

# Deepening BIMSTEC\*-Japan Economic Relations: Tasks Ahead

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## Introduction

This paper aims to analyze the current situation of BIMSTEC-Japan economic relations, focusing on its trade and investment, and to make a preliminary proposal for closer economic relations in the future between the two. The paper consists of two parts. Part I is the overview of BIMSTEC-Japan economic relations. Part II focuses on the bilateral relations between Japan and each of the five BIMSTEC countries, namely, Thailand, Myanmar, India, Bangladesh and Sri Lanka. The current situations in trade and FDI inflows, the investment climates and the economic relations with Japan of these five BIMSTEC countries are analyzed in detail. Nepal and Bhutan, the new members of BIMSTEC are not covered because of limitation in availability of necessary information.

## I. Part I: Overview

### 1. BIMSTEC-Japan Economic Relations

Japan's economic relations with four BIMSTEC countries except Thailand, namely, Myanmar, India, Bangladesh and Sri Lanka, have been very sparse. Japan's imports from BIMSTEC countries registered 3.8% of Japan's total imports in 2004. However, the share becomes only 0.7% of Japan's total imports if Thailand is excluded (**Table 1**). The share of exports to BIMSTEC countries (excluding Thailand) in Japan's total exports was also very marginal, only 0.7% of Japan's total exports (**Table 2**). Japan's accumulated direct investments to BIMSTEC countries is also mini-

mal, only 2.1% of Japan's total direct investment went to BIMSTEC if Thailand is excluded (Table 3).

**Table 1 Japan's Imports from BIMSTEC Countries (1999–2004)**

(Million US\$)

	1999	%	2000	2001	2002	2003	2004	%
World	309,745	100.0	381,100	351,098	336,832	381,528	454,669	100.0
Asia	122,773	39.6	158,831	148,874	146,454	169,782	205,305	45.2
East Asia	116,532	37.6	150,772	141,327	139,417	161,790	195,919	43.1
ASEAN	46,176	14.9	59,791	54,672	51,563	58,302	67,405	14.8
*Asia NIES	36,055	11.6	46,625	38,467	35,387	38,847	46,600	10.2
China	42,880	13.8	55,303	58,105	61,692	75,193	94,227	20.7
BIMSTEC	11,467	3.7	13,774	13,091	12,963	14,477	17,228	3.8
Thailand	8,838	2.9	10,635	10,428	10,484	11,838	14,088	3.1
Myanmar	101	0.0	120	103	110	139	179	0.0
India	2,239	0.7	2,647	2,227	2,084	2,169	2,611	0.6
Bangladesh	115	0.0	118	116	112	130	141	0.0
Sri Lanka	168	0.1	226	206	167	194	197	0.0
Nepal	5	0.0	28	11	6	7	8	0.0
Bhutan	0.3	0.0	—	—	—	—	3	0.0

Source: Ministry of Finance, Japan

\* Asia NIES: South Korea, Taiwan, Hongkong and Singapore

**Table 2 Japan's Exports to BIMSTEC Countries (1999–2004)**

(Million US\$)

	1999	%	2000	2001	2002	2003	2004	%
World	417,442	100.0	480,701	405,155	415,862	469,862	565,039	100.0
Asia	155,541	37.3	197,730	163,143	179,300	281,271	273,708	48.4
East Asia	149,433	35.8	190,897	156,625	172,983	210,928	264,762	46.9
ASEAN	54,218	13.0	68,685	54,526	55,641	60,975	72,896	12.9
*Asia NIES	90,088	21.6	114,977	87,879	94,277	110,415	139,490	24.7
China	23,336	5.6	30,428	31,091	39,866	57,219	73,818	13.1
BIMSTEC	14,684	3.5	17,399	14,796	15,909	19,305	24,228	4.3
Thailand	11,292	2.7	13,673	11,929	13,189	15,973	20,250	3.6
Myanmar	185	0.0	196	187	115	124	105	0.0
India	2,417	0.6	2,497	1,932	1,865	2,386	3,040	0.5
Bangladesh	325	0.1	473	449	428	426	450	0.1
Sri Lanka	433	0.1	521	270	285	373	338	0.1
Nepal	26	0.0	31	22	17	13	23	0.0
Bhutan	6	0.0	8	7	10	10	22	0.0

Source: Ministry of Finance, Japan

\* Asia NIES: South Korea, Taiwan, Hongkong and Singapore

**Table 3 Japan's Direct Investment to BIMSTEC Countries**

(Million US\$)

1986-90 Av.		1991-95 Av.	1996-2000 Av.	2001-04 Av.	Total (1951-2004)	%
Asia Total	5,611	8,211	8,769	7,024	160,508	100.0
BIMSTEC Total	767	925	1,633	970	21,459	13.4
Thailand	732	800	1,289	800	18,069	11.3
Myanmar	0	5	7	0	61	0.0
India	21	79	258	160	2,518	1.6
Bangladesh	9	17	6	0	172	0.1
Sri Lanka	2	22	73	9	605	0.4
Nepal	3	2	0	1	31	0.0
Bhutan	0	0	0	0	2	0.0

Source: Ministry of Finance, Japan

\* Av.: Year Average

\* Fiscal Year from April to March

Japan's share and the ranking in Thailand's trade and FDI inflow are very high. However, it is low in other BIMSTEC countries (**Table 4**). Japan's ODA commitment (cumulative) to BIMSTEC countries is generally lower, but, not much difference is seen when compared with other Asian countries (**Table 5**).

Japan's direct investment inflow in per capita term (cumulative as of the end of 2004 fiscal year) is 1 US\$ both in Myanmar and Bangladesh, 2 US\$ in India, 31 US\$ in Sri Lanka. Per capita two way trade with Japan is 4 US\$ in India and Bangladesh, 5 US\$ in Myanmar, 30 US\$ in Sri Lanka. On the other hand, those figures are very high in other East Asian countries. For example, Japan's direct investment inflow per capita is 288 US\$ in Thailand, 419 US\$ in Malaysia, 131 US\$ in Indonesia, and 96 US\$ in the Philippines. Per capita trade with Japan is 437 US\$ in Thailand, 952 US\$ in Malaysia, 130 US\$ in China, 71 US\$ in Vietnam (**Table 6**). Therefore, this reminds us that the economic relations between Japan and BIMSTEC countries (except Thailand) are yet to be strong.

There are several reasons why the economic relations between Japan and BIMSTEC countries, especially with Myanmar, India and Bangladesh are weak at present. Mainly, it reflects that these three countries adopted the closed door, socialistic economic policy in their early stage of development and cautious in utilizing the benefit of international trade for their economic reconstruction. This is very clear if we look at the trade depen-

**Table 4 Japan's Trade & Investment Share in Major BIMSTEC Countries**

		Japan's Share (%) (Trade)	Ranking (Trade)	Japan's Share (%) (Direct Investment)	Ranking (FDI)
Thailand (2004)	Exports	13.9	2	43.0 (2000-2004 Total)	1
	Imports	23.6	1		
Myanmar (2002)	Exports	2.6	5	2.8 (1988-2002 Total)	9
	Imports	9.3	5		
India (2004)	Exports	2.5	9	4.0 (1991-2003 Total)	4
	Imports	2.8	10		
Bangladesh (2003)	Exports	1.6	10	7.5 (1971-2003 Total)	3
	Imports	5.1	4		
Sri Lanka (2004)	Exports	2.8	6	1.1 (2000-2004 Total)	8
	Imports	5.2	6		

Source: 1. Trade: Customs Data of Each Country  
2. FDI: Approval Data of Each Country

**Table 5 Japan's ODA to the Selected Asian Countries  
(Total Commitment as of the End of 2003 Fiscal Year)**

(100 Million Yen)

	Yen Loan	Grant	Tech. Coop.	Total	Population 2003 (Million)	Per Capita Japan's ODA (Yen)
Thailand	20,093	1,582	1,919	23,594	64.0	369
Myanmar	4,029	1,746	295	6,070	53.2	114
India	22,401	816	219	23,436	1073.0	22
Bangladesh	5,615	4,504	443	10,562	134.6	78
Sri Lanka	6,225	1,652	509	8,386	19.3	436
Indonesia	38,328	2,222	2,587	43,137	215.0	201
Malaysia	9,616	122	1,011	10,749	25.0	429
Philippines	20,326	2,495	1,659	24,480	81.1	302
Vietnam	9,253	1,092	557	10,902	80.9	135
China	30,471	1,416	1,446	33,333	1292.3	26

Source: Japan's ODA: MOFA, Japan  
Population: ADB Key Indicators 2004

dependency ratio (the percentage of trade against GDP), the ratio of these three countries being extremely low compared with other Asian countries (**Table 6**)<sup>1</sup>.

Per capita FDI inflow from the world (1992-2002) in these three countries is lower than other Asian countries. **Table 6** shows that per capita total official flow (1992-2002) of India and Myanmar are also extremely low.

**Table 6 Utilization of Foreign Resources of Selected Asian Countries**

	Population 2003 (Million)	Total GNI 2002 (Million US\$)	Per capita GNI 2002 (US\$)	Total Trade/GDP		Per Capita FDI Inflow (1992-2002) Total (US\$)
				1990 (%)	2002 (%)	
Thailand	64.0	123,290	2,000	66.5	106.3	549
Myanmar	53.2	...	...	*5.6	...	48
India	1073.0	494,817	470	13.3	22.5	23
Bangladesh	134.6	51,124	380	16.9	28.0	7
Sri Lanka	19.3	16,110	850	58.5	66.3	106
China	1292.3	1,234,157	960	29.7	49.4	315
Indonesia	215.0	149,879	710	43.5	52.9	40
Malaysia	25.0	86,143	3,540	139.2	213.5	1,698
Philippines	81.1	82,429	1,030	48.2	87.1	182
Vietnam	80.9	34,840	430	79.7	104.0	208

	Per Capita Official Flow (1992-2002) Total (US\$)	Per Capita Net Private Flow (1992-2002) Total (US\$)	Japan's Dir. Investment Cumulative as of 2004 (Million US\$)	Per Capita Japan's Dir. Investment Cumulative as of 2004 (US\$)	Trade with Japan in 2003 (Million US\$)	Per Capita Trade with Japan in 2003 (US\$)
Thailand	163	767	18,069	283	27,933	437
Myanmar	23	58	61	1	265	5
India	12	56	2,518	2	4,570	4
Bangladesh	107	8	172	1	559	4
Sri Lanka	272	137	605	31	568	30
China	34	353	31,487	24	133,039	103
Indonesia	110	-18	28,124	131	23,532	109
Malaysia	151	3,175	10,499	419	23,843	952
Philippines	89	437	7,814	96	16,044	198
Vietnam	129	181	1,554	19	5,711	71

Source: 1. ADB, Key Indicators 2004

2. Japan's Direct Investment: MOF Japan

3. Trade (EX + IM) with Japan: IMF DOT 2004

The per capita official flow to a big country like India is low even though it still counts about one third of China. As for the case of Myanmar, economic sanction by USA and other developed countries since 1988 is an underlining factor for its low level of official flow.

There are many studies which show that Bangladesh, India, and Myanmar could not utilize foreign capital and technology properly through the form of trade, FDI and the official flow. Besides, the big presence of

inefficient State owned enterprises, extensive governments restrictions which limits free competition and economic activities of private enterprises, hindered economic development of those three countries. In addition, domestic political environment found to be not always suitable for the government to concentrate its efforts for the economic development. Slow economic development limited the necessary investment for its infrastructure (both in hard and in soft), and delayed development of institutions and organizations which is indispensable for domestic economy for integration with the international economy. Being behind in the industrialization, the diversification of export goods was not realized in full potentials resulting which primary commodities appeared as major exportable.

Japan's direct investment contributed a lot in establishing closer economic relations between Japan and East Asia by promoting industrialization in East Asian countries. However, the role which Japan played in BIMSTEC countries (except Thailand) had so far been marginal. Slow economic growth of South Asian countries and Myanmar, lack of infrastructure, extensive government restrictions and labor problems especially in India, Bangladesh and Sri Lanka, have prevented Japanese direct investment inflow into these countries. The lack of the necessary information on BIMSTEC (except Thailand) countries was also a reasons for low Japanese direct investment in BIMSTEC (except Thailand). It is natural that there is a tendency of the shortage of information in both sides, if the economic relations are weak. All the more, BIMSTEC countries (with the exception of Thailand) have made little effort to disseminate necessary information to the outside world.

However, in recent years, some changes have been seen on the above mentioned areas in BIMSTEC (excluding Thailand) countries. The biggest change is that the regional big power, India has been on the dynamic growth path by implementing economic reform, liberalization and de-regulation since 1991. India also has been pushing its strategy for building FTA network with neighboring countries. India's market opening and its rapid expansion has been giving a big positive impact to the neighboring countries.

In Japan, there is a move to consider India as their new investment destination for those enterprises which are considering for diversifying their investments from China because of the so called concern of a "China Risk". In addition, recent development of regional cooperation in South Asia is expected to bring peace and stability in this region.

On the other hand, Thailand's FTA networking strategy aiming to be a bridge between ASEAN and the South Asia is expected to bring a lot of

opportunities into this region. By using Early Harvest scheme of Thailand-India FTA, some Japanese affiliated enterprises in Bangkok already have been successfully exporting television to India. And thanks to the purchase of parts from Thailand, some Japanese affiliated enterprises in India have been strengthening its competitiveness<sup>2</sup>. It is also an important event for activating this region that Myanmar has officially shifted to a market economy since in 1989 and joined ASEAN in 1997. However, Myanmar government seems to have virtually stopped further efforts for international integration by strengthening the state control on its economy since the “Currency Crisis” in Thailand in 1997. In addition, strengthened economic sanction by US since July 2003 has given a heavy blow to Myanmar’s economic development and its open door policy.

On the other hand, the discovery of huge natural gas deposit at the Myanmar offshore, increasing natural gas export to Thailand since in 2000 and good prospects of the natural gas exports to India in the near future will help to improve Myanmar’s chronic foreign currency shortage situation and to expand Myanmar’s international trade with neighboring countries.

In addition, in March 2005, Myanmar government has signed an agreement with China for establishing a kind of “Special Economic Zone (Industrial Development Zone)” mainly for Chinese enterprises at Thilawa, suburbs of Yangon. It is said that the SEZ was planned by Shanghai Pu Dong New Zone Authority which developed Shanghai Pu Dong new zone. According to the plan, the first Myanmar SEZ will be consisted of 4 Zones; processing industrial zone, high-tech zone, bonded zone and financial zone. It is also said that the feasibility study of the master plan has already been completed<sup>3</sup>. If this SEZ can be completed and many Chinese enterprises will occupy this SEZ, (although there are some geopolitical concerns on it), it will at least contribute to change the perception of top leaders of Myanmar government who used to be cautious to the foreign enterprises and it may become a turning point which changes the Myanmar’s investment environment drastically.

## **2. Measures for Closer BIMSTEC-Japan Economic Relations**

### **1) Promotion of Japanese Direct Investment in BIMSTEC Countries**

Promotion of Japan’s direct investment in BIMSTEC countries will be the most important issue for realizing closer economic relations between Japan and BIMSTEC countries. Japan’s direct investment inflows will promote industrialization and sophistication of industries of host countries, which would be the quickest way to expand manufactured exports and

employment in BIMSTEC countries.

**Table 7** shows the comparison of business costs of BIMSTEC countries, Vietnam and China. The business costs, especially the labor costs in Yangon, Colombo and Dacca, are very competitive even compared with Hanoi. However, it should be noted that foreign investors reasons for choosing a location site have been shifting from traditional factors of attraction such as; (1) low cost of labor, (2) tax incentives, (3) availability of natural resources etc., to new factors such as; (i) low total distribution costs (including transportation costs and efficiency of customs clearance), (ii) availability of supporting industries and industrial clusters which supply parts and raw materials, (iii) availability of skilled workers and engineers, (iv) size of the market and its growth speed etc..

**Table 7 Comparison of Basic Business Cost in Asia (As of November 2004)**

(Unit: US\$)

	Bangkok	Yangon	New Delhi	Colombo	Dacca	Hanoi	*Beijing
Wages (Monthly)							
Worker	179	20~48	124~146	59~93	29~60	78~143	79~139
Engineer	400	72~142	250~408	95~156	101~370	182~327	121~266
Middle Management	579	168 ~286	845 ~1,302	191 ~408	286 ~723	427 ~613	314 ~1,382
Office Rental (Monthly, per m <sup>2</sup> )	10.9	15	9.5~29.9	8.5	1.8~10.0	27	30~60
International Telephone Charges (To Japan)	1.49	8.1	1.6	0.57	1.51	1.95	2.9
Electricity Charges (Per KWH)	0.04 ~0.07	0.08	0.03 ~0.08	0.03 ~0.16	0.04 ~0.08	0.08 ~0.09	0.05

Source: JETRO, <http://www3.jetro.go.jp/jetro-file/cityCmpDetail.do>

\* Surveyed November 2003

In order to attract FDI from Japan, it is important for BIMSTEC countries to improve their infrastructure, such as power, communications and transportation, which will raise the level of a country's competitiveness and thereby attract more Japan's direct investment. In building such infrastructure in BIMSTEC countries, Japanese ODA will play an important role.

