domestic and foreign investment.

Table 10. Foreign investment of permitted enterprises as of 30 November 2013, by sector

No.	Particulars	Permitted enterprises		
		No.	Approved amount (MMK million)	%
1.	Power	7	19 284.43	43.71
2.	Oil and gas	115	14 372.27	32.57
3.	Manufacturing	293	3 480.04	7.88
4.	Mining	68	2 833.73	6.42
5.	Hotel and tourism	51	1 797.92	4.07
6.	Real estate	22	1 229.15	79
7.	Livestock and fisheries	26	347.47	0.79
8.	Transport and communication	16	313.91	0.71
9.	Industrial estate	3	193.11	0.44
10.	Agriculture	12	191.96	0.44
11.	Other services	12	41.89	0.09
12.	Construction	2	37.77	0.09
Total		627	44 123.66	100.00

Source: DICA, 2013.

Approved foreign investment represents all contracted foreign investment – not the actual inflow of investment, and there can be delays between signing contracts and actual implementation (Kean, 2011). Some approved investments have been withdrawn by foreign investors (*Eleven Myanmar*, 2013). Detailed information on how much investment is pending and how much has been withdrawn was not found. Likewise, actual investment figures up to December 2013 were not found. Using the available data, table 11 demonstrates the actual inflow of foreign investment of the total \$33.67 billion, as of 30 September 2013.

Table 11 shows that foreign enterprises have actually invested in the oil and gas sector the most, at more than \$13.63 billion, or nearly 95 per cent of their committed investment. Yet, foreign firms have only invested in the power sector, at \$13.21 billion (less than 69 per cent of the committed amount). Growing

⁹ DICA processes the MIC's decisions on foreign investment.

social and environmental concerns and public opposition against building dams on Myanmar's rivers may delay actual investment of many hydropower projects. The most serious discrepancy was found in the real estate sector, where actual implementation was less than 31 per cent of the committed amount. Actual investment in agriculture and livestock and fisheries amounted to only \$163 million (0.5 per cent of total actual foreign investment) and \$88 million (0.26 per cent of the total), respectively (Mizzima, 2013).

Table 11. Approved and actual foreign direct investment, by sector, as of 30 September 2013

Particulars	Approved amount			Actual investment			% of actual investment in approved amount
	Position	\$ billion	%	Position	\$ billion	%	
Power	1	19.24	43.99	2	13.21	39.23	68.65
Oil and gas	2	14.37	32.86	1	13.63	40.48	94.84
Manufacturing	3	3.44	7.87	4	2.24	6.65	65.04
Mining	4	2.83	6.48	3	2.31	6.86	81.47
Hotel and tourism	5	1.60	3.65	5	1.34	3.99	84.16
Real estate	6	1.13	2.58	7	0.35	1.03	30.74
Industrial estates, agriculture, transport and communications, livestock and fisheries and other services	7	1.13	2.57	6	0.59	1.76	52.58
Total		43.74	100		33.67	100	76.98

Sources: Mizzima, 2013; Song, 2013.

Table 12 presents what is known of approved foreign investment, by country. Up to 30 September 2013, the approved accumulated foreign investment amounted to \$43.74 billion. As the investor with a long history of dominance in Myanmar, China topped the list, at \$14.19 billion, accounting for 32 per cent of the total foreign investment the Government approved by the end of September 2013. China also led the actual investment, at \$14.12 billion, or nearly 42 per cent of the total \$33.67 billion during the same period (Song, 2013). The emerging superpower has mostly invested in hydropower dams, mining projects and oil and gas pipelines to import from Myanmar (Song, 2013). China also has made minor investment in agriculture and manufacturing (Kean, 2011).

The second-largest foreign investment was approved for Thailand, at nearly \$10 billion, or nearly 23 per cent of total investment contracted with foreign enterprises in Myanmar. However, Thailand's actual investment was only \$2.88 billion – less than a third of its approved investment or less than 9 per cent of the total actual foreign investment of \$33.67 billion (Song, 2013).

In contrast to Thailand, Hong Kong (China) has actually invested \$6.37 billion, or nearly 99 per cent of its approved investment of \$6.46 billion, the third-largest approved foreign investment in Myanmar. Similar to China, the Special Administrative Region has mostly invested in the oil and gas, electric power and mining sectors, with smaller amounts in agriculture and manufacturing industries (Kean, 2011).

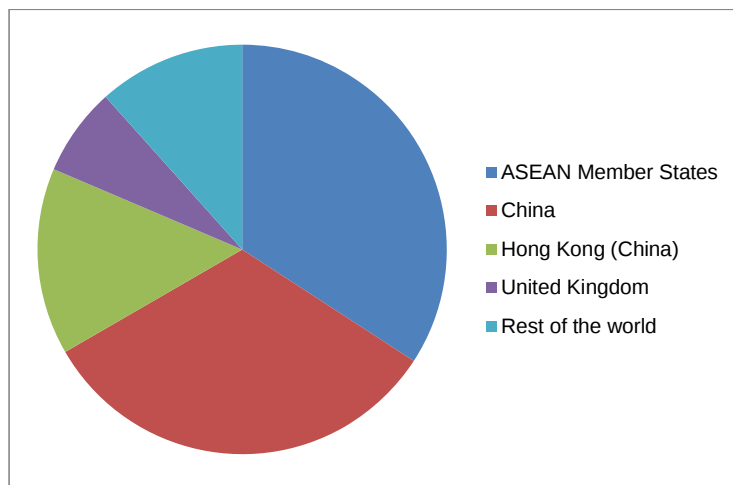
Table 12. Accumulated foreign investment since 1988, by country

No.	Country	Permitted enterprises		
		No.	Approved amount	%
1.	China	51	14 193.395	32.45
2.	Thailand	69	9 984.012	22.83
3.	Hong Kong (China)	61	6 458.979	14.77
4.	United Kingdom	62	3 055.518	6.99
5.	Korea, Rep. of	84	3 044.678	6.96
6.	Singapore	94	2 437.866	5.57
7.	Malaysia	46	1 625.861	3.72
8.	Viet Nam	6	511.186	1.17
9.	France	3	474.360	1.08
10.	India	9	283.100	0.65
11.	Japan	39	277.282	0.63
12.	Netherlands	7	249.136	0.57
13.	United States	15	243.565	0.56
14.	Indonesia	12	241.497	0.55
15.	Philippines	2	146.667	0.34
16.	Russia	2	94.000	0.21
17.	Australia	14	99.246	0.23
18.	Austria	2	72.500	0.17
19.	Panama	2	55.101	0.13
20.	United Arab Emirates	1	41.000	0.09
21.	Canada	16	41.883	
22.	Mauritius	2	30.575	0.07
23.	Germany	2	17.500	0.04
24.	Liberia, Rep. of	2	14.600	0.03
25.	Denmark	1	13.370	0.03
26.	Cyprus	1	5.250	0.01
27.	Macau (China)	2	4.400	0.01
28.	Switzerland	1	3.382	0.01
29.	Bangladesh	2	2.957	0.01
30.	Israel	1	2.400	0.01
31.	Brunei Darussalam	3	4.273	0.01
32.	Sri Lanka	1	1.000	0.00
33.	Luxembourg	1	5.200	0.01
Total		616	43 735.739	99.90

Source: Mizzima, 2013.

Figure 4 shows the share of ASEAN Member States, together with other leading investors, in terms of approved accumulated FDI as of 30 September 2013. ASEAN as a whole took the largest share in Myanmar, but this is smaller than the shares for Mainland China and Hong Kong (China) combined.

Figure 4. Approved FDI shares as of 30 September 2013



Source: Mizzima, 2013.

Figure 5 depicts the trend of approved foreign investment during the past seven years. The figure partly explores how a total of about \$33.3 billion was accumulated from 1 April 2006 to 30 November 2013. The yearly approved amounts were less than \$1 billion until 2009–10 but jumped to almost \$20 billion in 2010–11. The spike was due to the Government agreeing to a huge foreign investment, which concentrated in the oil and gas sector and electric power.

According to DICA data for 2010–11, the oil and gas sector received \$10 billion of foreign investment and the power sector received \$8.2 billion.¹⁰ The mining sector received \$1.4 billion. The manufacturing and agriculture sectors received small amounts: \$138 million and \$66 million, respectively. China and Hong Kong (China) were the source of \$14.07 billion. The Republic of Korea and Thailand also pledged \$2.7 billion and \$2.1 billion, respectively. Japan, Malaysia and Singapore were committed to investing lower levels of investment.

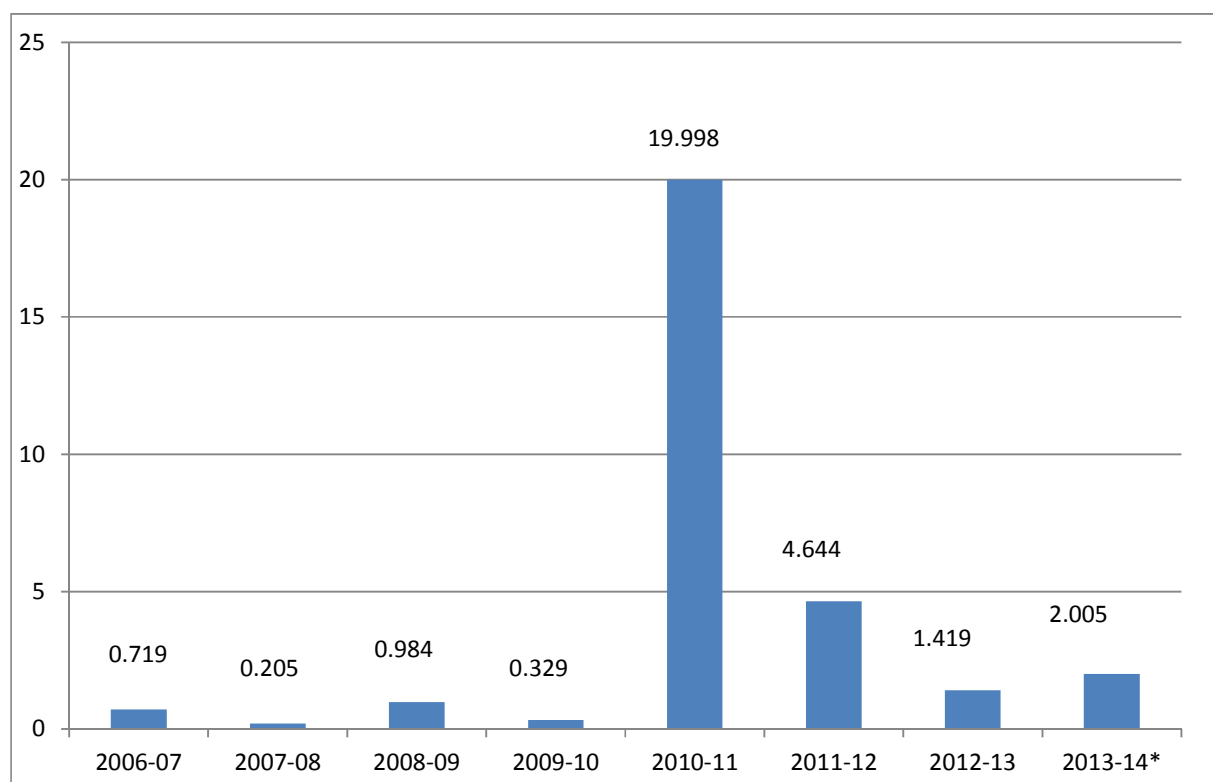
In 2010–11, approved FDI declined, to \$4.6 billion, but that again included China’s investment of more than \$4.3 billion in hydropower.¹¹ Then the approved amount further decreased, to \$1.4 billion in 2012–13. However, manufacturing took the largest share for the first time since 2001–02, at \$400 million (which was closely followed by power (at \$360 million), oil and gas (at \$310 million), and hotel and tourism (at \$300 million). The agriculture, livestock and fisheries sector received only \$15 million.¹² As noted previously, pressure against investment in Myanmar dramatically reduced total yearly foreign investment, from \$2.8 billion in 1996–97 to \$19.1 million in 2001–02. The lower investment trend (except the 2010–11 anomalies) during the previous regime’s rule can be compared with the relatively higher trend in 2011 onwards, during the new Government’s term.

¹⁰ DICA Office, Nay Pyi Taw.

¹¹ DICA Office, Nay Pyi Taw.

¹² *ibid.*

Figure 5. Approved foreign investment in Myanmar between 2006–07 and 2013–14* (\$ billion)



Note: * 1 April 2013 to 30 November 2013.

Source: CSO, 2011; DICA.

During the previous regime, the power and oil and gas sectors headed the yearly foreign investment by sector. These sectors have been insensitive to Western sanctions because they offered a high return on investment to non-Western countries. Yet, the agriculture, manufacturing, hotel and tourism sectors suffered from dramatically low foreign investment. Thus, the removal or ease of Western sanctions during the new Government's period positively affected foreign investment, especially in these sectors. ASEAN integration has driven Myanmar to review and revise its institutions to create a better investment environment and attract foreign investment. As a member of the AEC, Myanmar is required to protect the region's business community. The Ministry of National Planning and Economic Development leads these processes (*Eleven Myanmar*, 2013).

Eleven Myanmar (2013) reported that the country revised the 2012 foreign investment law to protect foreign firms, which includes considerable tax breaks. A new special economic zone law has been enacted that grants foreigners longer tax waivers – from five to seven years. In addition, the Government is preparing to revise the Myanmar Companies Act to allow Myanmar companies to work with foreign partners. The new law will allow local businesses to invite foreigners to participate. The Government was aiming to have the law in place before 2014. Although attempts to encourage foreign investment are welcome, the heavy presence of tax breaks or holidays is a cause for concern – they *may* encourage investment in the short run, but the Government needs revenue to address productivity concerns, such as human capital upgrading and infrastructure needs, which will ultimately attract more investment and deliver broad-based development. In terms of the political economy, granting concessions to one particular industry or sector tends to lead to political pressure for concessions to be granted to other industries or sectors, which would erode the tax

base. Macroeconomic stability is essential to attract foreign investment, and the Government needs to raise sufficient revenue to ensure this.

Myanmar's attempts at restructuring or building institutions for realizing the AEC and, combined with the lifting of Western sanctions have intertwined to positively influence foreign investment. Thus, investment is expected to increase in the near future. The decline of approved investment in the power and the oil and gas sectors (in 2011 onwards) is likely a result of other influences, such as the newly accorded freedom for people in Myanmar to voice their concerns. The public has begun protesting and expressing their opposition against selling electricity outside the country without supplying domestic demand first as well as land confiscation for oil and gas pipeline construction (DVB, 2013), which is likely to delay new commitments in these sectors. Both the Myanmar Government and foreign investors are now required to increasingly consider many possible social and environmental impacts as well as benefits to local residents in terms of compensation and job creation.

Despite a decline of approved FDI between 2011–12 and 2012–13, Myanmar received an increase in actual FDI during this period. The World Bank (2013) reported that actual FDI grew from \$1.9 billion in 2011–12 to \$2.7 billion in 2012–13. Even though both the actual and approved/committed investment trends during the new Government's tenure are insufficient to make reliable future estimates, it is reasonable to expect a higher volume of foreign investment in Myanmar. Continued progress on institutional reforms and some public infrastructure development (for example, transport and information and communications technology) in line with the AEC targeted timeline are likely to boost FDI, given no more sanctions.

However, the pace of investment in every key sector currently appears to be moderate rather than dramatic, with investors wary of possible political instability. Also, electricity remains a challenging issue for every sector but especially for manufacturing and tourism, which rely heavily on electrification. These businesses have to operate with diesel generators whenever frequent electricity outage occurs, resulting in higher business costs. Thus, the insufficient and inconsistent electricity supply, which does not appear to be covered by the AEC prioritized targets, will be a major impediment for investment in Myanmar if it remains unsolved.