Improved transportation network with the help of Japanese ODA will promote better links among BIMSTEC countries. Building transport infrastructure, such as road, railway, shipping and aviation, seems to be very



important to promote regional cooperation as well. Especially, improvement of the cross-border road and railways, which connects India and its neighboring countries, is indispensable. While building transportation infrastructure among BIMSTEC countries, soft infrastructure, such as unification of standard, mutual recognition of cargo inspection, simplification and unification of procedures for custom clearance and for import permit, should also be emphasized.

In this sense, outcome of the BIMSTEC 1<sup>st</sup> Energy Ministers Meeting, held in New Delhi in October 2005, is very much encouraging, where it was decided to form BIMSTEC regional energy cooperation, such as, construction of natural gas pipeline, power transmission line etc.<sup>4</sup>. Japan should support positively this kind of regional projects by extending ODA for construction of infrastructure which strengthens the relations among the BIMSTEC countries.

Moreover, investment promotion and protection agreement which includes the removal of regional investment barrier signed in March 2004, will further promote intra-regional investment and increase the attractiveness of BIMSTEC countries to foreign investors.

For attracting Japanese direct investment into BIMSTEC countries, the governments' efforts for further liberalization and de-regulation is much more important. **Table 8** shows the barriers to investment in each BIMSTEC countries, which were pointed out by the Japanese resident enterprises in each country. As can be seen from this table, investment environment of Thailand, which has successfully attracted substantial FDI, is well regarded with very little or no barrier. However, rest BIMSTEC countries still have many serious barriers, such as the lack of policy continuity, lengthy and complicated procedure for customs clearance and obtaining government permits, labor issues etc. Especially, Myanmar's investment climate is not at all supporting because of the extensive government restriction and intervention. It is indispensable for BIMSTEC countries (except Thailand) to remove investment barriers as soon as possible by further liberalization, de-regulation and necessary administrative reforms.

To attract Japanese FDI, Vietnam signed an investment agreement with Japan and made a significant effort to remove the investment barriers that Japanese-affiliated companies in Vietnam faced with. Both governments initiated the formulation and implementation of a joint action program for improving Vietnam's investment environment. As a result of this, Vietnam's investment climate has recently been drastically improved and has also succeeded in attracting new Japanese investors who have started to

**Table 8 Investors' Complaints on Business Environment of BIMSTEC Countries**

<p><b>Thailand</b>                  Unclear definition of service industries which are restricted by the Law on Foreign Enterprises                  Lack of transparency in the condition for foreigners to obtain a work permit                  Delayed VAT refund procedures for export industries</p>
<p><b>Myanmar</b>                  Imposition of 10% export tax (US\$ payment)                  Restriction on foreign remittance                  Multiple foreign exchange rate system                  Export &amp; Import licensing system and its delayed procedures                  State monopoly on important export &amp; import items                  Dual pricing system which is unfavorable for foreigners                  Lack of notification of the policy changes on trade and investment                  Ambiguity of foreign investor's legal right                  Under-developed financial services on international settlement and finance                  Under-developed infrastructure                  Restricted free access to internet                  Delayed investment approval procedures                  Delayed customs procedures                  Restriction on land use for construction of factories                  Prohibition on direct trading activities by foreign enterprises</p>
<p><b>India</b>                  Restriction on entry into the retail industry by foreign enterprises                  Limitation on foreign ownership in SSI industries, communications, insurance and banking                  Delayed investment approval procedures                  Defective labor laws &amp; regulations and frequent labor disputes                  Under-developed infrastructure (mainly roads, power, airports, harbors)                  Discrimination on corporate tax treatment which is unfavorable for foreign enterprises                  Delayed procedures for tax deduction at source                  Complicate administrative procedures such as customs and tax payments</p>
<p><b>Bangladesh</b>                  Lack of policy continuity caused by political instability                  Frequent labor disputes                  Lack of security (frequent cases of theft of raw materials)                  Rampant corruption                  Lack of transparency in import restrictions and in tariff application                  Existence of pre-shipment inspection and inspection fee charges                  Delayed customs procedures                  Delayed Government approval procedures on TT remittance                  Delayed issuance of employment visas                  Delayed procedure on obtaining permits and licenses                  Under-developed infrastructure (mainly roads, power, communication, hotels etc.)                  Delayed L/C settlement</p>
<p><b>Sri Lanka</b>                  Uncertainty regarding peace and security (especially the LTTE issue)                  Lack of policy continuity caused by political instability                  Lengthy dispute settlement procedures                  Inefficient customs procedures                  Under-developed infrastructure (mainly roads, power, communication)                  Defective labor laws &amp; regulations and frequent labor disputes</p>

Source: JETRO, "White Paper on Trade and Investment", 2004, 2005

On Myanmar: Based on the interview to the Chamber of Commerce(JCCY and UMFCCI)

diversify their investment from China. Similar efforts should be made by Japan and BIMSTEC countries.

For improving the investment environment of BIMSTEC countries (with the exception of Thailand), Thailand's cooperation as an advanced nation of FDI management will be very useful. It is desirable for each country to have a kind of industrial vision which covers the strategy for development of strategic industry and for strengthening industrial competitiveness to attract desirable foreign investors. Japan will be able to assist in formulating such vision through technical cooperation. In addition, the establishment of the powerful window organization such as Board of Investments (BOI) in Thailand, which has strong authority for promotion of FDI, is strongly recommended. Currently, such type of organization in some of the BIMSTEC countries seems too weak and inefficient. Hence, Thailand's BOI can be a model for rest of BIMSTEC countries to follow.

## 2) Possibility of BIMSTEC-Japan EPA

In the past, Japan followed the policy to promote its trade liberalization only through the multilateral trade negotiation under GATT/WTO and was reluctant to join any bilateral or regional FTA. However, the country changed such traditional policy around 1999. Along with the multilateral trade negotiation, building FTA network with neighboring countries has become Japan's new external strategy. After signing the first EPA (Economic Partnership Agreement) with Singapore, JSEPA (effective from November 2002), Japan signed FTA with Mexico, JMFTA (effective from April 2005). Then, EPA negotiations with the Philippines (November 2004), Malaysia (May 2005), and Thailand (August 2005) reached agreement in principle. At present, negotiations with South Korea (JKEPA, starting in December 2003), ASEAN (JACEP-Japan-ASEAN Comprehensive Economic Partnership Agreement, starting in May 2005) and Indonesia (JIEPA, starting in July 2005) are undergoing. In addition, the joint study for FTA has started with Chile in January 2005 and with India in July 2005. In April, 2005, Japan agreed to start studying the feasibility of EPA with Switzerland and Australia.

The principle agreement of EPA with Thailand covers extensive economic activities including; improvement of business environment, intellectual property, agriculture/forestry/fishery, promotion of trade and investment, education/HRD, ICT, science & technology/energy/environment, SMEs (Small and Medium Enterprises), tourism, financial services, energy saving, bilateral cooperation in the project of "Value Creation Economy"

and “Government-Private Partnership”. Economic cooperation for promotion of trade and investment includes Japan’s assistance to the projects of Thailand’s iron and steel industry, the “Asian Detroit” strategy of automobile industry and the “Kitchen of the World” strategy.

Thus, EPA which Japanese Government is aiming to sign with ASEAN countries and neighbors has big difference with FTA. Main aim of FTA is to remove barrier at the border to expand sales of goods & services in the partner’s market. On the other hand, the aim of EPA which Japan is pursuing in Japan-ASEAN EPA is more comprehensive. It includes function and factors, such as investment, movement of natural persons, common rules on intellectual property, de-regulation and technical cooperation etc., in addition to the function of FTA.

However, EPA negotiation with Thailand was not easy. It took time more than expected because the mutual request for EPA was like asymmetry. Namely, Thailand’s main requests to Japan were; (1) market access, (2) attraction of Japanese FDI, (3) acceptance of Thai workers, (4) technology transfer. On the other hand, Japan’s main requests to Thailand were; (1) removal of tariff on raw material & parts, (2) rules on investment and intellectual property right, (3) liberalization of trade & investment related services, (4) improvement of business environment.

As for the Thailand’s requests for market access to Japan, it was difficult for Japan to comply with Thailand’s requests because of the strong objection of politically powerful agricultural lobby in Japan. Thailand’s agricultural goods exports to Japan were 17.5% of its total exports to Japan which is higher when compared with the other original ASEAN member countries. In addition, Thailand is the world biggest rice exporting country, which is the most sensitive item in Japan. Despite the difficulties, as a result of Thailand’s concession to exclude rice and sugar from the negotiation list, Japan finally committed certain liberalization on agricultural/fishery items and accepted the Thailand’s request on acceptance of Thai workers in certain area.

On the other hand, Thailand did not want to accept Japan’s request on the liberalization on iron and steel, automobile and its parts. Finally, Japan gave a concession to Thailand to admit Thailand’s delayed liberalization on these items. By this agreement in principle, Thailand will remove import tariff on 98% of Japanese export items in next ten years. Japan will remove the import tariff on 92% of Thailand export items in the same period. This means that JTEPA will clear the WTO virtual requirement to remove import tariff by more than 90% within 10 years.

Aiming to strengthen the economic relations between Japan and India, Japan-India Joint Study Group was established and held its first meeting in July, 2005. This joint study was originally agreed at the Japan-India summit meeting in November, 2004 at Vientiane and officially proposed by Prime Minister Koizumi at his visit India in April 2005. It is expected that the final report of the Joint Study Group will be completed by July 2006, and it may at least cover the feasibility of the bilateral FTA and the liberalization of investment between the two countries.

The realization of FTA or EPA with Japan and BIMSTEC countries seems not easy. The share of agricultural/fishery/forestry products, which are sensitive area in Japan, against total exports to Japan in BIMSTEC countries are high as seen in the **Table 8**. However, since agricultural/fishery/forestry items are not always the sensitive items in Japan (e.g. shrimps), we need to check by individual items (statistics on agricultural/fishery/forestry goods exports to Japan by BIMSTEC countries are attached at the Part II each country section).

In spite of that, in order to make WTO consistent with BIMSTEC-Japan FTA, a lot of efforts seems necessary on the part of Japan. For BIMSTEC countries, some countries may concern the possible damage on its manufacturing industries by the inflows of Japanese products. Especially, for India, which has many manufacturing industries for protection, the adjustment cost will be large. It seems there will be a strong domestic objection for liberalization, especially in the industries, e.g. automobile, electric machinery, iron and steel and petrochemical.

However, to avoid large transaction costs, it seems ideal to have an EPA to strengthen economic relations between BIMSTEC countries and Japan.

**Table 9 Share of Agricultural/Fishery/Forestry (AFF) Goods in BIMSTEC Exports to Japan**

	AFF Share (%) (2004)
Thailand	17.5
Myanmar	51.7
India	21.3
Bangladesh	25.5
Sri Lanka	49.6

Source: Customs Data, Japan

Besides, the negotiation for EPA with Japan may offer an opportunity to BIMSTEC countries to pursue further a domestic reform and liberalization for better business environment. Considering the current stage of development in Myanmar, Bangladesh and Sri Lanka, EPA between Japan and BIMSTEC countries should weigh more on technical cooperation, such as human resource development, SME development, environmental protection, energy saving, improvement of business climate, weather forecast/disaster prevention etc., rather than removal of tariff.

## **II. Part 2: Japan's Bilateral Relations with BIMSTEC Countries**

### **1. Thailand**

#### **1) Trade**

Thailand economy had been stagnated several years after the “currency crisis” in 1997. However, the economy has started to show a dynamic growth (more than 6%) again since 2003. The export has started to expand strongly since 2003. Some of the underlying factors for Thailand's recent good export performance are (i) increased FDI into the automobile industry and electronics/electric appliances industry, with which Thailand is becoming the production and export base of automobile and its parts and HDD, (ii) FTA network, and exports to ASEAN, China and India which have been growing rapidly, and (iii) good performance of the world economy.

In 2004, about 59% of Thailand exports went to Asia, 16% for USA, 14% for EU. Thanks to the effects of CEPT scheme of AFTA, Thailand export to ASEAN countries has increased by 59%. Under AFTA, regional tariff rate of original ASEAN member countries has become 0-5% in most of the industrial goods since 2003. Thailand export to China increased by 2.5 times from the year 2000 to 2004, mainly because of the effects of China-ASEAN FTA. In addition, Thailand-India FTA Framework Agreement was signed in October 2003. Under EH (Early Harvest) scheme of this agreement, 50% tariff reduction of 82 items has been implemented since September 2004. Thanks to this arrangement, Thailand exports to India such as TV have been increasing lately. As a result, the destination of Thailand's exports is shifting more towards Asia.

Thailand's export items are diversified with much variety. The share of top 9 items has been about 40% in recent years. Computer and parts, IC, and garments used to be the main export items; however, export of automobile and its parts has been increasing rapidly in recent years and became

**Table II-1-1 Thailand's Trade by Country****Exports** (Million US\$)

	2000	%	2001	2002	2003	2004	%
Asia	37,330	53.6	35,205	37,858	43,583	57,311	58.7
ASEAN	13,482	19.4	12,599	13,569	16,486	21,246	21.7
Singapore	6,066	8.7	5,261	5,553	5,830	7,032	7.2
Malaysia	2,832	4.1	2,734	2,835	3,872	5,313	5.4
Japan	10,232	14.7	9,946	9,950	11,364	13,543	13.9
China	2,837	4.1	2,874	3,555	5,689	7,119	7.3
Hongkong	3,518	5.1	3,307	3,689	4,315	4,957	5.1
Taiwan	2,429	3.5	1,925	1,969	2,582	2,609	2.7
USA	14,870	21.4	13,200	13,510	13,596	15,517	15.9
EU	11,011	15.8	10,552	10,215	11,750	13,818	14.1
Australia	1,636	2.3	1,362	1,642	2,160	2,468	2.5
Others	4,777	6.9	4,864	5,593	8,960	8,587	8.8
Total	69,624	100.0	65,183	68,818	80,049	97,701	100.0

**Imports** (Million US\$)

	2000	%	2001	2002	2003	2004	%
Asia	42,263	68.0	39,879	43,688	52,253	67,629	71.2
ASEAN	10,346	16.6	10,010	10,818	12,486	15,778	16.6
Singapore	3,428	5.5	2,844	2,886	3,235	4,148	4.4
Malaysia	3,359	5.4	3,067	3,619	3,235	4,148	4.4
Japan	15,378	24.7	13,831	14,804	18,074	22,416	23.6
China	3,390	5.5	3,696	4,898	6,002	8,147	8.6
Hongkong	887	1.4	821	904	1,064	1,327	1.4
Taiwan	2,908	4.7	2,589	2,886	3,195	3,971	4.2
USA	7,317	11.8	7,159	6,147	7,093	7,215	7.6
EU	6,324	10.2	7,570	7,039	7,504	9,078	9.6
Australia	1,164	1.9	1,346	1,494	1,568	2,198	2.3
Others	5,113	8.2	5,841	5,884	6,597	8,858	9.3
Total	62,181	100.0	61,795	64,252	75,015	94,978	100.0

Source: Ministry of Commerce, Thailand

second most important export item ahead of IC in 2004.

Reflecting the high economic growth, Thailand's import has been increasing greatly since 2003. Imports from Asia shared 71% of total imports. Japan has been the largest partner, sharing 23% of the total imports in 2004. The share of USA has been declining recently. Imports from China increased by 2.4 times from the year 2000 to 2004 and China became the second largest import partner exceeding USA. Crude oil is the biggest import

**Table II-1-2 Thailand's Trade by Sector**

**Exports** (Million US\$)

	2000	%	2001	2002	2003	2004	%
Computer/Parts	8,771	12.6	7,948	7,464	8,190	9,303	9.5
Automobile/Parts	2,419	3.5	2,655	2,920	3,970	5,682	5.8
IC	4,484	6.4	3,512	3,453	4,625	4,974	5.1
Natural Rubber	1,525	2.2	1,326	1,740	2,788	3,433	3.5
TV/Parts	1,965	2.8	1,693	2,102	2,502	3,231	3.3
Plastics	1,866	2.7	1,615	1,798	2,148	3,132	3.2
Garments	3,131	4.5	2,914	2,722	2,762	3,092	3.2
Rice	1,641	2.4	1,583	1,632	1,834	2,695	2.8
Jewery/Jewery Items	1,742	2.5	1,837	2,169	2,515	2,647	2.7
Others	42,080	60.4	40,099	42,818	48,715	59,512	60.9
<b>Total</b>	<b>69,624</b>	<b>100.0</b>	<b>65,182</b>	<b>68,818</b>	<b>80,049</b>	<b>97,701</b>	<b>100.0</b>

**Imports** (Million US\$)

	2000	%	2001	2002	2003	2004	%
Crude Oil	6,106	9.8	5,756	5,749	7,114	10,774	11.3
Industrial Machines	5,546	8.9	6,051	6,372	7,943	9,557	10.1
Electric Machinery/Parts	6,860	11.0	7,281	7,543	6,627	7,931	8.4
Chemicals	4,912	7.9	4,816	5,212	5,574	7,372	7.8
IC	6,442	10.4	5,419	5,449	5,865	7,357	7.7
Ferrous Metal/Iron & Steel	2,615	4.2	2,368	3,017	4,247	6,560	6.9
Computer/Parts	3,668	5.9	3,760	3,662	4,228	4,944	5.2
Metal Products	2,001	3.2	1,906	1,925	2,342	3,638	3.8
Jewery/Gold/Silver	1,715	2.8	1,913	2,081	2,077	2,882	3.0
Others	22,316	35.9	22,525	23,242	28,998	33,963	35.8
<b>Total</b>	<b>62,181</b>	<b>100.0</b>	<b>61,795</b>	<b>64,252</b>	<b>75,015</b>	<b>94,978</b>	<b>100.0</b>

Source: Ministry of Commerce, Thailand

item, followed by, industrial machinery, electronics/electric machinery/parts, chemicals and IC.