Radio Free Asia (2013b) reported that the Government largely subsidizes the electricity costs. The current national power grid was built by the previous regime through an international loan. But the grid is capable of supplying electricity to only 30 percent of the population, although with frequent disruptions due to damaged cables or weaknesses in the distribution system. To provide power to the rest of the population and the power needs for the AEC, the Government must raise the electricity fees and build new power plants. Off-grid electrification is not a substitute for the cheapest and most convenient power supply from the national grid, even though the former can improve living conditions for rural households that are unable to connect to the public grid.

However, when the Ministry of Electric Power announced the plan to raise electricity unit prices, public protests erupted in Yangon (*Eleven Myanmar*, 2013). The Ministry thus postponed the plan until April 2014. The parliament passed a resolution to conduct a public opinion poll to decide on the plan. Via a media campaign, ministerial personnel and some opinion-makers are trying to convince the public to support the plan. Dapice (2013) argued that “raising the price of electricity to industry and heavier residential users to 10–12 cents per kWh is necessary to finance adequate supplies and avoid very costly diesel use”. He further

explained that “because the cost of not having electricity far exceeds the cost of power at any reasonable cost, it makes sense to limit the subsidy to the truly needy and use the extra revenue to expand connections”.

The rationale behind the electricity price plan is convincing, and anecdotal evidence suggests that many consumers increasingly agree with the plan. Public opinion is expected to be positive in support of raising unit charges. Otherwise, the manufacturing and tourism sectors cannot grow, 70 per cent of the population will remain in darkness, and employment opportunities in the formal sector will remain limited. But electricity is not only critical for businesses – rural families engaging in informal work require it as well.

4.3 Industrial growth, structural transformation and emerging industries

This section first focuses on the emerging garment industry as a case study to analyse industrial growth, structural transformation and challenges in the past and present in a scope that is more narrow and manageable than the whole sector or economy. Then the section explores positive and negative impacts of AEC on all key emerging sectors in general.

Garment industry

The garment industry was significant among all industries when the structural shift from an agrarian to industrialized economy evolved in Myanmar in the late 1980s. This followed the passing of the 1989 Foreign Investment Law, which successfully attracted foreign capital, mainly from the Republic of Korea, to establish garment factories in Myanmar (Lythe, 2013). Taking advantage of the country’s low-cost labour, the garment businesses carried out cutting, making and packing (CMP) activities. The United States was the main importer of garment products from Myanmar. Among its neighbours (Cambodia, the Lao People’s Democratic Republic, Myanmar and Viet Nam), Myanmar took the lead in orders received. The garment industry totalled 300 firms before the US ban (previously explained) on all Myanmar exports in 2003 (Lythe, 2013). The labour-intensive garment industry employed a number of low-skilled workers in urban areas and offered higher wages than the agriculture sector. Without any external pressure, Myanmar’s structural transformation would have been more advanced than it is now.

The United States pressured its own investors and other foreign investors to stop doing business in the country. Consequently, foreign investment in the garment industry was withdrawn. Additionally, global garment retailers, including Levi Strauss & Co. (US) and Reebok (Germany), stopped purchasing garments from Myanmar in response to international consumer boycotts and pressure (Lythe, 2013). The remaining garment firms suffered from the withdrawal or the lack of new orders. Exacerbated by the 2003 Myanmar imports ban, the industry shrunk to 175 firms, and a total of 80,000–100,000 workers became unemployed (Myo Myo Myint and Rasiyah, 2012). With the majority of them female workers, troubling social issues followed, including engagement in sex work to compensate for the earnings loss and to support their families (Wilson, 2012).

Now is probably the right time to resume pending structural transformation that should have occurred from this industry. Although the United States has not reinstated its GSP privileges yet, the European Union has and additionally, imposes no tariff or quotas any longer, nor are there any sanctions on Myanmar’s apparel

products. And the AEC-driven law reforms are attracting new investment. The number of garment factories is increasing, although there is also now tough competition from Bangladesh, Cambodia and Thailand.

When the international sanctions forced many factories to shut down in Myanmar, investors set up garment factories in Thailand, but close to the border with Myanmar. Since then, these factories have been absorbing Myanmar migrant labour. One benefit has been that Thailand's wages are more than what is paid in Myanmar, certainly since the Thai minimum wage became 300 baht per day (approximately \$10 per day), which is more than three times higher than wages in Myanmar. Even though some migrant workers receive less than the Thai minimum wage, the amount is considerably higher than wages offered in Myanmar. According to a McKinsey Global Institute report (2013), the typical daily wage of a Myanmar worker is \$3. Cambodia's minimum wage for garment workers was increased to \$80 in May 2013. Hence, garment workers in Myanmar appeared to be on the same pay level as garment factory workers in Cambodia. The former's labour productivity was much lower than the latter though (Coster, 2013). In the meantime, the minimum wage in Bangladesh was only \$39 a month (Devnath, 2013).

To be competitive in the Asian labour market, Myanmar must overcome its labour productivity challenge. Labour productivity is influenced by both skill competency and infrastructure, and Myanmar scores poorly on both measures. Many economists, including Arrow and Kurz (1970), Barro (1990) and Chatterjee and Turnovsky (2012), have argued that public investment in infrastructure positively affects labour productivity and therefore growth. The frequent outage of electricity, for instance, affects the productivity of all factors of production in the garment industry. Coster (2013) estimated that energy expenses in factories (for diesel generators and electricity) amount to 30–40 per cent of the total labour costs.

The third challenge is a complicated payment system that affects workers but is not straightforward to resolve. During a group discussion with 43 workers' representatives,¹³ CMP garment workers' representatives expressed unhappiness with the basic wage rate, which is between \$25 and \$60 per month, according to the 12 payslips they showed. They explained that the monthly pay is broken down by basic wage and various allowances (for transport, welfare, attendance or other expenses), which according to the payslips, totalled \$80 (in equivalent MMK). All allowances are based on the basic wage, as required by law; thus, when the basic wage is low, so too are the allowances and compensation. In a subsequent meeting with employers' representatives in Yangon,¹⁴ this payment system was confirmed, with the defence that factory owners suffered huge losses because of the Western sanctions. In addition to the loss of orders or having to shut down, the lay-off compensation to workers, based on their salary, was enormous (according to Myanmar Marketing Research and Development survey data, 70 per cent of manufacturing firms employ 100 workers or more). The loss of workers' jobs was related to external factors beyond their control yet they had to take responsibility for it and compensate the workers. Thus, out of fear of a repeated situation, employers maintain a low basic wage to minimize their liability.

The fourth challenge is the unlawful behaviour associated with strikes. Since the introduction of the 2012 Labour Organization Law, which allowed the unionizing of workers, wages have increased in manufacturing factories through pressure imposed by labour strikes. Most of the strikes have included demands for wage increases along with other changes, which have resulted in higher pay rates. In the meeting with the employers' representatives, a garment employer pointed out that factories are operating

¹³ One of the group discussions within a meeting with workers' representatives to talk about the minimum wage, organized by Ministry of Labour, Employment and Social Welfare on 10 October 2013 in Yangon.

¹⁴ In a meeting with employers' representatives to discuss the minimum wage, organized by Ministry of Labour, Employment and Social Welfare on 11 October 2013 in Yangon.

at either a loss or at a break-even point. The employers continue to operate without profit in expectation that the industry will soon be booming. Another representative reported that when a group of workers organized a strike, more than 90 per cent of workers were willing to work. But there were a few strangers with the group who encouraged the strike. The group, he said, tried to mobilize their peer workers to join them in the strike. When that effort failed, the group blocked the factory gate and did not allow any worker to enter. Consequently, the factory owner failed to meet the order deadline, encountering financial and credibility losses. There was no legal action against the group and no one protecting the employer's interests, neither the government authorities nor the media.¹⁵

The fifth challenge is potential exploitation by garment businesses operating near the border on Thailand side, in terms of co-opting the GSP granted to exports from Myanmar by the European Union. In the same employer representatives' meeting, one representative expressed concern regarding a story, albeit unconfirmed, that some garment factories on Thailand side near the border are planning to label their products as made in Myanmar so that they are eligible for duty-free and quota-free access to European markets. Because Myanmar firms are struggling with high production costs due to the poor infrastructure, they are less competitive than the Thai garment businesses. If the Thai firms manage to move their garment exports as of Myanmar origin and exploit the concessions intended for firms on the other side of the border, it will be even more difficult for the Myanmar garment firms to compete. To emphasize, this information has not been confirmed.