*Trade with Japan*

Japan (share 14.1% in 2004) is the Thailand's second largest export destination, after USA (share 15.9% in 2004). Among the Japan's imports from Thailand, electric machinery was the largest item (share 23.5%, in 2004), then machinery (16.6%). Both items are mostly the products of Japanese local affiliated company. Imports of automobile/parts, though the value is still small, increased by 2.9 times in 5 years from 1999 to 2004. The



**Table II-1-3 Japan's Exports to Thailand**

(Million US\$)

HS	Description	1999	%	2000	2001	2002	2003	2004	%
	Thailand Total	11,367	100.0	13,627	11,873	13,230	16,044	20,294	100.0
84	MACHINERY	2,498	22.0	3,217	3,025	3,271	4,008	4,933	24.3
85	ELECTRICAL MACHINERY	3,217	28.3	3,821	3,178	3,495	4,059	4,833	23.8
87	VEHICLES, NOT RAILWAY	1,013	8.9	1,215	1,001	1,276	1,742	2,291	11.3
72	IRON AND STEEL	1,058	9.3	1,143	965	1,201	1,504	2,146	10.6
90	OPTIC, NT 8544; MED INSTR	412	3.6	574	514	507	644	845	4.2
39	PLASTIC	486	4.3	564	468	533	602	733	3.6
00	SPECIAL	301	2.7	392	364	406	543	628	3.1
29	ORGANIC CHEMICALS	315	2.8	319	254	281	393	578	2.8
73	IRON/STEEL PRODUCTS	235	2.1	250	215	264	302	428	2.1
40	RUBBER	151	1.3	165	143	169	181	244	1.2
38	MISC. CHEMICAL PRODUCTS	135	1.2	152	137	163	165	226	1.1
82	TOOL,CUTLRY,OF BASE MTL	119	1.0	137	140	122	138	212	1.0
76	ALUMINUM	113	1.0	117	108	117	152	207	1.0
74	COPPER+ARTICLES THEREOF	115	1.0	144	111	123	161	191	0.9
28	INORG CHEM; RARE EARTH MT	80	0.7	143	133	112	132	181	0.9
	Others	1,117	9.8	1,275	1,117	1,190	1,317	1,618	8.0

Source: Customs Data, Japan

**Table II-1-4 Japan's Imports from Thailand**

(Million US\$)

HS	Description	1999	%	2000	2001	2002	2003	2004	%
	Thailand Total	8,895	100.0	10,590	10,373	10,520	11,896	14,118	100.0
85	ELECTRICAL MACHINERY	1,670	18.8	2,198	2,100	2,274	2,710	3,312	23.5
84	MACHINERY	1,506	16.9	1,844	1,741	1,603	1,793	2,345	16.6
40	RUBBER	454	5.1	529	472	516	690	923	6.5
16	PREPARED MEAT, FISH, ETC	517	5.8	590	627	655	705	804	5.7
00	SPECIAL	301	3.4	433	496	500	539	685	4.9
03	FISH AND SEAFOOD	684	7.7	699	640	636	567	559	4.0
90	OPTIC,NT 8544; MED INSTR	265	3.0	316	313	376	464	543	3.8
94	FURNITURE AND BEDDING	360	4.0	412	386	368	373	399	2.8
87	VEHICLES, NOT RAILWAY	132	1.5	166	267	297	406	377	2.7
39	PLASTIC	210	2.4	309	273	242	250	340	2.4
76	ALUMINUM	149	1.7	126	111	126	165	231	1.6
27	MINERAL FUEL, OIL ETC	28	0.3	86	82	47	56	219	1.6
23	FOOD WASTE; ANIMAL FEED	175	2.0	171	157	168	195	215	1.5
73	IRON/STEEL PRODUCTS	129	1.4	141	147	145	169	202	1.4
70	GLASS AND GLASSWARE	34	0.4	82	84	98	133	201	1.4
	Others	2,281	25.6	2,489	2,477	2,467	2,681	2,764	19.6

Source: Customs Data, Japan

**Table II-1-5 Thailand's Agra/Fishery/Forestry Goods Exports to Japan**  
(Million US\$)

HS	Description	1999	2000	2001	2002	2003	2004
	Thailand Total	8,894.7	10,590.5	10,372.8	10,519.5	11,895.8	14,118.4
16	PREPARED MEAT,FISH,ETC	516.9	589.7	627.0	654.8	705.2	803.6
03	FISH AND SEAFOOD	684.2	698.9	639.8	636.4	567.1	559.0
17	SUGARS	101.3	150.1	180.0	91.4	128.4	159.3
23	FOOD WASTE; ANIMAL FEED	174.9	171.5	157.0	168.5	194.9	215.1
44	WOOD	94.7	112.3	115.5	124.7	114.9	114.1
20	PRESERVED FOOD	105.8	96.9	93.6	98.8	102.9	108.6
19	BAKING RELATED	74.8	78.8	83.0	82.3	90.1	95.5
07	VEGETABLES	68.5	61.8	57.5	63.2	65.9	82.6
21	MISCELLANEOUS FOOD	63.1	57.8	55.6	53.0	62.0	72.2
10	CEREALS	45.2	31.5	30.7	27.7	33.0	38.5
06	LIVE TREES AND PLANTS	33.7	34.2	30.8	31.4	31.6	34.3
22	BEVERAGES	21.7	27.7	37.0	27.2	26.4	28.7
09	SPICES,COFFEE AND TEA	28.8	29.0	21.7	16.9	19.5	27.4
11	MILLING;MALT;STARCH	14.2	17.9	21.2	23.2	19.6	24.4
02	MEAT	263.2	217.8	258.1	357.4	334.4	23.4
15	FATS AND OILS	2.3	5.1	4.1	6.5	9.2	16.5
12	MISC GRAIN,SEED,FRUIT	8.6	11.3	12.2	8.1	11.2	11.7
08	EDIBLE FRUIT AND NUTS	5.4	8.8	10.7	9.7	13.2	16.0
05	OTHER OF ANIMAL ORIGIN	13.8	12.0	9.0	14.8	6.5	5.1
13	LAC;VEGETABL SAP,EXTRCT	8.3	9.8	8.6	6.9	6.4	8.1
18	COCOA	3.5	4.1	4.8	5.7	9.0	7.7
41	HIDES AND SKINS	1.1	1.4	1.2	1.6	3.1	4.2
24	TOBACCO	3.1	2.9	2.9	2.9	2.6	3.0
14	OTHER VEGETABLE	3.8	3.2	3.0	2.5	2.5	2.5
04	DAIRY,EGGS,HONEY,ETC	3.2	3.2	2.8	3.2	3.6	2.4
01	LIVE ANIMALS	0.1	0.1	0.1	0.3	0.1	0.1
	Agra/Fishery/Forestry Goods Total	2,344.3	2,438.0	2,467.9	2,519.2	2,563.0	2,463.9
	Agra/Fishery/Forestry Goods (%)	26.4	23.0	23.8	23.9	21.5	17.5

Source: Customs Data, Japan

automobile/parts will be Japan's main import item in the near future. In the past, up to around mid 1980s, main import items from Thailand were rubber, shrimps, garment, IC, furniture and chicken. Thus, Japan's import products have changed drastically in the past decades because of Japan's direct investment in Thailand.

Japan's major export items to Thailand were machinery(24.3% in 2004), electric appliances(23.8%), automobile/parts(11.3%) and iron and steel(10.3%). The total share of these 4 items was 72.4% of Japan's total

exports to Thailand in 2004. Most of those items are capital goods, medium goods and raw material for the Japanese local affiliated companies in Thailand.

## 2) FDI Inflows into Thailand

FDI inflows to Thailand (on BOP basis) reached a total of 35 billion US\$ during 1992–2002. Thailand's share in the total FDI inflows into Southeast Asia (9 countries excluding Brunei) was 24.5%, becoming the second largest host country after Malaysia (29.8%) (**Table II-1-6**).

According to the recent FDI approval data of Thailand. FDI inflow into Thailand has started increasing again after several years' stagnation. Thailand's FDI approval reached 1,051 billion Bahts in total during 2000–2004. Japan is the largest foreign investor in Thailand, sharing 43% (45.3 billion Bahts) of total approval value. Next comes USA (share 13.7%). In terms of sectors, FDI to electronics/electric machinery occupied the biggest share (27.1%), followed by Chemicals/Paper (20.9%), Machinery/metal processing (20%) was another major target category during the same period (**Table II-1-7**).

According to the Japanese statistics on direct investment abroad, Japan's cumulative direct investment to Thailand at the end of March 2004 reached 18.1 billion US\$, which was 11.3% of total Japan's direct investment in East Asia. In East Asia, Thailand occupies fifth position in Japan in terms of direct investment after China (31.5 billion US\$), Indonesia (28.1 billion US\$), Hong Kong (21.4 billion US\$) and Singapore (18.7 billion US\$).

The investment climate in Thailand has a good reputation among Japanese investors. Traditionally, Thailand trade policy has been open and

**Table II-1-6 FDI Flow into BIMSTEC Countries (BOP Basis)**

(Million US\$)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	(1992–2002)
Myanmar	173	106	127	280	313	391	318	256	258	210	129	2,561
Thailand	2,113	1,804	1,366	2,068	2,336	3,895	7,315	6,103	3,366	3,820	900	35,086
Bangladesh	4	14	11	2	14	139	190	180	280	79	47	960
India	277	550	973	2,144	2,426	3,577	2,635	2,169	2,657	4,334	3,030	24,772
Nepal	0	0	0	0	19	23	12	0	0	0	10	64
Sri Lanka	123	195	166	56	120	430	193	176	173	172	242	2,046

Sources: ADB, Key Indicators 2004, WB, *Global Development Finance 2004*, Internet Website

**Table II-1-7 FDI Flow into Thailand (Approval Basis)****By Country** (Million Bahts)

	2000	2001	2002	2003	2004	Total (2000-04)	%
Japan	107,382	83,369	38,398	97,597	125,932	452,678	43.0
USA	37,752	40,131	11,113	24,574	30,397	143,967	13.7
Europe	21,918	26,042	20,437	28,311	32,980	129,688	12.3
Singapore	19,910	8,985	13,103	6,730	18,239	66,967	6.4
Malaysia	6,095	27,895	1,676	4,374	11,937	51,977	4.9
Taiwan	17,632	6,824	2,706	13,553	10,607	51,322	4.9
Hongkong	6,241	9,710	1,585	3,591	14,317	35,444	3.4
India	10,166	1,954	92	3,519	1,615	17,346	1.6
South Korea	1,394	1,437	3,213	3,506	6,631	16,181	1.5
Australia	2,705	6,030	726	4,988	1,670	16,119	1.5
China	367	8,690	379	1,465	4,433	15,334	1.5
Total*	212,649	209,623	99,617	212,589	317,291	1,051,769	100.0

\* Total sum figure exceeds Total value, because of the duplicate counting of multi-country projects

**By Sector** (Million Bahts)

	2000	2001	2002	2003	2004	Total (2000-04)	%
Agriculture/Fishery/Processing	23,128	15,273	14,679	9,540	23,083	85,703	8.1
Mining/Ceramics	9,992	5,412	2,022	16,837	59,464	93,727	8.9
Textile/Light Industries	23,937	12,150	6,706	10,456	12,924	66,173	6.3
Machinery/Metal Processing	26,123	25,375	26,692	66,045	66,061	210,296	20.0
Electronics/Electric Machinery	71,613	51,855	28,552	43,190	89,466	284,676	27.1
Chemicals/Paper	54,449	69,908	6,510	38,126	50,764	219,757	20.9
Service	3,407	29,650	14,456	28,395	15,529	91,437	8.7
Total	212,649	209,623	99,617	212,589	317,291	1,051,769	100.0

Source: BOI, Thailand

“outward looking”. The government has been always positive for attracting FDI. With political and social stability, Thailand had shown the highest economic growth performance in Southeast Asia, with 6.9% average GDP growth rate during 1961-2000. In addition, thanks to the large FDI inflow into automobile and electronics/electric appliances industries, industrial cluster has been established. Existence of this industrial cluster is an added charm of Thailand for foreign investors. Thai government has launched various investment incentives properly to utilize FDI for nurturing its strategic industries and to strengthen its industrial competitiveness. Currently, Thailand’s BOI has set up 5 target strategic industries; namely, agriculture and its processing, automobile and its parts, fashion, ICT (including electronics), and high value added services. Thai government has been developing automobile industry with the “Asian Detroit” project. Automobile

production reached 928,000 units in 2004 and plans to produce more than 1 million units in 2005. In order to strengthen its position of HDD export base in the world, the government has launched new incentives for HDD and its related industries such as, extension of tax holiday period and tax free imports of production equipments. It is expected that Thailand is likely to become third largest HDD exporter in the world in 2005.

Thai government's aggressive moves for establishing FTA network with neighboring countries also adds its attractiveness for the foreign investors. Besides AFTA, Thai government has already signed FTA with Australia (effective from January 2005), China (CAFTA), Bahrain (signed framework agreement in December 2002), Peru (signed framework agreement in October 2003), India (FTA, EH effective from September 2004), Japan (JTEPA, principal agreement signed in July 2005) and New Zealand (FTA, effective from July 2005). Other FTAs under negotiation are the ones with USA, BIMSTEC, EFTA and Pakistan.

### *Problems on Investment Environment*

Regarding Thailand's investment environment, there are only a few minor problems. According to the JETRO survey on Japanese affiliated enterprises in Thailand in March 2003, complaints on Thailand's investment environment were few, which can be seen from the **Table 8**<sup>5</sup>. Although 87% of 185 Japanese affiliated enterprises surveyed in Thailand enjoyed profits in 2004<sup>6</sup>, according to the Bangkok Japan Chambers of Commerce & Industry, the member companies in Thailand recently point out management problems which they are facing as follows: (i) price increase of raw materials, (ii) severe competition with other rivals, (iii) shortage of middle class managers, engineers and specialists (legal affairs and IT), (iv) job hopping<sup>7</sup>.

## **2. Myanmar**

### **1) Overview**

Economic relations between Japan and Myanmar have been stagnant for several years and are presently at a very low level. Although there is a great potential, because of the complementary trade structure, (the availability of Myanmar's rich natural resources, population, historically friendly relationship etc.), Japan-Myanmar economic relations could not be developed at a desired pace. The basic answer on this question could be summarized in two, namely, "inward looking" economic policy of the Myanmar government and international economic sanction since 1988. Since Ne Win

administration adopted a closed door external economic policy under the name of “Burmese Way to Socialism” since 1962, Myanmar economy and trade had been stagnant for a long time. The Ne Win administration shifted its closed-door policy to accept foreign aids and made a partial reform on state-owned enterprises and agriculture in the middle of 1970s. Since Japan was by far the biggest donor, imports from Japan shared more than a half of Myanmar total imports until the mid-1980s. Myanmar economy grew more than 5% in average from mid-1970s up to the beginning of 1980s. However, in the mid-1980s, Myanmar economy stagnated again with widened twin deficit, budget and current account, and faced with chronic high inflation. In order to control inflation, the government implemented unpopular “demonetization” by abolishing the large bills twice in 1985 and 1987. In addition, food price jumped up very high because of the government’s mismanaged liberalization on agricultural trade. People’s anger led to an anti-government uprising calling for democratization.

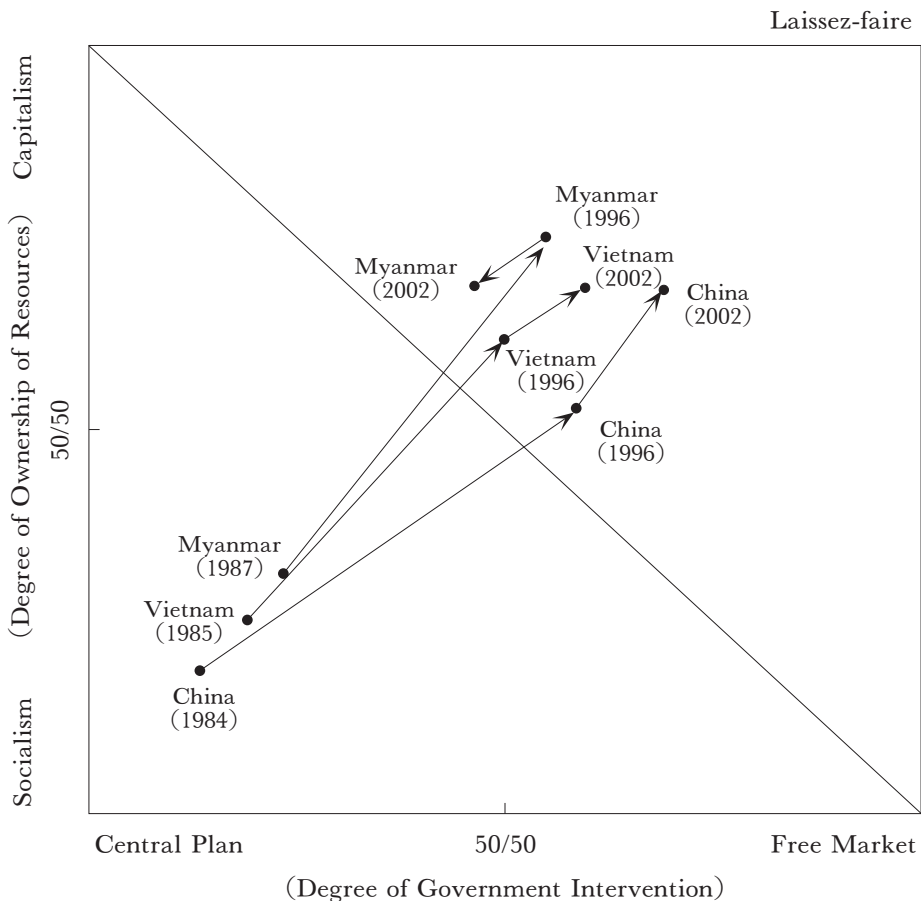
The military once again took over civil power by a coup and Myanmar came under the control of the so-called caretaker State Law and Order Restoration Council (SLORC), a military government. International sanction was imposed, because the people’s movement for democracy was suppressed by military power. SLORC (later SPDC) officially abandoned the socialist economic policy and shifted to a market-oriented economy since 1989. FDI has been allowed and international trade was partially opened to the private.

Thanks to the open door policy and its shift to a market-oriented economy, Myanmar’s GDP grew by 7.3% per annum on average during 1992–1997. It was an investment-led growth. The government expanded public construction, FDI flowed into Myanmar. FDI approval reached 6 billion US\$ during 1988 to the end of 1996 fiscal year. However, the investment-led growth was not sustainable. Myanmar economy soon came to face a serious shortage of foreign currency and budget deficit, caused by expansionist policies to shore up short-term support. The government began to control capital expenditure and strengthened import control. Since the “currency crisis” in Thailand in July 1997, the government has re-imposed many restrictions in trade and other private sector economic activities. The government’s reform efforts for a market-oriented economy virtually stopped and to some degree made a “U” turn to a former controlled economy.

**Figure II-2-1** shows how economic system have changed in Myanmar, China and Vietnam during the transition of economies in Asia toward a market economy. The vertical axis shows the degree of ownership of resources by the government and the private sector, and the horizontal axis

shows the degree of government intervention in the economy. In this graph, the closer you get to the upper-right corner, the more advanced the market economy of the country is. Each country's position is not fixed based on specific quantitative indexes, but rather on a rough estimation from the viewpoint of the author. The economic system of Myanmar was nearer to a market economy than that of China or Vietnam in 1987 immediately before Myanmar started transition to a market economy. Also, domestic private ownership had advanced and government intervention in the country up until 1996. However, since the Thai currency crisis in July of 1997, the Myanmar government has increased regulations and it reversed to a controlled economic system. In the ownership of resources, offshore natural gas production by the state pushed up its share of the state sector. As a result, the economic system of Myanmar is essentially closer to a socialist con-

**Figure II-2-1 Degree of Transition to a Market Economy**  
(China, Vietnam, Myanmar)



### Myanmar: GDP Growth Rate (%)

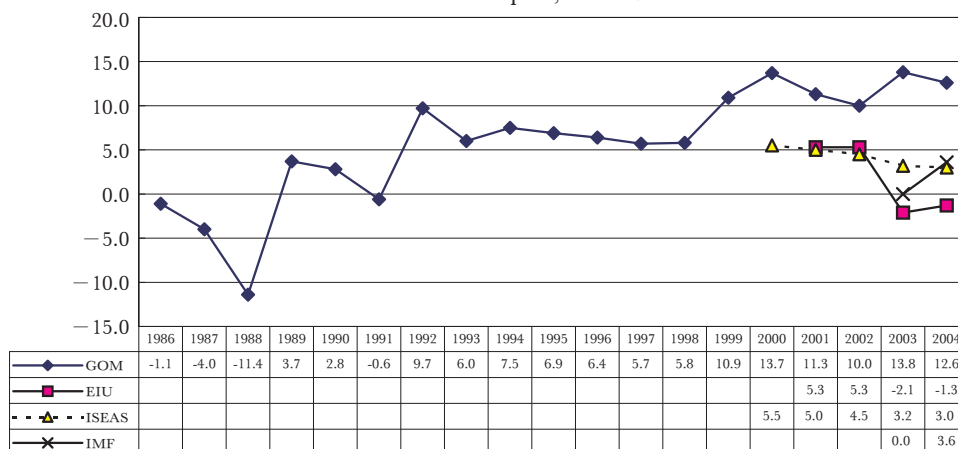
Source:

GOM: CSO, Myanmar, Statistical Yearbook 2004 and the figures at the Defense Services Museum, Yangon

EIU: EIU Reports May 2005

ISEAS: Regional Outlook 2005, ISEAS, Singapore

IMF: IMF Staff Report, Mar. 2004



trolled-type economy than that of China or Vietnam as of 2002.

FDI inflows decreased mainly because of the deterioration of business environment caused by increasing government intervention and restrictions. In addition, strengthened sanction by US government by prohibiting direct investment of US firms to Myanmar in 1997 even scared-off other foreign investors. Import also stagnated because of the severe import restrictions by the Myanmar government.

Since the banking crisis of February 2003, Myanmar's banking sector virtually stopped performing the role of financial intermediation. In addition, after the incidence of May 2003 (arrest of Aung San Suu Kyi), US government further strengthened its sanction by prohibiting import of Myanmar products and US dollar remittance. This sanction was a heavy blow to the Myanmar economy. Even after the "Asian Crisis", Myanmar economy could continue to grow about 5% until 2001. However, the economy could not develop in 2003 and 2004<sup>8</sup>.

#### *Characteristics of Myanmar's Economic Policy*

Sixteen years have passed since Myanmar government officially shifted towards a market-oriented economy. However, traditional nationalistic thought and a socialistic controlled economy still remain firmly entrenched as elements in the country's economic policies, which reflect the following



trends even at present.

- (1) Priority placed on state-owned enterprises and little emphasis on private sector
- (2) Wariness toward foreign capitals
- (3) Extensive government control over foreign trade and foreign exchange
- (4) State monopoly on foreign trade and domestic sales of important commodities
- (5) State control over lands
- (6) Extensive government intervention in the financial sector
- (7) Government intervention on pricing of key commodities and services
- (8) Lack of transparency in policies, laws and regulations

In addition, the nation's "self-sufficient-oriented philosophy" has promoted focusing on state reserves such as food saving and production for import substitution by state-owned enterprises, while disregarding profits gained through international division of labor.

These policies have brought about the following negative effects in Myanmar's economy, hampering it from exhibiting its full economic potential. Therefore, Myanmar needs to free itself from old controlled-type economy and self-sufficient-oriented philosophy.

- (1) Under-utilized foreign capital and technology
- (2) Inefficient resource allocation owing to price distortions mainly caused by the multiple foreign exchange rate
- (3) Highly expensive transaction cost
- (4) Difficulty in gaining access to capital goods and raw materials at international price
- (5) High cost of domestic materials which are monopolized by the state
- (6) Stagnant market entry and exit of private companies
- (7) Inadequate competitive markets
- (8) Inefficient investment
- (9) Repression of entrepreneurship

In order to bring its economy on to a normal track, it is desirable to implement the democratization process declared in the so-called "road map" as soon as possible. If it takes time to implement such a process, the government should at least take action to regain business confidence by rolling back all the restrictions introduced after 1997 and making efforts to reconstruct the badly damaged financial sector. Then, the government should

declare its policy direction for future economic reform which includes state-owned enterprises reform and unification of foreign exchange rate.

## 2) Trade

Partly because of the international sanction and due to its low level of development, Myanmar's trade has shifted more to Asian countries. East Asia shares 79% of Myanmar's total exports in 2002. Especially, ASEAN's share in Myanmar's total exports increased sharply from 29% in 1997 to 45% in 2002. Natural gas export to Thailand, which started in full swing in 2000, mainly contributed this. Thailand's share in Myanmar's total export increased from 11.2% to 35.6% in 2002. China's share also increased from 6.2% in 1985 to 15.4% in 2002. India's share declined from 22% in 1997 to 10.6% in 2002. However, these 3 countries, which share the border with Myanmar, occupied 62% of Myanmar's total exports. Japan's trade share with Myanmar declined from 8% in 1980 to only 2.6% in 2004. USA's share increased from 3.4% in 1997 to 10.4% in 2004 mainly because of increased Myanmar's garments export to USA. However, the country's exports to USA might have declined sharply since 2003 because of the new US sanction introduced in July 2003 by prohibiting import of Myanmar goods.

Myanmar's exports structure has changed greatly in recent years. In 1980, only two items, rice (42% of total) and teak wood (22.4%) shared 64.5% of Myanmar's total exports. The share of rice went down to only 0.6% and teak 10.8% in 1997. Instead, beans, shrimps and garments supported Myanmar's export. In 2002, Natural gas became the largest export item with 29.7% share, and then the garments with 14.9%. The share of Myanmar's traditional export items, agricultural products went down to only 14% in 2002. However, it should be noted that exports by border trade which shared 23.6% of total trade in 2002 are not classified by commodity. Since exports from Myanmar through border trade include a lot of agricultural products, if the exports are classified properly, the share of agricultural products may be estimated to be around 20-25% of the total. If Myanmar could attract more FDI, Myanmar's exports of labor intensive industrial goods such as garments, footwear, electronics and wood products will grow fast. Nonetheless, Myanmar's export will continue to depend more on primary goods, because of the possible expansion of natural gas and agricultural goods from now onwards.

Myanmar import more more from Asia than it exports. The share of Asian countries was 93.4% of Myanmar's total imports in 2002. Singapore

**Table II-2-1 Myanmar's Exports by Country**

(Million Kyat)

Country	1997	%	1998	1999	2000	2001	2002	%
<b>SOUTH EAST ASIA</b>	1,858	28.8	1,767	1,932	3,333	7,694	8,923	44.7
Singapore	829	12.9	701	813	737	1,100	882	4.4
Malaysia	165	2.6	253	335	471	785	485	2.4
Indonesia	118	1.8	203	188	222	344	363	1.8
Thailand <u>1/</u>	724	11.2	565	553	1,831	5,392	7,096	35.6
<b>REST OF ASIA</b>	3,504	54.3	3,749	3,391	4,559	5,440	6,857	34.4
China <u>1/</u>	837	13.0	571	847	1,143	1,545	3,070	15.4
Hong Kong	364	5.6	353	428	531	377	389	2.0
India <u>1/</u>	1,425	22.1	1,040	1,346	1,702	2,324	2,108	10.6
Bangladesh <u>1/</u>	456	7.1	1,238	243	344	415	497	2.5
Japan	240	3.7	296	362	542	451	522	2.6
United States	219	3.4	226	563	1,594	1,865	2,082	10.4
United Kingdom	94	1.5	86	90	221	347	394	2.0
Others	772	12.0	928	2,971	3,029	1,784	1,700	8.5
<b>GRAND TOTAL</b>	6,447	100.0	6,756	8,947	12,736	17,130	19,955	100.0

Source: "Statistical Yearbook 2003", CSO, Myanmar

1/ From 1988-89 onward, data include border trade

\*Fiscal Year (April-March)

**Table II-2-2 Myanmar's Exports by Commodity**

(Million Kyat)

S.N.	Commodity	1997	%	1998	1999	2000	2001	2002	%
<b>I</b>	<b>AGRICULTURAL PRODUCTS</b>	1,952	30.3	1,890	1,602	2,312	3,021	2,808	14.1
	Rice and rice products	38	0.6	167	65	208	754	633	3.2
	Pulses	1,403	21.8	1,135	1,179	1,658	1,898	1,760	8.8
	Maize	45	0.7	116	54	92	59	139	0.7
<b>II</b>	<b>ANIMAL PRODUCTS</b>	8	0.1	34	28	37	42	22	0.1
<b>III</b>	<b>MARINE PRODUCTS</b>	945	14.7	941	807	934	861	1,116	5.6
	Fish	289	4.5	307	229	291	310	445	2.2
	Prawn	559	8.7	569	529	598	519	623	3.1
<b>IV</b>	<b>TIMBER</b>	853	13.2	789	925	803	1,880	1,871	9.4
	Teak	698	10.8	640	727	651	1,423	1,388	7.0
	Hardwood	155	2.4	149	198	152	457	483	2.4
<b>V</b>	<b>BASE METAL AND ORES</b>	30	0.5	74	289	324	288	282	1.4
<b>VI</b>	<b>PRECIOUS AND SEMI-PRECIOUS MINERALS</b>	207	3.2	149	219	363	127	249	1.2
<b>VII</b>	<b>GAS</b>	—	—	5	31	1,110	4,247	5,919	29.7
<b>VIII</b>	<b>GARMENT</b>	436	6.8	471	2,722	3,785	2,985	2,976	14.9
<b>IX</b>	<b>OTHER COMMODITIES <u>1/</u></b>	2,016	31.3	2,403	2,324	3,068	3,680	4,712	23.6
	<b>TOTAL EXPORTS</b>	6,447	100	6,756	8,947	12,736	17,130	19,955	100

Source: "Statistical Yearbook 2003", CSO, Myanmar

1/ From 1988-89 onward, data include border trade

\* Fiscal Year (April-March)

is the largest source of its imports. China's share increased from 3.7% in 1985 to 15.8% in 2002 and became second largest import source for Myanmar. Imports from Japan, which shared more than 40% till mid-1980s because of Japanese ODA, declined sharply after 1988 when Japan stopped loan to Myanmar. Japan's share in 2002 was only 9.3%. However, if the Japanese goods imports via Singapore are counted, actual figure will be higher.

Myanmar's import structure has changed much from what it was in the 1980s. The share of machinery/transport equipment declined from 55.3% to 23.9% in 2002. The absence of Japanese loan since 1988 seems to be the main reason of this decline of machinery imports. The share of raw material products has not changed, with 27.4% share in 2002. However, within this category, the share of iron & steel and chemical fertilizer declined. Instead, artificial and synthetic fabrics, which are raw materials for garment manufacturing, increased. The decline in the share of iron and steel and chemical fertilizer seems to be caused more by the decreased domestic demand rather than the increased domestic production. In fact, domestic production of chemical fertilizer has shown a declining trend after peaking out in 1985.