Another challenge is media bias in labour-related news coverage, which can potentially mislead policy-makers and the general public. For example, Vrieze (2013) reported in *The Irrawaddy* that "Burma is emerging from decades of repressive military rule and does not yet have a legal minimum wage. Among workers interviewed for the report, 55 per cent earned a basic wage of between \$25 and \$37 per month. These wage levels are the lowest in the region. In contrast, Cambodian garment workers earn a basic wage of about \$80 per month. Minimum monthly wages for Bangladeshi workers are expected to rise to about \$65, Reuters reported recently." The story did not compare total wages between Cambodia and Myanmar, nor did it refer to the peculiar payment style in Myanmar and why it is used. This type of coverage is misleading, by dramatizing a situation through a narrative of the strong owners bullying the weak workers.

Emerging drivers of economic growth

This section discusses the five sectors that are key emerging drivers of future growth and employment in Myanmar: (i) manufacturing; (ii) energy and resources; (iii) infrastructure; (iv) agriculture; and (v) hotel and tourism.

As previously noted, foreign investment grew by \$1.32 billion in the manufacturing sector (65.8 per cent of the total increased FDI) over the past eight months and is expected to grow further. Low-value-added industries in this sector do not require a high level of skills. Hence, farm labourers can easily transfer to low-value-added manufacturing industries for higher-paying employment opportunities, which is why the economy's structural shift is expected to begin in this sector.

¹⁵ *ibid.*

Myanmar is not yet in a position to shift from a low-value-added economy to a high-value-added manufacturing or service economy as Indonesia, Malaysia and Singapore have done¹⁶ because the less educated labour force is mostly suited for low-skilled positions. The shift will be possible only if Myanmar relentlessly promotes education of its young people and skill up grading among workers needed in a high-value added economy. This will not happen in the short or medium terms. Myanmar is likely to need at least 20 years to reduce the relative poverty levels, compared with Indonesia, Malaysia and Singapore, although it expects to reduce sooner the percentage of people living in absolute poverty by half much sooner than 20 years.¹⁷

Together with Cambodia and the Lao People's Democratic Republic among ASEAN Member States, Myanmar can initially fulfil some low-value component of production in the global supply chain to meet the global demand of goods, such as readymade dresses, shoes and toys. The garment sector looks set to grow considerably, while seafood processing, another predominantly low-skill industry, has high growth potential (MGI, 2013). There is also considerable potential in focusing on meeting domestic demand for import-substituting products in the manufacturing sector. The demand is currently high and likely to increasingly grow when the AEC comes into force. Among potential growth products, the McKinsey Global Institute (2013) recommended food and beverages, mineral-based products, textiles, footwear, furniture, jewellery, toys, and rubber and plastic consumer goods because of Myanmar's current comparative advantage with its abundant low-cost labour.

A few high-value-added manufacturing industries, such as automotive parts and refined gas, are also likely to develop, either to meet the growing domestic demand or to exploit local raw materials for the purpose of minimizing the transportation costs of intermediate goods. This will be possible through the mobility of skilled workers that the AEC ushers in who can fill the skill gaps. The expected boom in the manufacturing sector will require the construction of factories, housing and other facilities. Urbanization will occur when rural people engaged in agriculture move to urban areas to seek employment, primarily for jobs directly or indirectly generated by the growth of the industrial sector (MGI, 2013). For the urban population to expand, housing and other infrastructure, such as water supply, public sanitation and telecommunication services, will be required. Considerable levels of infrastructure investment will be required to make this a reality.

The continued growth of the energy and resources sector will demand construction, operation and maintenance of hard infrastructure. At the same time, Myanmar's extractive resources will continue to be in high demand. Global demand for hydropower, oil and gas is expected to continue growing in the foreseeable future. Hence, revenue from Myanmar's energy and resource sector is expected to represent a significant share of GDP. Similarly, income from other subsoil assets, such as gemstones and minerals, will continue to contribute to economic growth. As with garment production, sufficient and consistent electricity will be critical for the growth of the whole economy. The generation, transmission and distribution of electric power for the whole country will require more labour than the extractive industry.

As well, agriculture will continue to contribute a large share of GDP. There is great potential for rice yields to increase in Myanmar as the economy opens up. Along with higher productivity per acre, extended cultivation on idle arable land can return Myanmar to its past success as the world's largest rice exporter.

¹⁶ Other than Singapore, which has the world's highest ranking in industrial performance, Bruni (2013) noted that "Malaysia and Indonesia have already shifted their production structure to high-quality activities and new knowledge cluster or are ready to do so".

¹⁷ Myanmar aims to reduce the poverty rate by half from 32 per cent in 2005 to 16 per cent by 2015 to meet the Millennium Development Goal 1.

There is also scope for productivity and employment improvements through agricultural diversification (MSU-MDRI/CESD, 2013). Agriculture will continue to offer the largest number of jobs for the foreseeable future, despite the anticipated growth of the manufacturing sector. Nonetheless, it is expected to be decreasingly labour-intensive because of growing investment in capital goods, thereby allowing extension of the labour-intensive manufacturing sector.

The tourism sector also is expected to boom. Myanmar has kept most of its impressive colonial buildings and ancient monuments intact. Together with the natural beauty of its forests, mountains and beaches, Myanmar has the potential to attract far more tourists than it currently does. Its recent political reforms can be part of the attraction for some tourists. Because of efforts to meet the AEC requirements, including the free flow of travellers, Myanmar will offer a simplified visa application process for visitors even before 2015. Without a doubt, the AEC will positively affect the tourism sector.

The ASEAN Scorecard for monitoring implementation progress

The ASEAN Scorecard sought to track or monitor the implementation status of the AEC Blueprint, which is a binding document (ASEAN, 2008). However, the Scorecard was “not informative enough” on implementation status (Umezaki, 2012). Among other things, the ASEAN economic ministers, who had access to the full details of the AEC Scorecard (which were not fully publicized), found the monitoring tool should have had informed degrees of implementation of the AEC measures instead of a binary assessment (“fully implemented” and “not fully implemented”). Table 13 illustrates how the Scorecard assessed implementation of AEC integration strategic plans for the region (ASEAN, 2012).

Table 13. AEC Scorecard on the ASEAN region’s preparedness for economic competitiveness

Key areas	Phase I (2008–09)		Phase II (2010–11)		Total measures	
	Fully implemented	Not fully implemented	Fully implemented	Not fully implemented	Fully implemented	Not fully implemented
Competition policy	2	2	0	0	4	0
Consumer protection	2	0	5	4	7	4
Intellectual property rights	-	-	4	1	4	1
Transport	15	10	6	8	21	18
Energy	0	0	2	1	2	1
Minerals	1	0	7	0	8	0
ICT	2	0	4	0	6	0
Taxation	-	-	0	1	0	1
E-commerce	-	-	1	0	1	0
Total number of measures	22	10	31	15	53	25
Implementation rate*	68.7%		67.4%		67.9%	

Note: *The implementation rate is calculated as the ratio of measures that are fully implemented to total number of measures targeted. (-) Indicates no measures targeted for this phase.
Source: AEC Scorecard, 2012.

Around 68 per cent of measures were implemented as of end-December 2011, with notable progress in the areas of competition policy, intellectual property rights, and regional cooperation in minerals and ICT.

For example, the binary assessment of “energy” says very little about the implementation status of energy-related policy measures formulated from the AEC Blueprint (how these measures were formulated were not publicized). Therefore, the economic ministers requested the Economic Research Institute for ASEAN

and East Asia (ERIA) develop a scoring system based on the nature of the measures and feasibility (Umezaki, 2012). After developing the system, ERIA also provided intellectual assistance to the ministers to conduct a mid-term review of the implementation status of the AEC Blueprint (ERIA, 2012).

A negative impact of AEC compliance

Despite the positive ways in which the AEC can have an effect on accelerating the structural shift in Myanmar, the AEC Blueprint and its implementation assessments do not require Myanmar to prioritize the serious electricity deficiency nor mobilize any regional technical or financial support to resolve the issue (from the ASEAN infrastructural fund, for example). Along with skills development of the low-cost labour, basic infrastructure, especially electricity, is critical for the successful structural transformation in Myanmar. Development of key sectors relies on the consistent and sufficient energy supply from the national power grid. Yet, the AEC Blueprint, the AEC Scorecard and the mid-term review of the implementation of the AEC Blueprint have never recommended energy-rich Myanmar to pay attention to resolving the energy issue.

The AEC Blueprint incorporated the ASEAN Plan of Action for Energy Cooperation 2010–15 (Energy Plan) and any other plan for regional economic integration. At the outset, the Energy Plan identified seven programme areas of cooperation, including the ASEAN Power Grid. The Energy Plan contains 26 strategies, including accelerating “the development of the ASEAN Power Grid Interconnection projects” and optimizing “the generation sector vis-à-vis the available indigenous energy resources in the region” (ASEAN Centre for Energy, undated). The Energy Plan emphasizes interconnecting or integrating national power grids to develop the ASEAN Power Grid and thus enhance electricity trade across borders rather than strengthening weak national power grids (which are key sources of energy for social and economic development in reducing inequality gaps within the region). Thus, it is not surprising that the AEC Blueprint does not include strategic actions to improve national power grids so that the grids can fill national energy requirements when the AEC is realized. Accordingly, the Blueprint, the Scorecard and the mid-term review, as the driving forces to advance the AEC, led Myanmar to concentrate on accomplishing other actions in accordance with deadlines – and not on offering a reliable and adequate national power grid for domestic use, which is essential for development in all sectors. Hence, advancing the AEC is undermining the urgency of the energy needs for the structural transformation in Myanmar.

Both in emerging and continually important sectors, the AEC’s free flow of skilled labour will have impact on Myanmar’s labour force in both positive and negative ways. The following section explores these impacts as well as Myanmar’s readiness to join the AEC in terms of skills development.

4.4 Impacts on human capital and skills development

The introduction of the AEC is likely to accelerate the structural shift and the boom of key sectors with increasing trade and investment – the growing economy certainly will seek to employ competent human capital. Given that Myanmar’s workforce is less skilled compared with other ASEAN Member States in the region, the labour demand is unlikely to be met with the weak supply of highly educated skilled labour, thereby encouraging foreign skilled labour movement into Myanmar.

According to the World Bank and the EIU, Myanmar's working-age population (15 years or older) represents 77 per cent of the total population (MGI, 2013, p. 50). The IHLCA survey indicates that 67 per cent of the population aged 15 or older participates in the labour force. Very few of them, however, are highly educated. In 2010, only 5 per cent of the labour force had finished tertiary education and 15 per cent had graduated at the secondary level (MGI, 2013, p. 75).¹⁸ Myanmar's educational performance falls below other ASEAN Member States. In comparison, 30 per cent of workers in Thailand had completed secondary education, almost 50 per cent in Indonesia and 60 per cent in Malaysia (MGI, 2013). Myanmar's educational deficiency is not only in quantity but also in quality. Chronic underinvestment in education for decades has affected the quality of Myanmar graduates at all levels.

The available literature relevant for this paper refers to skilled labour as workers who possess tertiary education certificates, semi-skilled labour as those who have finished secondary education and low-skilled labour as those who have completed primary education or less. The primary data collected by MMRD (labour survey) also followed this classification. However, skill levels are not correlated with the levels of formal education alone.¹⁹ The International Labour Organization's International Standard Classification of Occupations defines "skill" as the ability to carry out the tasks and duties of a given job (ILO, 2013). This reflects that skill can be acquired via informal²⁰ and non-formal²¹ vocational training as well as work experience. The use of formal education in determining skill level reduces the complexity associated with widely diverse vocational training courses and experiences, which are extremely difficult to standardize. Also, because the literature referred to here classifies workers' skills by formal education status alone, this paper also has relied on data classified in this way.

In the AEC context, a skilled worker will be a specific person with a formal certificate issued with the support of a government and recognized throughout ASEAN. Hence, "skilled worker" in this context does not necessarily imply a worker who has finished tertiary education.²² University graduates who hold certificates that are not supported by their government nor recognized throughout ASEAN will not be treated as skilled workers. Additionally, less-educated workers who left formal education at the primary or secondary school level but hold a certificate that is endorsed by their government and recognized throughout ASEAN will be treated as skilled workers. Thus, skilled labour in the AEC context is not similar to the general use of the term.

Labour demand in many sectors is likely to surge in Myanmar when the AEC takes effect because trading opportunities and FDI inflows will increasingly establish or extend businesses, especially in the key sectors

¹⁸ No collected data on the education of the labour force or employed workers was found in the CSO's published statistical yearbooks or the recent IHLCA survey findings. Thus, the MGI data is used for this paper.

¹⁹ According to the Organisation for Economic Co-operation and Development (2013), formal education is "education provided in the system of schools, colleges, universities and other formal educational institutions and that normally constitutes a continuous ladder of full-time education for children and young people, generally beginning at age 5–7 and continuing up to 20 or 25 years old or older. In some countries, the upper parts of this ladder consist of organized programmes of joint part-time employment and part-time participation in the regular school and university system: such programmes have come to be known as the 'dual system', or other equivalent terms, in these countries".

²⁰ According to the ILO (2013), informal education is "education that is not organised. Informal learning can be either intentional (such as participation in short lectures or reading books or journals) or unintentional (occurring by chance or as a by-product of everyday activities)".

²¹ According to the ILO (2013), non-formal education is "any organized and sustained educational activities that do not correspond exactly to the above definition of formal education".

²² David Lythe's presentation was made during a seminar on the ASEAN Economic Community and the development of skill standards in Myanmar, 29 November 2013 in Yangon.

of the economy. Modest implementation of the National Single Window and customs modernization is expected to reduce trade and import/export clearance barriers.

The current labour force includes a great deal of low-skilled workers. A labour supply shortage is expected in the skilled and semi-skilled positions in every sector of the economy. Poor human capital development is attributed to the low level of education investment for so long. The Asian Development Bank (2012) reported that budget allocations for education were extremely low during the previous regime. The current Government increased the education budget to 3.7 per cent of the national budget (to 0.7 per cent of GDP) in 2011–12 and 6.3 per cent in 2012–13 (1.4 per cent of GDP). The increased budget is still very low by international standards.

As a result, secondary education, TVET and higher education outputs face challenges in terms of quality and management. The chronic underinvestment in the education sector has resulted in low technical expertise at almost all skill levels. Moreover, both the education and TVET sectors have deficiencies in their links to labour market demand. In the face of the AEC, an appropriately skilled workforce is needed to be competitive and to reap the benefits of the free flow of trade and investment so that inequality gaps within the regional population can be narrowed. Otherwise, a large volume of low-skilled and unskilled labour force participants are liable to become unemployed. Myanmar's critical challenge is to develop a more skilled labour force as soon as possible. Yet, Myanmar faces human capital development challenges in all key sectors.

In the agriculture sector, the less-educated workforce has low agricultural skill and poor technical knowledge due to the country's decades-long isolation. Exacerbated by low capital investment with insufficient financing opportunities, the sector's productivity is the lowest, at only \$1,300. The agriculture sector is likely to remain the largest employer for the next 20 years or more (MGI, 2013). It currently accounts for 50 per cent of workforce employment. Skill development of workers engaged in this sector is critical to ensure that the country's economic growth is widely shared.

There are only two universities servicing the agriculture sector: the Yezin Agricultural University under the Ministry of Agriculture and Irrigation and the University of Veterinary Science under the Ministry of Livestock, Fisheries and Rural Development. There are three official TVET schools: a Fisheries Science school and two Breeding Training Centres under the Ministry of Livestock, Fisheries and Rural Development. These universities and TVET schools struggle to supply the required quality or quantity of tertiary education to meet the demand for skilled labour. To enhance the skills of the less-educated workforce, the Ministry of Agriculture and Irrigation offers agricultural extension services in rural areas because agricultural works are rural-based and highly informal in nature. Yet these services have been under-resourced (Khin Oo and Ando, 2012).