Japan's exports to Myanmar have been stagnating in recent years mainly because of the Myanmar's import restriction. Japan's main export

**Table II-2-3 Myanmar's Imports by Country**

(Million Kyat)

Country	1997	%	1998	1999	2000	2001	2002	%
<b>SOUTH EAST ASIA</b>	7,473	52.0	9,744	8,686	7,064	8,820	8,018	53.8
Singapore	4,440	30.9	5,188	4,559	3,646	3,918	4,134	27.7
Malaysia	996	6.9	1,204	1,211	794	2,434	1,887	12.7
Indonesia	678	4.7	1,265	655	534	575	416	2.8
Thailand 1/	1,325	9.2	2,065	2,163	1,971	1,798	1,503	10.1
<b>REST OF ASIA</b>	5,672	39.5	6,095	6,173	6,727	8,013	5,908	39.6
China 1/	1,524	10.6	1,744	1,568	1,855	2,068	2,350	15.8
Hong Kong	375	2.6	563	561	838	512	408	2.7
India 1/	646	4.5	434	455	540	553	693	4.6
Japan	2,181	15.2	2,158	1,808	1,317	2,390	1,392	9.3
South Korea	787	5.5	876	1,488	1,874	2,261	898	6.0
United States	335	2.3	216	576	153	223	143	1.0
Switzerland	161	1.1	214	129	146	375	171	1.1
Others	727	5.1	603	700	982	947	671	4.5
<b>GRAND TOTAL</b>	14,366	100.0	16,872	16,265	15,073	18,378	14,910	100.0

Source: "Statistical Yearbook 2003", CSO, Myanmar

1/ From 1988-89 onward, data include border trade

\* Fiscal Year (April-March)

**Table II-2-4 Myanmar's Imports by Commodity**

(Million Kyat)

S.N.	Principal Commodity	1997	%	1998	1999	2000	2001	2002	%
2	Milk,condensed and evaporated	69	0.5	130	170	143	108	137	0.9
8	Edible vegetable oils and other hydrogenated oils	805	5.6	670	478	475	551	353	2.4
10	Tobacco and tobacco manufactures	177	1.2	79	101	110	185	153	1.0
12	Chemical elements and compounds	141	1.0	128	156	185	202	184	1.2
13	Pharmaceutical products	186	1.3	242	303	413	402	353	2.4
14	Fertilizers, manufactured	357	2.5	152	329	255	141	158	1.1
20	Fabrics of artificial and synthetic fabrics	289	2.0	554	898	1,554	1,563	1,598	10.7
25	Paper,paperboard	202	1.4	301	344	344	453	429	2.9
26	Rubber manufactures	157	1.1	228	205	243	255	299	2.0
30	Refined mineral oil	480	3.3	411	1,046	955	2,103	1,164	7.8
31	Scientific instrument	266	1.9	211	179	180	191	156	1.0
32	Base metals and manufactures	1,499	10.4	1,933	1,723	1,438	1,386	936	6.3
33	Machinery non-electric and transport equipment	3,597	25.0	4,656	3,289	2,631	4,001	2,801	18.8
34	Electrical machinery and apparatus	1,203	8.4	1,692	1,578	1,123	1,109	756	5.1
35	Crude Oil	0	0.0	225	555	96	1,555	873	5.9
	Others	4,937	34.4	5,258	4,911	4,927	4,173	4,560	30.6
	<b>Total Imports</b>	<b>14,366</b>	<b>100.0</b>	<b>16,872</b>	<b>16,265</b>	<b>15,073</b>	<b>18,378</b>	<b>14,910</b>	<b>100.0</b>

Source: "Statistical Yearbook 2003", CSO, Myanmar

\* Fiscal Year (April-March)

items are machinery and transportation equipments. On the other hand, Japan's imports from Myanmar have been increasing. Fishery products (mainly shrimps), garments and footwear are the main items. These three items shared about 80% of Japan's imports from Myanmar in 2004. Since Myanmar's export of garment and footwear, which are the products of Japanese affiliated companies, has been increasing recent years, Japan-Myanmar balance of trade turned in favor of Myanmar since in 2003. In order to expand Myanmar's trade with Japan, abolishment of trade restrictions introduced since 1997 and attraction of Japanese investments are inevitable.

### 3) FDI inflows into Myanmar

In 1988, Myanmar government for the second time established a new

**Table II-2-5 Japan's Exports to Myanmar**

(Million US\$)

HS	Description	2000	%	2001	2002	2003	2004	%
	Myanmar Total	196	100.0	187	115	124	105	100.0
84	MACHINERY	116	59.2	82	47	58	36	34.6
87	VEHICLES, NOT RAILWAY	20	10.5	49	29	25	34	32.2
85	ELECTRICAL MACHINERY	23	11.9	19	7	12	6	5.6
72	IRON AND STEEL	7	3.4	6	2	2	3	2.9
51	ANIMAL HAIR + YARN, FABRIC	0	0.0	0	2	3	3	2.8
54	MANMADE FILAMENT, FABRIC	1	0.4	1	2	2	3	2.4
39	PLASTIC	2	1.0	1	2	2	2	2.1
90	OPTIC, NT 8544; MED INSTR	3	1.7	3	6	3	2	1.9
55	MANMADE STAPLE FIBERS	1	0.5	1	1	2	2	1.9
00	SPECIAL	1	0.4	4	1	0	1	1.3
38	MISC. CHEMICAL PRODUCTS	1	0.4	1	1	1	1	0.9
37	PHOTOGRAPHIC/CINEMATOGR	0	0.3	1	1	1	1	0.9
40	RUBBER	2	1.1	2	1	1	1	0.9
69	CERAMIC PRODUCTS	1	0.6	1	0	0	1	0.8
30	PHARMACEUTICAL PRODUCTS	1	0.4	1	1	1	1	0.8
	Others	16	8.2	12	11	11	9	8.1

Source: Customs Data, Japan

**Table II-2-6 Japan's Import from Myanmar**

(Million US\$)

HS	Description	2000	%	2001	2002	2003	2004	%
	Myanmar Total	119	100.0	102	110	140	180	100.0
03	FISH AND SEAFOOD	51	43.1	42	56	50	70	39.1
62	WOVEN APPAREL	3	2.7	7	14	31	44	24.6
64	FOOTWEAR	11	9.6	16	17	26	28	15.4
12	MISC. GRAIN, SEED, FRUIT	11	9.3	5	1	12	11	5.9
71	PRECIOUS STONES, METALS	1	1.2	2	2	2	7	3.9
44	WOOD	6	5.4	4	4	5	5	2.9
07	VEGETABLES	8	6.3	5	5	5	5	2.6
85	ELECTRICAL MACHINERY	6	4.9	3	3	3	4	2.0
23	FOOD WASTE; ANIMAL FEED	0	0.0	0	0	0	2	0.9
89	SHIPS AND BOATS	0	0.0	0	1	1	1	0.5
90	OPTIC, NT 8544; MED INSTR	0	0.2	0	1	1	1	0.5
63	MISC TEXTILE ARTICLES	1	0.8	1	1	1	1	0.4
61	KNIT APPAREL	1	1.1	1	0	1	1	0.3
00	SPECIAL	1	0.7	1	0	0	1	0.3
94	FURNITURE AND BEDDING	0	0.1	0	0	0	0	0.1
	Others	18	14.8	16	5	1	1	0.5

Source: Customs Data, Japan

**Table II-2-7 Myanmar's Agra/Fishery/Forestry Goods Exports to Japan**

(Million US\$)

HS	Description	2000	2001	2002	2003	2004
	Myanmar Total	119.4	102.1	110.4	139.6	180.1
03	FISH AND SEAFOOD	51.4	41.9	55.9	49.8	70.4
12	MISC GRAIN, SEED, FRUIT	11.1	5.2	1.0	12.4	10.7
44	WOOD	6.4	4.5	4.4	4.7	5.3
07	VEGETABLES	7.5	5.0	4.7	5.1	4.7
23	FOOD WASTE; ANIMAL FEED	0.0	0.0	0.4	0.1	1.7
05	OTHER OF ANIMAL ORIGIN	0.7	0.7	0.0	0.1	0.1
09	SPICES, COFFEE AND TEA	0.1	0.1	0.1	0.2	0.1
16	PREPARED MEAT, FISH, ETC	0.2	0.0	0.0	0.1	0.1
10	CEREALS	0.0	0.0	0.0	0.0	0.0
22	BEVERAGES	0.0	0.0	0.1	0.0	0.0
13	LAC; VEGETABL SAP, EXTRCT	0.0	0.0	0.0	0.0	0.0
20	PRESERVED FOOD	0.0	0.0	0.0	0.0	0.0
01	LIVE ANIMALS	0.0	0.2	0.1	0.1	0.0
15	FATS AND OILS	0.0	0.0	0.0	0.0	0.0
11	MILLING; MALT; STARCH	0.0	0.0	0.0	0.0	0.0
14	OTHER VEGETABLE	0.0	0.0	0.0	0.0	0.0
17	SUGARS	0.0	0.0	0.0	0.0	0.0
19	BAKING RELATED	0.0	0.0	0.0	0.0	0.0
02	MEAT	0.0	0.0	0.0	0.0	0.0
04	DAIRY, EGGS, HONEY, ETC	0.0	0.1	0.1	0.1	0.0
08	EDIBLE FRUIT AND NUTS	0.0	0.0	0.0	0.0	0.0
	Agra/Fishery/Forestry Goods Total	77.6	57.7	66.9	72.7	93.1
	Agra/Fishery/Forestry Goods (%)	64.9	56.6	60.6	52.0	51.7

Source: Customs Data, Japan

foreign investment law<sup>9</sup>. The law is said to be patterned in line with the one of Malaysia and it is liberal, even compared with other neighboring countries. Since Myanmar government has shifted towards market economy since 1989, Myanmar was bathed in the footlights as the frontier market and the foreign investment flowed in favorably. FDI approval recorded a 2.8 billion US\$ peak in 1996. However, FDI inflow decreased sharply since the "Asian Crisis" of 1997. The US sanction which prohibited US firms to invest in Myanmar and the Myanmar government's renewed restrictive regulations in trade and finance were in the background of this decreased FDI inflow.

FDI approval (cumulative total from 1988 to November 2004) recorded 7.7 billion US\$. Singapore (20.6%), UK (18.7%), Thailand (17.5%) and Malaysia (8.6%) are the major investors. Among foreign investors, Japan occupies the ninth position in Myanmar, with only 2.8% share. However, if the direct investments from Japanese affiliated firms in Singapore are

**Table II-2-8 FDI Flow into Myanmar (Approval Basis)****By Country**

(Million US\$)

	1997	1998	1999	2000	2001	2002	2003	*2004	Cumulative as of Nov. 2004	%
Singapore	270.6	14.2	4.7	36.9	—	6.1	—	—	1,572.7	20.6
UK 1/	47.5	4.4	15.1	30.6	1.5	—	27.0	—	1,431.0	18.7
Thailand	210.4	10.8	16.5	25.8	—	—	22.0	29.0	1,341.0	17.5
Malaysia	124.8	—	—	9.8	1.5	62.2	—	—	660.7	8.6
USA	—	—	—	—	—	—	—	—	582.1	7.6
France	—	—	—	—	—	—	—	—	470.4	6.1
Indonesia	25.4	1.1	1.4	1.2	1.5	—	—	—	241.5	3.2
Netherlands	—	1.0	—	—	—	—	—	—	238.8	3.1
Japan	26.9	8.9	5.1	—	4.7	—	—	—	212.6	2.8
South Korea	29.7	0.2	4.3	47.2	5.0	0.3	34.9	—	191.3	2.5
Hong Kong	56.9	8.0	5.7	13.2	1.5	12.9	3.0	—	166.0	2.2
Philippines	140.0	—	—	—	—	—	—	—	146.7	1.9
Others	80.7	5.7	5.3	52.9	3.3	5.4	4.3	31.7	392.1	5.1
Total	1,012.9	54.4	58.2	217.7	19.0	86.9	91.0	60.7	7,652.8	100.0

**By Sector**

(Million US\$)

	1997	1998	1999	2000	2001	2002	2003	*2004	Cumulative as of Nov. 2004	%
Agriculture	5.7	—	—	20.0	—	—	—	—	34.4	0.4
Fishery	5.8	4.8	3.3	—	—	26.4	2.6	—	312.4	4.1
Mining	3.3	4.9	16.0	1.1	—	3.4	1.5	6.0	534.2	7.0
Oil and Gas	172.1	—	5.3	47.6	3.3	44.0	54.3	47.7	2,505	32.7
Manufacturing	319.2	43.3	18.1	77.4	15.8	13.2	2.8	3.5	1,610	21.0
Transport	106.3	—	—	7.9	—	—	30.0	—	313	4.1
Hotel & Tourism	274.9	1.5	15.5	5.3	—	—	—	3.5	1,063.2	13.9
Real Estate Development	122.2	—	—	28.0	—	—	—	—	1,025.1	13.4
Industrial Estate	—	—	—	—	—	—	—	—	193.1	2.5
Construction	—	—	—	20.5	—	—	—	—	37.8	0.5
Others	3.4	—	—	10.0	—	—	—	—	23.7	0.3
Total	1,012.9	54.4	58.2	217.7	19.0	86.9	91.2	60.7	7,652.8	100.0

Source: "Selected Monthly Economic Indicators, Nov. 2004", CSO, Myanmar

1/ Include British Virgin Island and Bermuda Island

\* April 2004–November 2004

counted, Japan's share will be higher.

Oil & Gas shares 32.7% of total FDI value in Myanmar, followed by manufacturing 21%, hotel/tourism 13.9%, and real estate development 13.4%. Japan's direct investments in Myanmar reported total 23 cases such



as manufacturing of galvanized iron sheets, garments, automobile and real estate development.

### *Problems on Investment Environment*

As mentioned above, Myanmar government started economic reforms and liberalization in various fields for economic transition towards a market economy since 1989. However, such move was virtually suspended and the state economic control was strengthened since the “Asian crisis” of 1997. Because of this, Myanmar has encountered many problems in its investment environment, some of which are listed in **Table 8**. In addition, Myanmar government seems cautious toward foreign capital and not always positive for attracting FDI. The government should re-recognize that FDI is essential for acquiring foreign currency, management know-how, technology, export markets and secure employment. And the government should make great efforts to remove business impediments listed above. In addition, the following FDI promotion measures at least should be considered.

- (1) Establishment of Special Economic Zone (SEZ) or Export Processing Zone (EPZ) and creation of independent Myanmar SEZ authority
- (2) Strengthen the authority of MIC (Myanmar Investment Commission) as a one stop service organization for FDI
- (3) Strengthen FDI attraction activities
- (4) Formulation of strategy for FDI attraction into specific strategic industries
- (5) Improvement of necessary statistics for investment planning and its publication

## **3. India**

### **1) Overview**

Owing to the economic liberalization and high economic growth since 2000, India is now attracting international interest. In Japan, a wave is developing through which many enterprises have started to consider India as the new location of investment. Background reason for this new wave is the growing concern over the “China Risk” among Japan enterprises. Many enterprises have started thinking for diversion from China to India. However, in reality, Japan-India economic relations are still not at satisfactory level. Japan’s direct investment into India has been showing a declining trend from the peak in 1997. In spite of the increased overall trade in India, Japan-India trade has been stagnant in recent years. Japan’s share in India’s total trade halved during the past eight years. India’s main export

products to Japan have not changed either-diamond, shrimps and iron ore are still the major items. Although Japan-India business in IT has been increasing rapidly, Japan's share in India's total IT related exports is still only about 3%.

Due to severe foreign exchange crisis in 1991, Indian government abandoned its traditional policy to pursue a socialistic society under the mixed economic system. It directed its traditional economic system toward a free economic system and implemented drastic reforms on five areas: (i) liberalization of domestic investment, (ii) liberalization of trade and investment, (iii) state-owned enterprise reform, (iv) fiscal reform, and (v) reform of the financial system. These reforms have been kept unchanged during the past three administrations over the last decade. The reforms have brought about certain fruits into India at least in terms of improved financial system, controlled inflation and stability of external financing. The country realized high economic growth of more than 6% per annum on average in the latter part of 1990s. However, in terms of fiscal reform, sophistication of industrial structure, labor shift to the high value added industries, etc., the country's performance was not satisfactory. The integrated budget deficits widened and it reached 11% of GDP lately.

Indian economy will continue its high economic growth at least for a short-term, mainly led by domestic consumption and the development of software service industries. However, to sustain its high growth in the long-term, reduction of budget deficits, sophistication of industrial structure, state-owned enterprise reform and improvement of soft/hard infrastructure are essential. Considering the legacy of the past mixed economic system and strong resistance against state-owned enterprises and labor laws, there is a possibility that Indian economic growth will be milder compared to China.

If we consider the long-term trend of work force, and the number of engineers and skilled workers, future prospects of India's manufacturing industries seems bright. However, the share of manufacturing industry is still only 16% of its GDP.

In contrast to the rapid development of software service industry, the manufacturing industry in India has been stagnant. Considering its high population growth, it is essential for India to strengthen its manufacturing industries which have big employment creation effect.

There are many tasks to be tackled in order to develop manufacturing industries in India such as (i) revision of labor laws, (ii) strengthening and furthering the development of financial institutions, (iii) rationalization of commodity tax, (iv) improvement of cost and quality of infrastructure

services, (v) deregulation of entry restriction toward SSI industries, and (vi) expansion and development of labor training system.