To strongly compete with the low-value-added industries from other countries within and outside the region, Myanmar's workforce must have relevant job-related skills even at the low-skilled positions. Otherwise, the manufacturing sector will fail. This holds true for both export-oriented industries and import-substituting industries. If other less-labour-intensive sectors grow and agriculture becomes capital-intensive while the manufacturing sector remains lacklustre, then many workers who are not able to find a job in the formal sector will end up in the informal sector, with a meagre income – either within or outside the country. Skilled professionals from other countries will fill many of the highly paid skilled jobs in Myanmar and elsewhere, because workers from the other ASEAN countries can freely flow into Myanmar under the AEC

rules. The broadest income gap is likely to result among a vast majority of Myanmar workers and those of other Member States if the skill gaps are unfulfilled.

Only if the Myanmar workforce becomes skilled enough to efficiently fill the gap in the global supply chain of the export-oriented products will low-value-added manufacturing industries expand. Likewise, light import-substituting industries will only survive in Myanmar if appropriate skills development takes place. Otherwise, domestic consumers will choose better-quality foreign products with lower or the same price because many goods and services can freely flow into Myanmar when the AEC takes effect. Then a majority of workers can engage in low-skilled positions in the formal sector within Myanmar and elsewhere within the AEC because of their job-related skills. In this situation, the income gap between the Myanmar workforce and the advanced workforce in other ASEAN Member States will still be huge but not as bad as compared with the incomes of Myanmar labourers in the informal sector within the region. When Myanmar becomes ready with a skilled workforce to change from low-value-added manufacturing to a high-value-added economy, the inequality gaps will narrow.

Foreseeing the adverse impact the AEC could have on the workforce, the Myanmar Government seeks to urgently and heavily invest in human capital and skills development. Thus the AEC also can have positive impact on Myanmar in gaining opportunities for enhancing skills. Although ASEAN provides regional guidelines for skills development and harmonizing competency standards ahead of the AEC, the Member States and other countries increasingly offer technical support and aid assistance to Myanmar with the hope of better economic cooperation and larger benefits from a more efficient AEC. In accordance with the ASEAN guidelines, Myanmar enacted the Employment and Skill Development Law to promote employment and skills development in 2013.

Following the guidelines in the AEC Blueprint, the Ministry of Labour, Employment and Social Security set up a unified skills training system for labour force participants. The Ministry is responsible for developing training standards and a national system of trade skill testing and certification. Also, 13 other ministries are offering training in their areas of responsibility. In this way, the AEC is driving the public sector to train the labour force to raise its skill level, a development that is unlikely to have happened otherwise.

The Employment and Skill Development Law was passed on 30 August 2013 and is to take effect in three months. It establishes a Skill Development Fund through a levy of 0.5 per cent on wages and salaries, to be paid by employers. Recognizing insufficient public training resources, the law also establishes a central body in which the national organ of private sector employers – the Union of Myanmar Federation of Chambers of Commerce and Industry – is a member. By law, the Federation is mandated to provide significant leadership in skills training and TVET. In Myanmar, TVET is commonly an academic, institution-based service, with no industry involvement and little practical work (Lythe, 2013). Yet, because many industry associations are affiliated with the Federation, direct training support to a related industry (under arrangement of the Federation) could provide a strong link of trained worker's skills with the industry's demand.

In a recent workshop featuring presentations from various experts ("Expert Talk"), the Federation Chairman reported that the organization would work closely with its professional members from key industries as one

of the major means towards providing training and would use its premises to provide such arrangements.²³ He also urged all workers to participate in training opportunities on their days off because their skill development and enhancement is urgent and critical to manage the strong competition challenges coming with the AEC. By the same token, he also asked for the sacrifice of employers to send their workers for training during working hours to meet the time schedule of related training. The requirement to improve their skills may adversely affects the welfare of employees in the short run, but it will improve their welfare in the long run. Similarly, sending workers to training opportunities will require that employers reduce their production and revenue in the short run, but in the long run the sacrifice will increase their productivity and production quality.

Another positive impact of the AEC is the growing international assistance in skills development and capacity building available to Myanmar to enhance trade and investment opportunities, not only for the country but also for the AEC. For example, Japan has provided funding, equipment and the curriculum for a garment training centre that is managed through the Myanmar Garment Manufacturers Association and the Federation of Chambers of Commerce and Industry. The centre has provided free-of-charge, short-term training courses for sewing supervisors, operators, mechanics, quality controllers and managers free of charge. The training programme could be formalized and extended through the Skills Development Agency, which is newly established by the Employment and Skill Development Law. Japan has been a major importer of clothing produced by Myanmar garment industries since the United States-led boycott. As well, India has been assisting Myanmar in skills development by offering two scholarships to its National Institute of Design and 250 scholarships for textile workers under the Integrated Skill Development Scheme. India also is helping to set up the India-Myanmar Apparel Sector Joint Venture in the Thilawa Special Economic Zone in collaboration with other international brands (Lythe, 2013).

Regarding long-term training, one of the employers participating in the employers workshop (organized as part of the research for this paper) expressed concern that after investing in workers' skill development, such as with a one-year overseas training programme, the workers would not come back to them.²⁴ Part of the concern is that labour contracts are not binding in Myanmar (Myo Myo Myint and Rasiah, 2012, p. 165). Job-hopping and labour migration are common practices in almost all sectors. Job-hopping often occurs within the same industry, even for a small wage differential. Although employers' free-riding on the training provided by others is an issue around the globe, it appears to be particularly problematic in Myanmar – the lack of enforcement of contracts being a key reason for this. Better enforcement of workers' contracts would give employers greater incentive to invest in the training of their workforce, therefore raising the competency of the country's human capital (Acemoglu and Pischke, 1998).

4.5 Productivity and wages

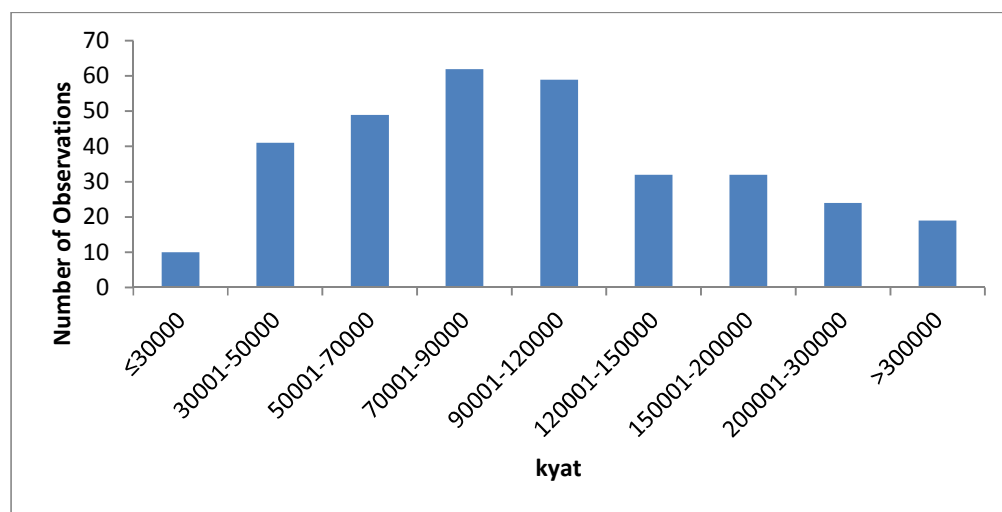
Wages in Myanmar are among the lowest in South-East Asia. Although the difference between the basic wage rate and average total salary is particularly acute for garment factory workers, many workers across sectors also experience a considerable difference between their basic wage rate and average total salary. This is illustrated in figures 6 and 7, which present the distribution of basic wage rate and average total salary for a non-representative sample of workers in Yangon (136 employed in manufacturing, 96 employed in trading and 96 employed in services). When disaggregated by sector, these data also shows considerable

²³ An Expert Talk on Myanmar's Integration into ASEAN Economic Community on 22 November 2013 in Yangon.