## 2) Trade

India's exports increased, by an average of 12% per year from 1993 to 2003. Factors such as (i) depreciation of Indian Rupee, (ii) tax incentives for the export profits, and (iii) rising share of manufactured goods in its total exports, are contributing to this growth. The USA is the largest export destination of India. However, exports to China, UAE and Singapore have been increasing rapidly in recent years. India's main export items were

**Table II-3-1 India's Trade by Country**

<b>Export</b>		(Million US\$)				
	2001	%	2002	2003	2004	%
USA	8,517	19.5	10,884	11,490	13,266	16.7
UAE	2,491	5.7	3,322	5,126	7,098	9.0
China	926	2.1	1,966	2,955	4,586	5.8
Singapore	970	2.2	1,426	2,125	3,796	4.8
UK	2,160	4.9	2,479	3,023	3,545	4.5
Hongkong	2,372	5.4	2,451	3,262	3,651	4.6
Germany	1,783	4.1	2,066	2,545	2,644	3.3
Belgium	1,393	3.2	1,652	1,806	2,442	3.1
Japan	1,500	3.4	1,862	1,709	1,978	2.5
Others	21,596	49.4	24,262	29,802	36,241	45.7
Total	43,708	100.0	52,370	63,843	79,247	100.0

<b>Import</b>		(Million US\$)				
	2001	%	2002	2003	2004	%
China	2,039	4.0	2,790	4,053	6,747	6.3
USA	3,122	6.1	4,429	5,035	6,291	5.9
Switzerland	2,876	5.6	2,336	3,313	5,818	5.4
Belgium	2,772	5.4	3,721	3,976	4,566	4.3
UAE	na	na	na	2,060	4,582	4.3
Germany	2,036	4.0	2,383	2,919	3,868	3.6
Australia	1,311	2.6	1,337	2,649	3,561	3.3
UK	2,574	5.0	2,786	3,234	3,431	3.2
Korea	na	na	1,528	2,829	3,194	3.0
Japan	2,056	4.0	1,834	2,668	3,006	2.8
Total (includes Others)	51,261	100.0	61,445	78,150	107,066	100.0

Source: JETRO, "White Paper on Trade & Investment", 2003, 2004, 2005

Based on the data of Monthly Review of the Indian Economy, Foreign Trade & Balance of Payment

\* Fiscal Year (April-March)

**Table II -3-2 India's Trade by Commodity****Export**

(Million US\$)

	2001	%	2002	2003	2004	%
Jewelry/Jewelry items	7,331	16.7	8,877	10,573	13,705	17.3
Textile Products	5,218	11.9	5,753	5,973	5,991	7.6
Garments	5,024	11.4	5,387	6,231	6,026	7.6
Petroleum Products	2,126	4.8	2,428	3,568	6,792	8.6
Pharmaceuticals	2,069	4.7	2,471	5,846	6,697	8.5
Machinery	1,740	4.0	1,828	2,776	3,493	4.4
Metal Products	1,609	3.7	1,751	2,427	3,279	4.1
Iron & Steel semi-products	734	1.7	1,574	2,154	3,247	4.1
Transport Machinery	1,024	2.3	1,214	1,956	2,830	3.6
Others	17,101	38.9	21,087	22,339	27,187	34.3
Total	43,976	100.0	52,370	63,843	79,247	100.0

**Import**

(Million US\$)

	2001	%	2002	2003	2004	%
Crude Oil/Oil Products	14,048	27.2	17,685	20,570	29,844	27.9
Electronics Products	3,795	7.4	5,358	7,506	9,739	9.1
Pearl/Gemstone	4,638	9.0	6,070	7,129	9,423	8.8
Gold/Silver	4,598	8.9	4,245	6,856	10,824	10.1
Machinery (Exc.Electric Machinery)	2,981	5.8	3,450	4,744	6,551	6.1
Chemicals	1,614	3.1	1,848	4,032	5,335	5.0
Vegetable Oil	1,360	2.6	1,812	2,543	2,394	2.2
Transport Machinery	1,153	2.2	1,799	3,228	2,423	2.3
Coal/Coking Coal	1,147	2.2	1,225	1,411	2,801	2.6
Iron& Steel	791	1.5	884	1,506	2,597	2.4
Others	15,463	30.0	17,069	18,625	25,135	23.5
Total	51,588	100.0	61,445	78,150	107,066	100.0

Source: JETRO, "White Paper on Trade &amp; Investment", 2003, 2004, 2005

Based on the data of DGCI &amp; S, Ministry of Commerce &amp; Industry, India

\* Fiscal Year (April-March)

labor intensive goods, such as jewelry/jewelry products, textile products and garments. Recently, capital goods exports like transport equipment and pharmaceutical products has been increasing. The share of pharmaceutical products increased from 4.7% in 2002 to 8.5% in 2004. The exports of automobile and its parts also increased, by 2.8 times during 2001 to 2004.

Traditionally, India's imports depended on USA and Europe. However, imports from China and Korea have been increasing significantly in recent years. China became the largest source of imports for India by surpassing USA in 2004. Crude oil & petroleum products are the biggest import item with a share of 28% in 2004. Though the import of electronics products has

**Table II-3-3 Japan's Trade with India****Japan's Export**

(Million US\$)

HS	Description	1999	%	2000	2001	2002	2003	2004	%
		India Total	2,432	100.0	2,487	1,922	1,871	2,397	3,047
84	MACHINERY	817	33.6	789	486	512	738	954	31.3
85	ELECTRICAL MACHINERY	290	11.9	319	260	215	270	345	11.3
87	VEHICLES, NOT RAILWAY	204	8.4	253	161	171	232	343	11.3
72	IRON AND STEEL	158	6.5	152	130	145	178	232	7.6
90	OPTIC, NT 8544; MED INSTR	134	5.5	122	121	124	141	189	6.2
29	ORGANIC CHEMICALS	124	5.1	148	137	123	145	171	5.6
39	PLASTIC	68	2.8	60	57	64	68	92	3.0
73	IRON/STEEL PRODUCTS	72	2.9	71	60	59	65	88	2.9
00	SPECIAL	54	2.2	58	73	43	62	88	2.9
37	PHOTOGRAPHIC/ CINEMATOGR	83	3.4	78	76	75	69	69	2.3
40	RUBBER	85	3.5	73	59	61	61	65	2.1
27	MINERAL FUEL, OIL ETC	35	1.4	25	26	46	53	58	1.9
38	MISC. CHEMICAL PRODUCTS	21	0.9	40	32	30	47	54	1.8
32	TANNING, DYE, PAINT, PUTTY	18	0.8	17	14	20	28	31	1.0
82	TOOL,CUTLRY, OF BASE MTLs	64	2.6	81	32	13	35	27	0.9
	Others	204	8.4	203	197	172	207	241	7.9

Source: Customs Data, Japan

**Japan's Import**

(Million US\$)

HS	Description	1999	%	2000	2001	2002	2003	2004	%
		India Total	2,253	100.0	2,636	2,216	2,091	2,179	2,616
71	PRECIOUS STONES, METALS	523	23.2	476	398	415	426	540	20.6
26	ORES, SLAG, ASH	373	16.5	415	396	386	381	459	17.5
03	FISH AND SEAFOOD	550	24.4	602	437	352	254	276	10.6
27	MINERAL FUEL, OIL ETC	49	2.2	221	161	139	174	158	6.0
29	ORGANIC CHEMICALS	49	2.2	59	62	68	109	145	5.5
72	IRON AND STEEL	40	1.8	51	33	13	37	101	3.9
23	FOOD WASTE; ANIMAL FEED	57	2.5	69	30	23	32	92	3.5
62	WOVEN APPAREL	73	3.2	119	93	71	79	92	3.5
52	COTTON+YARN, FABRIC	86	3.8	87	93	95	95	91	3.5
84	MACHINERY	86	3.8	87	93	37	50	64	2.5
90	OPTIC, NT 8544; MED INSTR	8	0.4	24	35	40	46	44	1.7
85	ELECTRICAL MACHINERY	22	1.0	24	30	45	50	44	1.7
09	SPICES, COFFEE AND TEA	45	2.0	44	34	32	32	34	1.3
15	FATS AND OILS	28	1.2	33	23	18	25	32	1.2
57	TEXTILE FLOOR COVERINGS	22	1.0	26	26	24	26	28	1.1
	Others	243	10.8	301	272	333	362	415	15.9

Source: Customs Data, Japan

**Table II-3-4 India's Agra/Fishery/Forestry Goods Exports to Japan**

(Million US\$)

HS	Description	1999	2000	2001	2002	2003	2004
	India Total	2,252.8	2,635.6	2,215.9	2,091.3	2,179.2	2,615.6
03	FISH AND SEAFOOD	550.3	602.1	437.5	351.6	253.8	276.5
09	SPICES, COFFEE AND TEA	45.3	44.2	33.9	32.2	32.3	34.0
23	FOOD WASTE; ANIMAL FEED	56.6	69.1	30.5	23.3	32.1	92.3
15	FATS AND OILS	27.5	32.6	22.9	18.0	25.2	32.1
08	EDIBLE FRUIT AND NUTS	29.6	30.3	21.9	21.8	18.5	26.8
13	LAC; VEGETABL SAP, EXTRCT	22.2	18.7	14.6	15.6	17.5	22.7
05	OTHER OF ANIMAL ORIGIN	23.5	22.4	21.4	17.0	17.2	18.5
21	MISCELLANEOUS FOOD	2.3	2.4	2.9	2.4	4.2	9.5
12	MISC GRAIN, SEED, FRUIT	6.7	6.2	8.2	9.3	9.3	9.4
16	PREPARED MEAT, FISH, ETC	6.3	12.7	7.2	9.4	7.2	6.8
20	PRESERVED FOOD	1.4	2.1	2.8	2.8	2.5	5.7
41	HIDES AND SKINS	3.6	4.8	7.1	7.8	5.8	5.6
06	LIVE TREES AND PLANTS	2.8	2.7	2.8	3.1	4.0	4.8
04	DAIRY, EGGS, HONEY, ETC	0.1	0.6	2.1	4.0	2.6	4.8
44	WOOD	2.4	3.2	2.8	2.8	2.5	2.8
24	TOBACCO	1.2	1.3	1.4	1.2	0.1	1.4
14	OTHER VEGETABLE	1.7	1.4	1.1	1.2	1.1	1.4
07	VEGETABLES	0.6	0.8	0.6	0.6	0.7	0.8
22	BEVERAGES	0.3	0.5	2.1	1.4	1.9	0.3
10	CEREALS	1.9	0.1	0.2	0.2	0.5	0.3
19	BAKING RELATED	0.0	0.0	0.0	0.0	0.1	0.1
11	MILLING; MALT; STARCH	0.0	0.0	0.0	0.0	0.0	0.1
01	LIVE ANIMALS	0.2	0.0	0.1	0.1	0.0	0.0
18	COCOA	0.1	0.0	0.0	0.0	0.0	0.0
17	SUGARS	0.0	0.0	0.0	0.0	0.0	0.0
02	MEAT	0.0	0.0	0.0	0.0	0.0	0.0
	Agra/Fishery/Forestry Goods Total	786.5	858.4	624.2	525.6	439.1	556.8
	Agra/Fishery/Forestry Goods (%)	34.9	32.6	28.2	25.1	20.1	21.3

Source: Customs Data, Japan

been increasing lately, basic import structure of India has not changed.

The bilateral trade structure of Japan and India has not changed much in the past years. Nonetheless, there is a little sign of future changes. India's major export items to Japan are jewelry/jewelry products, iron ore, and shrimps. Although the value is still small, export of software, petroleum products, chemicals and iron & steel have been increasing lately. India's imports from Japan reflect strong domestic demands; particularly import of parts (automobile and motor cycle) and electronics products has been increasing lately. The share of agricultural/fishery/forestry products in India's total exports to Japan has been declining, to 21.3% share in 2004 (Table II-3-4).

### 3) FDI Inflows into India

Since 1991, Indian government has taken an open-door policy stance to attract FDI by simplifying its FDI approval procedure and removing some tariffs. As a result, substantial FDI inflows were seen toward mid-1990s. However, the inflow peaked in 1997 with the approval value of 548.9 billion Rs., before declining once again. Recently however, FDI approval started to increase again in 2004. FDI inflows (actual implementation basis) increased by 48.6% in 2004. Increased FDI of electronics products, software, pharmaceuticals and consultant services were the major contributors for the increase. The introduction of material patent (from process patent) by the government effective January 2005 has attracted foreign investors in pharmaceutical industries. There is a sign of further acceleration of investment by the foreign pharmaceutical companies into India.

The major investors to India are USA (20% of total cumulative approval value), Mauritius (12.2%), UK (8.1%), Japan (4.0%) and South Korea (3.4%) in 2004. In cumulative actual implemented investment value, the order is different. Mauritius occupies the top position with 28.6%, then, USA (12.9%), Japan (6.3%), UK (5.4%) and Netherlands (4.9%). The implementation rates against the cumulative approval value as of the end of 2003 were, 94% for Mauritius, 63% for Japan, 59% for Netherlands. However, these rates are low, about one-fourth of approval value, for USA, UK and South Korea.

By sectors, the communication shares 19.7% of total cumulative approval, then, power 15%, oil refinery 10.4%, and transportation equipments 7.5%. On the other hand, in actual investment, electronics/software shares the top, then, construction/real estate, transport equipments and communication in that order.

Japan's direct investment to India expanded rapidly after the economic liberalization in 1991. It reached a peak of 53.2 billion yen in 1997 when Toyota's big car manufacturing project was approved. However, it continued to decline after 1997 because of: (i) delayed further liberalization, (ii) conflicts with Pakistan, (iii) effects of nuclear test, (iv) complicated and inefficient administrative procedure, (v) opaque tax system, (vi) undeveloped supporting industries, and (vii) lack of infrastructure. In 2003, Japan's direct investment recorded only 7 cases with 9.9 billion yen, which was one fifth of the peak value of 1997. Although it showed some increase in 2004, the level is still far less than the half of the average of latter half of 1990s. However, considering the latest news on the new investment projects of Japanese companies mainly in automobile and its parts, and the current

**Table II -3-5 FDI Flow into India (Approval Basis)****By Country**

(Million Rp)

	2001		2002		2003		*1991-2003 Total		
	Cases	Value	Cases	Value	Cases	Value	Cases	Value	%
USA	589	49,215	542	20,511	457	7,624	4,005	581,145	20.0
Mauritius	239	28,925	219	18,466	116	13,659	1,316	355,373	12.2
UK	162	49,942	163	18,044	140	5,002	1,498	236,867	8.1
Japan	70	7,353	89	7,408	63	3,430	773	117,543	4.0
South Korea	21	668	27	290	26	615	374	98,885	3.4
Netherland	97	36,936	88	5,524	62	5,908	857	95,367	3.3
Germany	123	4,139	121	2,531	105	2,135	1,453	93,776	3.2
Australia	26	844	28	773	30	200	333	67,986	2.3
France	51	6,798	51	6,229	43	434	546	65,836	2.3
NRI	110	6,080	86	3,604	86	4,654	1,502	109,682	3.8
Yuro Bond	6	59,350	3	817	3	6,256	100	490,808	16.9
Others	488	18,497	549	27,201	416	10,505	4,709	595,274	20.5
<b>Total</b>	<b>1,982</b>	<b>268,747</b>	<b>1,966</b>	<b>111,398</b>	<b>1,547</b>	<b>60,422</b>	<b>17,466</b>	<b>2,908,542</b>	<b>100.0</b>

**By Sector**

(Million Rp)

	*1991-2003 Total		
	Cases	Value	%
Communication	792	572,555	19.7
Electricity	353	436,736	15.0
Oil Refinery	218	302,597	10.4
Transport Equipments	1,052	219,576	7.5
Services (Finance etc.)	1,069	189,920	6.5
Software	3,069	188,990	6.5
Mining	399	155,169	5.3
Chemicals (ex. Fertilizer)	1,040	130,662	4.5
Electric/Electronics	1,279	99,839	3.4
Processed Food	761	95,328	3.3
Hotel/Tourism	487	51,662	1.8
Textile	635	35,093	1.2
Industrial Machinery	650	26,095	0.9
Others	5,662	404,320	13.9
<b>Total</b>	<b>17,466</b>	<b>2,908,542</b>	<b>100.0</b>

Source: JETRO HP (Ministry of Commerce &amp; Industry of India, SIA Newsletter)

\* August 1991-December 2003

move of Japanese companies which are diversifying its investments from China, Japan's direct investment in India will expand significantly in the next few years.

Japan's direct investment in India went to manufacturing of transport



**Table II-3-6 Japan's Direct Investment to India (By Sector)**

(100 Million Yen)

	1997	1998	1999	2000	2001	2002	2003	1991- 2003 Total	%
Manufacturing	371.2	257.7	209.7	142.9	135.9	372.1	58.6	2,067	78.5
Food	0.0	6.2	1.5	0.0	0.0	2.7	0.0	18	0.7
Textile	1.8	0.0	0.0	0.0	0.0	0.0	0.0	31	1.2
Chemicals	138.5	62.2	24.9	0.0	0.0	0.0	3.6	312	11.9
Iron & Steel/Non-ferrous metal	20.1	1.2	4.6	0.0	5.7	0.0	3.1	55	2.1
Machinery	4.4	8.4	7.2	27.2	8.0	26.9	9.9	110	4.2
Electric Machinery	56.8	9.4	4.1	13.7	2.6	2.6	22.5	220	8.3
Transport Equipments	46.9	164.4	167.3	96.8	116.0	238.9	19.5	969	36.8
Others	102.8	5.9	0.0	5.4	3.5	101.0	0.0	352	13.4
Non-Manufacturing, Others	161.2	74.5	21.8	42.4	45.5	6.1	40.2	564	21.5
Total	532.4	332.1	231.5	185.3	181.4	378.1	98.7	2,631	100.0

Source: Ministry of Finance, Japan

\* Fiscal Year (April-March)

equipment such as automobile and motor cycle, with about 30% of its total investment during 1991-2003. Then, chemical and electric machinery are the major fields of Japan's direct investment. In general, the main aim of Japanese companies which invested in India is to sell the products in Indian market. There were a few investments which targeted India as an export production base.

#### *FTA Networking Strategy of India and its Implication for FDI Attraction*

By announcing its "look east" policy, India has launched its policy to strengthen economic relations with Asian countries since 1994. With the beginning of FTA with Sri Lanka which became effective March 2003, India signed FTA with ASEAN, Thailand, Singapore etc., one after another as seen in the following table. India also started a joint study for pursuing the possible CER with China in March 2004, CEA with Korea in 2004 and CEPA with Japan in July 2005.

India's positive efforts for building FTA network with neighboring countries will raise the attractiveness of India for the foreign investors. Especially, Japanese companies both in Thailand and in India are trying to make use of the India-Thailand FTA. In fact, some Japanese affiliated companies in Thailand have been succeeding in TV exports to India by using Early Harvest scheme of India-Thailand FTA. Also, some Japanese affiliated

**Table II -3-7 Progress of India's FTA Networking**

**Bilateral**

Sri Lanka (FTA, effective from March 2000)  
Afghanistan (PTA, signed 2003)  
Thailand (FTA Framework, signed October 2003)  
Singapore (CECA, effective from August 2005)  
Chile (EC Framework, signed January 2005)

**Multilateral**

ASEAN (CECA Framework, signed October 2003)  
SAARC (SAFTA Framework, signed January 2004)  
BIMSTEC (FTA Framework, signed February 2004)  
MERCOSUR (PTA, signed January 2004)  
GCC (CER Framework, signed August 2004)  
SACU (PTA Framework, signed September 2004)

companies in India are trying to source its parts and raw material from Thailand to reduce the cost<sup>10</sup>.

*Problems of Investment Environment*

The government of India has been making great efforts to improve its investment environment in recent years. The following is the list of the recent liberalization measures taken by the government for FDI attraction<sup>11</sup>.

- ( i ) Reduction of maximum basic tariff rate (20% to 15%, February 2005)
- ( ii ) Reduction of withholding tax rate on technology service payment by non-residents (20% to 10%, effective from June 2005)
- ( iii ) Introduction of material patent (effective from January 2005)
- ( iv ) Enforcement of Trade Mark Act 1999 (effective from September 2003)
- ( v ) Deregulation of foreign entry restrictions
  - Oil exploration/ sales/pipeline and gas pipeline business (100%, effective from January 2004)
  - Publishing of magazines on science & technology (100%, effective from January 2004)
  - Private banking (49% to 74%, effective from March 2004)
  - Private aviation (40% to 49%, effective from October 2004)
  - Communication (49% to 74%, effective from February 2005)
  - Construction/real-estate development (100%, effective from February 2005)

- (vi) Promulgation of “Press Note 1 (2005)” (effective from January 2005)
- (vii) Decision on establishment of Investment Commission for FDI attraction (October 2004)
- (viii) Decision on establishment of Special Economic Zone (April 2000)

However, as shown in Part I of **Table 8**, India still suffers from many limitations in attracting FDI. In spite of these problems, according to the JETRO survey in February 2005, about 90% of Japanese affiliated companies surveyed have intention to expand its business in next 1–2 years<sup>12</sup>. This percentage is far higher when compared with the findings of similar surveys undertaken in ASEAN countries. If India could improve its investment climates further, it will be able attract more Japanese investors who are trying to relocate investments from China.

#### **4. Bangladesh**

##### **1) Trade**

Thanks to the overseas workers remittance, Bangladesh has maintained current account surplus after financing its trade deficits in the past several years. Bangladesh’s exports registered 7.6 billion US\$ in 2003. USA is the biggest exports destination for Bangladesh, with the share of 25.9% in 2003, followed by Germany (17.1%), UK (11.8%) and France (11.85). Most of the exports of Bangladesh go to USA and Europe. Japan’s share was only 1.6% of the total Bangladesh’s exports in 2003.

Garment is the major export item accounting for 75% of total exports. Diversification of exports is the important task of Bangladesh; however, it seems to be still difficult. Local garment industries have faced serious problems because of the end of quota system under MFA from January 2005. In order to strengthen its competitiveness, the government has launched a series of new incentive measures for the garment industries which includes (i) reduction of corporate tax (37.5% to 10%, effective from July 2003), (ii) exemption of import tariff and value added tax for the importation of textile machinery and its parts, (iii) exemption of value added tax on the charges of shipping and customs fee when importing raw materials (effective from July 2004), (iv) application of favorable lending interest rate for machinery imports, (v) expansion of bonded warehouse, and (vi) establishment of database of export markets. By using these incentives, most of the garment manufacturers have imported highly efficient sewing machines. Although the export of ready-made products has stagnated because of its weak competitiveness, the export of knit products has been expanding even after the

**Table II-4-1 Bangladesh's Trade by Country****Export** (Million US\$)

	2000	%	2001	2002	2003	%
USA	2,501	38.7	2,212	2,153	1,966	25.9
Germany	789	12.2	682	820	1,299	17.1
UK	595	9.2	648	777	898	11.8
France	366	5.7	414	418	553	7.3
Belgium	254	3.9	213	290	327	4.3
Italy	296	4.6	262	259	316	4.2
Netherland	328	5.1	284	278	290	3.8
Canada	126	1.9	112	170	284	3.7
Spain	103	1.6	133	180	263	3.5
Japan	107	1.7	96	108	118	1.6
Others	1,004	15.5	932	1,096	1,288	16.9
Total	6,467	100.0	5,986	6,548	7,603	100.0

**Import** (Million US\$)

	2000	%	2001	2002	2003	%
India	1,164	12.4	1,012	1,358	1,602	14.7
China	658	7.0	642	938	1,198	11.0
Singapore	817	8.7	841	1,000	911	8.4
Japan	361	3.9	407	605	552	5.1
Hongkong	478	5.1	441	433	433	4.0
South Korea	387	4.1	346	333	420	3.9
Taiwan	412	4.4	312	328	377	3.5
Indonesia	189	2.0	174	188	242	2.2
USA	210	2.2	240	223	226	2.1
Others	4,688	50.1	4,127	4,251	4,942	45.3
Total	9,363	100.0	8,540	9,658	10,902	100.0

Source: JETRO, White Paper on Trade &amp; Investment, 2003, 2004, 2005

\* Fiscal Year (July-June)

end of MFA. As for the natural gas, although it was expected to be a new export item of Bangladesh, the government prohibited its export because it was thought that the amount of gas deposits is not enough. Big Oil companies suspended its investment plans. For example, Royal Dutch Shell and Chevron Texaco have withdrawn its existing investment in the gas exploration from Bangladesh. If the new projects of coal development by UK and China begins operation, coal will be the new export item of Bangladesh.

In contrast to exports, Bangladesh's import is targeted to Asian

**Table II-4-2 Bangladesh's Trade by Commodity****Export** (Million US\$)

	2000	%	2001	2002	2003	%
Garments	4,860	75	4,584	4,912	5,686	74.8
Jute, Jute Products	297	5	305	340	326	4.3
Frozen Food	363	6	276	322	390	5.1
Leather Products	254	4	207	191	211	2.8
Others	693	11	614	784	989	13.0
<b>Total</b>	<b>6,467</b>	<b>100</b>	<b>5,986</b>	<b>6,548</b>	<b>7,603</b>	<b>100.0</b>

**Import** (Million US\$)

	2,000	%	2,001	2,002	2,003	%
Textile, Textile Products	2,013	21	1,697	1,810	2,258	20.7
Machinery	993	11	1,009	982	1,284	11.8
Minerals	741	8	712	763	888	8.1
Chemicals	592	6	568	592	712	6.5
Transport Machinery	424	5	430	410	526	4.8
Agricultural Goods	552	6	430	708	804	7.4
Iron & Steel, Non-ferrous Metal	464	5	413	455	480	4.4
Others	3,584	38	3,281	3,938	3,950	36.2
<b>Total</b>	<b>9,363</b>	<b>100</b>	<b>8,540</b>	<b>9,658</b>	<b>10,902</b>	<b>100.0</b>

Source: JETRO, White Paper on Trade &amp; Investment, 2003, 2004, 2005

\* Fiscal Year (July-June)

**Table II-4-3 Japan's Exports to Bangladesh**

(Million US\$)

HS		1999	%	2000	2001	2002	2003	2004	%
	Bangladesh Total	326.6	100.0	471.6	446.5	428.9	427.5	451.5	100.0
72	IRON AND STEEL	78.7	24.1	113.8	123.3	123.6	115.0	119.5	26.5
87	VEHICLES, NOT RAILWAY	55.9	17.1	88.6	96.1	99.1	119.7	114.4	25.3
84	MACHINERY	53.9	16.5	124.8	90.5	85.7	72.5	76.1	16.9
85	ELECTRICAL MACHINERY	39.9	12.2	35.9	24.2	15.8	24.0	37.9	8.4
59	IMPREGNATED TEXT FABRICS	6.4	2.0	5.0	9.7	9.7	14.6	14.6	3.2
90	OPTIC, NT 8544; MED INSTR	6.3	1.9	8.8	11.9	7.2	9.0	11.4	2.5
55	MANMADE STAPLE FIBERS	7.3	2.2	11.4	9.8	8.4	8.0	8.8	2.0
37	PHOTOGRAPHIC/ CINEMATOGR	6.3	1.9	6.6	7.7	6.2	8.2	7.9	1.7
54	MANMADE FILAMENT, FABRIC	5.7	1.7	6.3	4.3	7.4	5.9	6.6	1.5
39	PLASTIC	11.9	3.6	11.3	6.5	6.5	7.9	6.1	1.4
73	IRON/STEEL PRODUCTS	3.0	0.9	9.2	8.3	12.5	3.7	5.6	1.2
40	RUBBER	3.4	1.0	3.8	3.4	4.1	4.2	4.5	1.0
48	PAPER, PAPERBOARD	4.9	1.5	2.5	3.7	3.8	4.5	3.7	0.8
00	SPECIAL	3.7	1.1	2.9	8.1	2.9	1.9	3.3	0.7
52	COTTON + YARN, FABRIC	3.0	0.9	4.0	6.1	4.5	1.9	1.3	0.3
	Others	36.4	11.1	36.9	33.0	31.5	26.5	29.6	6.6

Source: Customs Data, Japan

**Table II-4-4 Japan's Imports from Bangladesh**

(Million US\$)

HS		1999	%	2000	2001	2002	2003	2004	%
	Bangladesh Total	115.5	100.0	117.2	115.5	112.5	131.2	141.6	100.0
64	FOOTWEAR	11.3	9.8	18.2	23.8	20.0	21.7	23.7	16.7
03	FISH AND SEAFOOD	45.5	39.4	32.4	22.4	19.2	17.4	19.6	13.9
41	HIDES AND SKINS	10.2	8.9	15.9	20.2	16.7	17.6	16.2	11.4
62	WOVEN APPAREL	12.3	10.6	12.2	13.4	15.1	13.8	16.9	12.0
85	ELECTRICAL MACHINERY	5.3	4.6	5.0	3.9	3.7	2.9	6.5	4.6
90	OPTIC, NT 8544; MED INSTR	5.3	4.6	4.4	5.4	7.5	11.2	5.6	3.9
56	WADDING,FELT,TWINE,ROPE	2.9	2.5	4.0	3.9	3.6	5.1	5.6	3.9
61	KNIT APPAREL	3.8	3.3	4.7	5.9	3.9	5.5	5.2	3.7
53	OTHER VEG TEXTILE FIBER	6.5	5.6	7.3	4.8	4.7	4.3	4.4	3.1
84	MACHINERY	1.6	1.4	2.8	4.3	4.7	4.3	4.4	3.1
00	SPECIAL	1.1	1.0	0.2	0.6	0.6	9.0	3.8	2.7
63	MISC TEXTILE ARTICLES	2.6	2.3	2.1	1.7	2.2	1.6	1.9	1.4
95	TOYS AND SPORTS EQUIPMT	2.0	1.7	0.5	0.6	0.9	1.5	1.7	1.2
73	IRON/STEEL PRODUCTS	1.2	1.0	1.4	1.2	1.1	1.2	1.4	1.0
	Others	4.0	3.5	6.2	3.4	8.6	14.1	24.7	17.4

Source: Customs Data, Japan

**Table II-4-5 Bangladesh Agra/Fishery/Forestry Goods Exports to Japan**

(Million US\$)

HS	Description	1999	2000	2001	2002	2003	2004
	Bangladesh Total	115.5	117.2	115.5	112.5	131.2	141.6
03	FISH AND SEAFOOD	45.5	32.4	22.4	19.2	17.4	19.6
41	HIDES AND SKINS	10.2	15.9	20.2	16.7	17.6	16.2
05	OTHER OF ANIMAL ORIGIN	1.6	1.2	1.1	0.2	0.3	0.2
09	SPICES, COFFEE AND TEA	0.1	0.0	0.0	0.0	0.1	0.1
19	BAKING RELATED	0.0	0.0	0.0	0.0	0.0	0.0
21	MISCELLANEOUS FOOD	0.0	0.0	0.0	0.0	0.0	0.0
01	LIVE ANIMALS	0.0	0.0	0.0	0.0	0.0	0.0
44	WOOD	0.0	0.0	0.0	0.0	0.0	0.0
10	CEREALS	0.0	0.0	0.0	0.0	0.0	0.0
07	VEGETABLES	0.0	0.0	0.0	0.0	0.0	0.0
15	FATS AND OILS	0.0	0.0	0.0	0.0	0.0	0.0
12	MISC GRAIN, SEED, FRUIT	0.0	0.0	0.0	0.0	0.0	0.0
14	OTHER VEGETABLE	0.0	0.0	0.0	0.0	0.0	0.0
16	PREPARED MEAT, FISH, ETC	0.0	0.0	0.0	0.0	0.0	0.0
20	PRESERVED FOOD	0.0	0.0	0.0	0.0	0.0	0.0
02	MEAT	0.0	0.0	0.0	0.0	0.0	0.0
04	DAIRY, EGGS, HONEY, ETC	0.0	0.0	0.0	0.0	0.0	0.0
26	ORES, SLAG, ASH	0.0	0.0	0.0	0.0	0.0	0.0
	Agra/Fishery/Forestry Goods Total	57.6	49.5	43.8	36.1	35.4	36.1
	Agra/Fishery/Forestry Goods (%)	49.8	42.3	37.9	32.1	27.0	25.5

Source: Customs Data, Japan

countries. India is the largest source for imports of Bangladesh, with 14.7% share in 2003. After India, China (11%), Singapore (8.4%) and Japan (5.1%) follow. Recently, imports from China have been increasing significantly. The major import items are textile/textile products, with 20.7% share in 2003, textile machinery, minerals and chemicals.

Japan's major imports from Bangladesh are footwear, fish and seafood, woven apparel and hides and skin. The fish (mainly shrimps) used to be the biggest import item from Bangladesh, however, the imports has been decreasing lately. The share of agricultural/fishery/forestry goods in the total imports from Bangladesh was 25.5% in 2004. The share declined from about 50% in 1999. Japan's exports to Bangladesh have stagnated since 2000. Japan's major exports to Bangladesh are iron and steel, vehicles machinery and electric machinery.

## 2) FDI Inflows into Bangladesh

FDI inflows (BOP basis) to Bangladesh increased during 1997-2000. However, it has been declining since 2001. According to the FDI figure of BOI registration basis, it started to increase in 2003. The two coal development projects by UK and China contributed to this increase. According to Board of Investment (BOI), accumulated FDI inflow during 1971-2003 was 16.6 billion US\$. USA is the largest investor in Bangladesh with a share of 27.5%, followed by come UK (12.5%), Japan (7.5%) and China (7.4%). By sector, 53% of FDI goes to service industry, then, chemicals (18.6%) and textile (9.3%). In December 2004, India's Tata Group submitted a plan of 2 billion US\$ investment in Bangladesh. The plan includes iron and steel project (700 million US\$), fertilizer project (600 million US\$) and power project (600 million US\$). The group is said to be planning the export of electricity which will be produced by using natural gas in Bangladesh and the exports of iron and steel and fertilizer to India. Should this plan be materialized, it will contribute to the improvement of the trade balance between Bangladesh and India which has been unfavorable for Bangladesh for a long time.