²⁴ In a meeting with employers' representatives to discuss the minimum wage, organized by Ministry of Labour, Employment and Social Welfare on 11 October 2013 in Yangon.

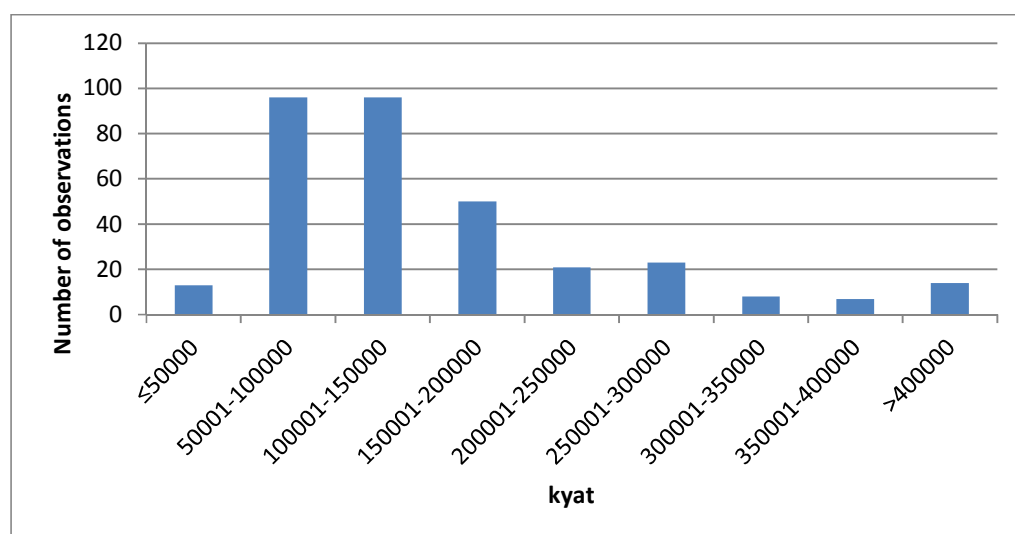
differences between the basic wage rate and average total salary. As would be expected, the figures show that there is greater concentration of average salary than of basic wage rates.

Figure 6. Workers' basic pay rates in Yangon, 2013



Source: MMRD Labour Survey, 2013.

Figure 7. Workers' average monthly salary in Yangon, 2013



Source: MMRD Labour Survey, 2013.

Wages are likely to increase again when the AEC takes effect in 2015 because FDI is expected to particularly flow into the export-oriented garment industry and then other CMP-based industries, such as footwear, optical instruments and rubber and plastic consumer goods (San Thein, 2012). At the same time, investments are also expected to flow into other key industries steadily. Due to the limited supply of skilled labour in Myanmar, salaries for senior and professional positions are likely to rapidly increase to a level close to the salaries in affluent ASEAN Member States. Wage increases for semi-skilled and low-skilled jobs are likely to be slower because factories will absorb underemployed labour from the agriculture and

informal sectors first. This is also expected to increase inequality within Myanmar, although absolute poverty declines.

Similar to wages, labour productivity is likely to increase at every skill level because of the intense skill development induced by the AEC. Currently, Myanmar's labour productivity is about 70 per cent lower than seven benchmark Asian economies.

If Myanmar can significantly improve its public infrastructure in two or three years and if foreign investors find that the current reform process does not change, then poor workers currently employed in the informal sector should increasingly be able to find employment in the formal sector. Once skill development training reaches participants in the agricultural labour market, agriculture will become more productive and thus capable of offering higher pay to the skilled workers. At that time, setting a minimum wage probably will be required to protect workers from exploitation.

4.6 Labour migration

The AEC should have a positive impact on attracting migrant Myanmar workers employed in the informal sector abroad back home once there are job opportunities with satisfactory income in the formal sector. These workers have developed and improved their job-related skills.

A study of Myanmar female migrant workers in the textile and garment factories in Thailand found that family indebtedness was a major push factor in their decision to migrate (Pearson and Kusakabe, 2012), although there is typically a complex mix of other factors behind migration. Naw Phoebe (2007) argued that there are three factors that encourage migration from Myanmar and that disentangling these motivations is not straightforward – economic (poverty, high inflation and landlessness); political (such as civil conflicts between the Government and armed ethnic groups and forced relocation); social pressure (social exclusion and family problems, such as gambling and alcohol and drug abuse). As noted earlier, there are 2.3 million Myanmar migrant workers in Thailand alone.

The major pull factor to migrate can be wages that are immensely higher than what they would be in Myanmar. These jobs are mostly characterized as the 3D jobs and thus typically shunned by citizens of host countries. When the AEC drives domestic wages up significantly at home, many migrants engaging in those 3D jobs are likely to come back home, especially if their motivation had been strictly financial. The Thilawa Special Economic Zone, the Dawei deep-sea port, the East–West road corridor and the newly established industries and services will offer job opportunities to these returnees. Even though increased remuneration in Myanmar is likely to remain lower than wages received in Thailand and Malaysia, a number of migrants are likely to prefer to return home where they can stay with their families and work in safe and secure formal jobs than in the informal 3D jobs abroad. The 2012 Social Security Law will take effect ahead of the AEC, which will offer all workers some sense of security. Under the law, workers employed in the formal sector can enjoy housing and unemployment benefits, extended medical care and a pension entitlement. As long as the law is implemented effectively, these new pull factors are likely to encourage migrants to return home, leading to a “brain gain”, whereby the returned migrants contribute to the growth of the economy with their skilled labour. Increased wages and job-related social benefits are likely to reduce the level of future migration in the informal sector abroad. In this way, the realization of the AEC is likely to reduce irregular migration.

The AEC is also likely to induce some well-educated migrants working at well-paid jobs in industrialized countries also to come back, especially with a steep increase in wages and accompanying democratic reforms. However, cultural and social reasons for staying abroad may still outweigh economic gains for some workers.

Despite the seeming good economic news, Myanmar's economy is unlikely to catch up to the most affluent economies, such as Singapore and Malaysia, at least in the short run because of its limited human capital development and poor infrastructure. This means a considerable wage differential and a variety of choices will exist within the region, even though the gap seems to be narrower for highly educated professionals. Myanmar economist U Myint (2009) contends that the AEC can bring special dangers to its low-income members, including Myanmar. It can lead to "economic polarization" in which the most talented people will leave the country to take better opportunities and higher rewards in more advanced countries through such arrangements as the mutual recognition agreement for tourism professionals.

The AEC should benefit migrants by making it easier to use bank transfer channels for remittances. Financial reform is in progress to ensure smooth financial inflows and outflows for the free flow of trade and investment in two years. The official remittance transfers offer a great deal of benefits to the Government because they are an important source of foreign exchange. Remittances to developing countries now account for more than three times the official development assistance (the Philippines was one of the largest recipients of remittances (at \$24 billion) in 2012). That could hugely change after the AEC takes effect and economies begin to grow. For example, Reuters reported that an IOM-conducted survey in Thailand found that "almost 80 per cent of respondents said they would like to return home, while 82 per cent said they were influenced by the changes in Myanmar" (Thin Lei Win, 2013). The survey was based on interviews with 5,027 Myanmar migrants in seven provinces.

4.7 Poverty and inequality

As noted, the latest IHLCA survey found that around one quarter of Myanmar's population lives in poverty. The rate of poverty was twice as high in rural as urban areas, with 85 per cent of those in poverty living in rural areas. There was considerable variation in poverty rates across Myanmar's states and regions, with Chin State (at 73 per cent of the population living in poverty) and Rakhine State (at 44 per cent) each having a particularly high incidence. It was no coincidence that states with high levels of migration to neighbouring Thailand, such as Kayin (at 17 per cent) and Mon (at 16 per cent), have relatively low levels of poverty. Indeed, a United Nations Development Programme report argued that one of the most probable explanations for the surprising finding that female-headed households are less likely to be in poverty and are more likely to escape poverty is that they are more likely to have family members who are migrants who send remittances home (IHLCA, 2010).

The importance of migration as a means to alleviate poverty reflects the poor employment opportunities that have been available in Myanmar in recent decades. As Myanmar opens up even more, it can be expected that greater returns to work will be available, offering greater domestic opportunity to escape poverty. Accession to the AEC, if managed correctly by the Myanmar Government, can further strengthen this anticipated trend. However, the AEC is unlikely to reduce regional inequalities – and may even exacerbate them. The states or regions with the highest levels of poverty are Chin State and Rakhine State, which

border India and Bangladesh, and are likely to see relatively little change from greater ASEAN integration, whereas Kayin and Mon states should be able to take advantage of their long borders with Thailand to achieve further growth. Likewise, urban Yangon already has a low poverty level (at 12 per cent) and is likely to receive a large impact from AEC integration.

As long as AEC integration can boost urbanization, it is likely to reduce poverty. As noted, the poverty incidence is much lower in urban than in rural areas, reflecting the better employment opportunities that exist there, despite the stunted growth of manufacturing as a result of sanctions. As the AEC encourages greater trade, employment opportunities should improve further in the urban areas. If manufacturing growth and concomitant urbanization occur, workers beyond the urban areas will also benefit – underemployment is currently a major issue in Myanmar (IHLCA, 2010), but surplus labour drawn from rural areas should improve rural household incomes.

As pointed out earlier in the paper, the IHLCA data do not appear to be useful for trying to measure inequality. No reliable comprehensive measure of inequality exists for Myanmar, although anecdotal and impressionistic evidence strongly suggests it has increased dramatically since 1988. The impact of AEC integration on inequality will depend to a considerable degree on the extent that Myanmar is able to increase productivity in its manufacturing sector. As argued previously, Myanmar's low wages are likely to be sufficient for the manufacturing sector to remain competitive in the absence of trade barriers with its ASEAN neighbours, if productivity is not raised. However, if effective steps are made to raise productivity, then the AEC, along with Myanmar's returned access to Western markets, can create dramatic growth in the low-skilled manufacturing industry, which will serve to reduce inequality.

5. Conclusions and policy considerations

The realization of the AEC is likely to reduce relative poverty and narrow the development gap within Myanmar and the region in the long run if it results in continuous and vigorous investment in physical infrastructure, public education and TVET, thereby creating job opportunities in the formal sector. After lagging for decades behind other ASEAN countries in terms of education, and generating the lowest GDP per capita in terms of purchasing power parity in the region, the new Government is seeking to address the urgent training needs of the workforce, with the deep involvement of the private sector. It also seeks to create formal jobs within the country and around the region via mutual recognition agreements and linking the nationwide core competency standardization with regional standards. Narrowing gaps will not be easy because all the other ASEAN countries, including the affluent Member States, will continue to improve their workers' skills and reduce unemployment. Myanmar needs to accelerate the skills development of its workforce by pursuing effective policies, in line with people-centred development.

To help policy-makers in this challenging process, the following considerations are highlighted.

- Prioritize skills development needs in five key sectors (manufacturing, energy and resources, infrastructure, agriculture and hotel and tourism) via TVET.

- TVET should focus on addressing the skills development needs of emerging sectors (garment manufacturing, seafood processing and tourism), which can offer a number of formal jobs. But it should also promote professional skills in infrastructure and the energy and resources sectors because the efficiency of these sectors is essential for the development of the emerging sectors and other drivers of economic growth. At the same time, agricultural and livestock extension training is critical because agriculture will continue to be the largest sector in terms of employment. Skills development for these sectors should be the first priority.

- There should be technical advisors who overview vocational training curricula and bring them in line with the national qualifications framework.

- Take steps to address the problem of employers free-riding on training. Moving to a system in which the rule of law prevails and contracts are properly enforced will take time. Therefore, providing training at no direct cost to the employer should be considered as a means to ensure that the optimal level of training takes place. In the short run, international donors may be willing to supply much of this funding; but in the medium- to long-term, it can be funded either through general taxation or a specific levy charged to firms operating within a particular sector.

- Promote education. TVET is essential to develop workers' skills, but it is not a replacement for lifelong education, which is formal education acquired from schools, colleagues and universities. To reduce relative poverty in the long run, parallel investment on education is critical. The Government should arrange inputs from industries into training curricula and encourage practical fieldwork and internships so that classroom-based education will be linked with demands in the job market. There should be technical advisors who overview higher education curricula to ensure that they are in line with the national qualifications framework.

- Promote job-related social security and corporate social responsibility within the capacity of firms. The development gap between populations in Myanmar and the rest of ASEAN is not just a matter of income differentials but involves a social dimension. Social security for the workforce in the formal sector requires adequate policy attention. Clean and safe workplaces (with moderate temperatures and good ventilation) are fundamental. Corporate social responsibility goes far beyond this, with associated economic costs. The policy should find a balance between employers' responsibility and affordability, especially for small and medium-sized enterprises, in formulating desirable social benefits for their workers. The Government should seek to educate employers about corporate social responsibility, ILO labour standards and national labour laws.

- Educate the workforce on the country's labour laws, labour standards and good labour relations between employees and employers, to avoid the negative impacts of strikes. Labour strikes have been regular, especially in the CMP garment sector, following the political opening of Myanmar. Although some might be necessary, many likely could be avoided through the practice of collective bargaining, (which is a fundamental labour right,) albeit within the affordability of firms. Fulfilling orders from buyers within the global value chain on time is critical for the survival of the low-value-added industries; the inability to keep delivery promises not only results in short-term financial loss but also long-term lack of business credibility. Many workers lack knowledge of their labour rights and responsibilities. Yet, many labour activists seemingly know little of either labour standards or laws at the national as well as international levels. Many of them are unlikely to recognize the

interdependency between workers and enterprise owners. There should be an educational institution to distribute knowledge to both employees and employers so that opinion-makers have adequate knowledge and wisdom on the issues they respond to.

- Enforce labour laws. Law enforcement is essential because a poor work environment greatly reduces the quality of life of the workforce. Non-binding labour contracts preclude skills development because frequent job-hopping encourages employer's reluctance to invest in employees' skills development.
- The rule of law can prohibit the unlawful prevention of workers from working. Yet, laws should not ignore practical issues, such as limiting working hours, even though some workers like to work longer for additional income and some industries need to operate long hours. After consulting workers and employers, the Government should amend the laws as necessary.
- Provisions are needed for social insurance for the workforce in the informal sector. There has been no social insurance scheme in Myanmar for a number of urban people in the informal sector and the vast majority of the rural workforce in agriculture, which is also highly informal. To reduce the development gap, a state-organized social insurance fund should be put in place, to which informal workers can regularly deposit a premium via easily accessible channels, with the State contributing as well. The Government should also increasingly engage with ASEAN labour-receiving countries on the issue of entitling Myanmar migrant workers to social insurance programmes for foreign workers. For informal Myanmar migrants in countries without such a system, Myanmar should provide a social insurance scheme that they may need to deposit a premium fee by themselves via bank transfer or through a friend or relative.
- Creating more jobs will depend heavily on creating a favourable business environment for the sectors that encourage job creation (for example, manufacturing is preferable to natural resource extraction). How best to do this is a complicated issue, but useful steps include building infrastructure (especially electricity and roads) and creating trade promotion boards that provide information to employers on inputs, processes, international marketing, etc. Tax incentives for specific sectors or industries should be avoided.

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ASEAN Community 2015: Managing integration for better jobs and shared prosperity in Myanmar

The paper explores the potential impact of regional economic integration on Myanmar, a country that has suffered from more than 20 years of Western sanctions. The country's accession into the Association of Southeast Asian Nations (ASEAN) offered economic and trading opportunities, while the regional body arguably catalysed a regime change. Now, realization of the ASEAN Economic Community is challenging Myanmar. Having a low-skilled and poorly educated workforce with inadequate infrastructure, Myanmar must strive harder than other ASEAN Member States to narrow the regional inequality gaps. Improving skills among the labour force and in prioritized sectors of the economy, as well as strengthening the formal education system, will be critical if Myanmar is to compete. Improving infrastructure, such as electricity, roads and information communication technology, is equally salient. These measures must be coupled with effective institutions for social security and insurance, labour relations and business social responsibility. Narrowing inequality is a long-term project with an urgent start for Myanmar – the latecomer to growth.

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