Above mentioned FDI to Bangladesh excludes FDI in EPZs in Bangladesh. There are at present 6 EPZs (4 constructed in 2003) functioning in Bangladesh with a total of 238 companies as of August 2005. The 6 EPZ employ 150,000 workers and exports about 1.5 billion US\$ which is about 20% of total exports of Bangladesh. Yearly FDI flows into the 6 EPZs was about 112 million US\$ on average in 2002-2004. The investors could avail incentives such as 10 years corporate tax exemption and 3 years individual

**Table II-4-6 FDI Flow into Bangladesh****By Country (Registration Basis)**

(Million US\$)

	2000	2001	2002	2003	Total (1971-2003)	%
UK	2.5	5.3	74.1	165.9	2,072.7	12.5
China	21.1	76.1	2.0	68.3	1,232.0	7.4
South Korea	16.0	37.4	18.4	30.8	527.8	3.2
USA	18.6	5.1	5.3	17.2	4,555.0	27.5
Canada	0.4	50.0	0.2	13.0	129.1	0.8
India	32.8	15.8	3.5	10.1	346.7	2.1
Netherland	5.0	27.3	9.5	4.6	130.4	0.8
Japan	155.7	11.9	61.9	3.7	1,235.5	7.5
Total (Includes Others)	451.4	357.4	234.3	369.3	16,560.5	100.0

**By Sector (Registration Basis)**

(Million US\$)

	2000	2001	2002	2003	Total (1971-2003)	%
Service	207.8	132.4	53.2	232.3	8,784.4	53.0
Textile	68.8	93.9	27.2	55.4	1,534.3	9.3
Chemical	31.2	50.3	68.8	26	3,078.8	18.6
Printing/Packaging	1.8	0	0.2	13.9	30.8	0.2
Food Products	0	0	2.2	13.5	15.7	0.1
Agra, Fishery Processing	122.9	5	64.4	12.2	708.1	4.3
Leather/Rubber	0.6	1.5	1	10	155.7	0.9
Engineering	7.6	62.2	14.3	4.2	571.2	3.4
Glass/Ceramic	1.7	5.3	1.2	0.5	64.0	0.4
Others	8.9	6.7	1.8	1.3	1,617.5	9.8
Total	451.3	357.3	234.3	369.3	16,560.5	100.0

Source: JETRO, White Paper on Trade &amp; Investment, 2003, 2004, 2005

Based on the Bangladesh BOI Data

\* Fiscal Year (July-June)

\* Excluding FDI in EPZ

income tax exemption. Malaysia is the biggest investor in Bangladesh EPZ, followed by South Korea, Bangladesh and Japan. Garment, textile and footwear/leather goods are the major industries of EPZ. Since January 2005, 84 new projects have been established. The government has a plan to establish 2 more new EPZ<sup>13</sup>. Within EPZ, establishment of labor was used to be banned in the past. However, the government recently allowed its establishment from November 2006 under the pressure from US government. This new policy is casting a cloud to the investors.

### *Problems of Investment Environment*

According to the statistics of Ministry of Finance, Japan, Japan's cumulative direct investment to Bangladesh as of March 2004 was only 172



million US\$ and no FDI was recorded after 2001. This figure is only about one-seventh of BOI approval figure. This seems because of following two reasons: (i) actual investment of Japanese direct investment is less than the approval figure, and (ii) Japanese statistics do not include re-investment of Japanese affiliated companies in Bangladesh.

According to the JETRO's questionnaire survey to the Japanese affiliated companies in Bangladesh made in January-February 2005, there are 22 companies in manufacturing industries and most of these companies are located at EPZs. Among them, 60% are making profits, and more than 60% are exporting to Japan<sup>14</sup>.

The problems of investment environment of Bangladesh which Dhaka Japan Chamber of Commerce and Industry (DCCI) pointed out are listed on the Part I of **Table 8**.

## 5. Sri Lanka

### 1) Trade

In 2001, Sri Lanka recorded minus growth (-1.4%) for the first time after independence. The domestic civil war, economic stagnation of developed countries, decreased agricultural production due to drought and shortage of electricity were the causes of the negative growth in Sri Lanka. Sri Lanka's exports also decreased sharply in 2001 and stagnated until in 2003. Exports however, recovered to the level of year 2000 in 2004. USA is the largest export destination of Sri Lanka with a share of 32.6% in 2004, followed by UK (13.6%) and India (6.8%). However, the share of USA has been declining sharply in recent years. Japan's share also has been declining since 2000. On the other hand, the share of India has been increasing largely. Thanks to the ISFTA which became effective in March 2000, Sri Lanka's exports to India increased 6.8 times from 58 million US\$ to 392 million US\$ in 2004.

The garment is the biggest export item of Sri Lanka with a share of 46% in 2004, followed by tea with 12.8%, and machinery with 6.7%. The markets of Sri Lanka's garments are mostly USA and Europe. However, the garment industry of Sri Lanka will face difficulties because of the severer competition with Chinese products in USA and Europe, especially after the abolition of the quota system under MFA in January 2005. However, thanks to the government support to strengthen the competitiveness of Sri Lanka's garment manufacturers and the reform efforts of the manufacturers, Sri Lanka's garments still keep its position in the export markets.

As for the Sri Lanka's imports, India is the biggest source of imports

**Table II-5-1 Sri Lanka's Trade by Country**

<b>Export</b>		(Million US\$)					
	2000	%	2001	2002	2003	2004	%
USA	2,193	40.8	1,926	1,764	1,777	1,869	32.6
UK	737	13.7	576	590	641	779	13.6
India	58	1.1	72	171	245	392	6.8
Belgium	156	2.9	120	241	242	295	5.2
Germany	230	4.3	199	199	232	274	4.8
Japan	230	4.3	186	140	162	158	2.8
Russia	128	2.4	116	127	141	151	2.6
UAE	135	2.5	145	120	164	138	2.4
Others	1,511	28.1	1,379	1,333	1,510	1,670	29.2
Total	5,377	100.0	4,718	4,684	5,115	5,726	100.0

<b>Import</b>		(Million US\$)					
	2000	%	2001	2002	2003	2004	%
India	600	9.5	602	853	1,073	1,439	18.1
Singapore	496	7.9	410	415	522	698	8.8
Hongkong	516	8.2	500	491	560	619	7.8
China	251	4.0	220	259	329	454	5.7
Iran	203	3.2	233	228	272	419	5.3
Japan	646	10.3	337	355	448	412	5.2
UK	311	4.9	221	263	273	312	3.9
Taiwan	390	6.2	323	288	276	291	3.7
South Korea	396	6.3	336	304	283	246	3.1
Others	2,487	39.5	2,218	2,512	2,580	3,068	38.6
Total	6,297	100.0	5,399	5,968	6,616	7,958	100.0

Source: JETRO, White Paper on Trade & Investment, 2003, 2004, 2005  
Based on the Annual Report, Central Bank, Sri Lanka

with 18.1% share in 2004, followed by Singapore and Hong Kong. Imports from India increased by 2.4 times in the last 4 years of in 2000–2004. ISFTA contributed to this increase. Japan was the largest source of Sri Lanka's imports in 2000 with 10.3% share, but it declined to only 5.3% in 2004. The composition of Sri Lanka's imports did not change much, with 60.4% for medium goods, 20.8% for capital goods and 18% for consumer goods in 2004.

Japan's major import items from Sri Lanka are fish/sea food, tea and apparels. Agricultural/fishery/forestry products shared 49.6% of the Japan's imports from Sri Lanka in 2004. As for the Japan's exports to Sri Lanka, vehicles shared 47.8% of the total in 2004. About 71 % of Japan's exports to Sri Lanka were machineries.

**Table II-5-2 Sri Lanka's Trade by Commodity**

<b>Export</b>		<b>(Million US\$)</b>					
	2000	%	2001	2002	2003	2004	%
Manufactured Goods	4,301	77.6	3,712	3,634	3,977	4,518	78.3
Garments	2,723	49.1	2,335	2,246	2,400	2,654	46.0
Textile Products	271	4.9	210	179	175	164	2.8
Machinery	245	4.4	245	267	290	384	6.7
Rubber Products	197	3.6	173	161	231	284	4.9
Diamond	179	3.2	166	192	216	247	4.3
Leather/Footware	177	3.2	150	84	58	43	0.7
Agricultural Products	1,007	18.2	932	938	964	1,067	18.5
Tea	701	12.7	689	660	683	740	12.8
Minerals	97	1.8	86	90	84	120	2.1
Jewelry	94	1.7	81	85	79	108	1.9
Others	136	2.5	87	41	108	67	1.2
<b>Total</b>	<b>5,541</b>	<b>100.0</b>	<b>4,816</b>	<b>4,703</b>	<b>5,133</b>	<b>5,771</b>	<b>100.0</b>

**Import** (Million US\$)

	2000	%	2001	2002	2003	2004	%
Consumer Goods	1,264	17.3	1,122	1,189	1,343	1,444	18.0
Food&Drinks	567	7.7	545	566	564	597	7.5
Sugar	142	1.9	115	132	116	109	1.4
Automobile/Motorbike	185	2.5	99	160	267	264	3.3
Medical/Pharmaceuticals	96	1.3	94	106	106	118	1.5
Intermediate Goods	3,917	53.5	3,428	3,625	3,947	4,839	60.4
Textile	1,470	20.1	1,320	1,322	1,372	1,517	18.9
Oil	902	12.3	730	791	837	1,213	15.1
Paper/Paper Board	180	2.5	161	166	183	206	2.6
Chemical Materials/Compound	147	2.0	142	155	170	207	2.6
Capital Goods	1,727	23.6	1,076	1,171	1,320	1,671	20.8
Machinery	786	10.7	608	641	698	857	10.7
Construction Material	305	4.2	248	272	328	402	5.0
Transport Machinery	521	7.1	128	151	206	257	3.2
Others	407	5.6	338	125	60	62	0.8
<b>Total</b>	<b>7,315</b>	<b>100.0</b>	<b>5,964</b>	<b>6,110</b>	<b>6,670</b>	<b>8,016</b>	<b>100.0</b>

Source: JETRO, White Paper on Trade & Investment, 2003, 2004, 2005  
Based on the Annual Report, Central Bank, Sri Lanka

## 2) FDI Inflows into Sri Lanka

FDI inflows into Sri Lanka (approval basis) have been increasing since 2003 due to; (i) recovery of security after the start of peace talks with LTTE, (ii) progress of economic structural reform, (iii) spread of incentives to the specific strategic industries for FDI attraction such as non-traditional

**Table II-5-3 Japan's Trade with Sri Lanka****Exports**

(Million US\$)

HS	Description	1999	%	2000	2001	2002	2003	2004	%
	Sri Lanka Total	436.0	100.0	519.8	268.6	285.7	374.8	338.8	100.0
87	VEHICLES, NOT RAILWAY	161.6	37.1	161.4	88.1	134.8	203.4	161.9	47.8
84	MACHINERY	66.8	15.3	77.9	47.1	40.6	56.6	57.3	16.9
85	ELECTRICAL MACHINERY	71.0	16.3	45.4	21.6	15.3	16.7	21.7	6.4
39	PLASTIC	9.6	2.2	11.2	6.4	6.1	8.1	12.5	3.7
90	OPTIC, NT 8544; MED INSTR	18.0	4.1	33.8	29.2	7.6	10.2	10.4	3.1
54	MANMADE FILAMENT, FABRIC	21.3	4.9	24.6	17.3	12.8	13.3	10.0	2.9
40	RUBBER	7.1	1.6	6.9	5.5	5.2	5.0	5.5	1.6
52	COTTON+YARN, FABRIC	8.8	2.0	5.5	4.5	8.2	6.5	5.3	1.6
60	KNIT, CROCHETED FABRICS	1.7	0.4	3.4	2.9	4.5	4.4	5.3	1.6
72	IRON AND STEEL	4.8	1.1	13.5	4.8	6.1	5.5	5.3	1.6
00	SPECIAL	4.6	1.1	2.4	1.7	1.8	3.8	4.9	1.4
37	PHOTOGRAPHIC/ CINEMATOGR	3.2	0.7	2.6	2.5	2.9	3.4	4.8	1.4
38	MISC. CHEMICAL PRODUCTS	4.5	1.0	4.6	2.5	2.6	2.2	3.6	1.1
73	IRON/STEEL PRODUCTS	7.4	1.7	5.9	3.8	10.3	11.3	3.5	1.0
59	IMPREGNATED TEXT FABRICS	6.1	1.4	7.5	5.5	2.9	3.0	3.4	1.0
	Others	39.7	9.1	113.1	25.2	24.1	21.4	23.3	6.9

**Imports**

(Million US\$)

HS	Description	1999	%	2000	2001	2002	2003	2004	%
	Sri Lanka Total	169.6	100.0	224.7	204.9	167.1	194.5	197.0	100.0
03	FISH AND SEAFOOD	29.4	17.3	72.4	59.5	49.3	55.7	44.7	22.7
09	SPICES, COFFEE AND TEA	21.4	12.6	29.6	25.9	25.5	25.5	32.1	16.3
90	OPTIC, NT 8544; MED INSTR	15.9	9.4	26.4	25.6	5.0	8.5	16.9	8.6
40	RUBBER	10.7	6.3	10.5	10.5	8.9	11.5	12.6	6.4
62	WOVEN APPAREL	7.6	4.5	8.4	10.8	10.0	9.6	10.7	5.5
85	ELECTRICAL MACHINERY	12.3	7.3	8.6	6.4	7.5	10.1	9.8	5.0
61	KNIT APPAREL	4.9	2.9	6.2	5.3	5.8	8.2	9.7	4.9
71	PRECIOUS STONES, METALS	12.5	7.4	11.5	9.7	6.7	8.3	7.0	3.6
96	MISCELLANEOUS MANUFACT	7.6	4.5	7.4	7.2	6.7	6.7	6.6	3.4
23	FOOD WASTE; ANIMAL FEED	2.4	1.4	1.4	1.8	1.2	6.3	4.9	2.5
14	OTHER VEGETABLE	4.3	2.6	4.5	4.6	4.5	4.3	4.7	2.4
21	MISCELLANEOUS FOOD	0.6	0.4	1.2	2.3	1.0	4.0	4.2	2.1
39	PLASTIC	5.9	3.5	4.9	4.2	4.1	3.6	3.2	1.6
	Others	34.0	20.0	31.9	31.2	31.0	32.2	30.0	15.2

Source: Customs Data, Japan

**Table II-5-4 Sri Lanka Agra/Fishery/Forestry Goods Exports to Japan**  
(Million US\$)

HS	Description	1999	2000	2001	2002	2003	2004
	Sri Lanka Total	169.6	224.7	204.9	167.1	194.5	197.0
03	FISH AND SEAFOOD	29.4	72.4	59.5	49.3	55.7	44.7
09	SPICES, COFFEE AND TEA	21.4	29.6	25.9	25.5	25.5	32.1
14	OTHER VEGETABLE	4.3	4.5	4.6	4.5	4.3	4.7
20	PRESERVED FOOD	1.0	2.0	2.5	2.4	2.6	3.0
06	LIVE TREES AND PLANTS	2.5	2.2	2.4	2.7	2.5	2.5
21	MISCELLANEOUS FOOD	0.6	1.2	2.3	1.0	4.0	4.2
23	FOOD WASTE; ANIMAL FEED	2.4	1.4	1.8	1.2	6.3	4.9
07	VEGETABLES	0.3	0.4	0.5	0.5	0.2	0.2
44	WOOD	0.3	0.4	0.4	0.5	0.4	1.0
08	EDIBLE FRUIT AND NUTS	0.1	0.2	0.1	0.1	0.2	0.1
15	FATS AND OILS	0.0	0.1	0.1	0.1	0.2	0.3
22	BEVERAGES	0.0	0.0	0.0	0.0	0.0	0.0
12	MISC GRAIN, SEED, FRUIT	0.1	0.0	0.0	0.0	0.2	0.0
19	BAKING RELATED	0.0	0.0	0.0	0.0	0.0	0.0
16	PREPARED MEAT, FISH, ETC	0.0	0.0	0.0	0.2	0.2	0.0
05	OTHER OF ANIMAL ORIGIN	0.0	0.0	0.0	0.0	0.0	0.0
13	LAC; VEGETABL SAP, EXTRCT	0.0	0.0	0.0	0.0	0.0	0.0
17	SUGARS	0.0	0.0	0.0	0.0	0.0	0.0
41	HIDES AND SKINS	0.0	0.0	0.0	0.0	0.0	0.0
18	COCOA	0.0	0.0	0.0	0.0	0.0	0.0
11	MILLING; MALT; STARCH	0.0	0.0	0.0	0.0	0.0	0.0
01	LIVE ANIMALS	0.0	0.0	0.0	0.0	0.0	0.0
	Agra/Fishery/Forestry Goods Total	62.4	114.5	100.2	88.0	102.3	97.8
	Agra/Fishery/Forestry Goods (%)	36.8	51.0	48.9	52.7	52.6	49.6

Source: Customs Data, Japan

agricultural goods, IT, electronics parts, mining and infrastructure, and (iv) expansion of India's direct investment under ISFTA, India's direct investment to Sri Lanka reached a total of 33.9 billion Rs. during 2000-2004, and became the largest investor during the same period. The other major investors are Singapore, UK and USA. Japan's direct investment registered 2.4 billion Rs., which is only 1.1% of the total FDI approval in this same period. The service sector attracted 61.8% of FDI in 2000-2004, Pollowed by food/drinks/tobacco (8.2%), other manufacturing (6.9%) and metal products/machinery/transport equipments (6.8%).

#### *Problems on Investment Environment*

Sri Lanka comes first in South Asia in terms of openness and import

**Table II-5-5 FDI Flow into Sri Lanka (Approval Basis)****By Country** (Million Rp)

	2000	2001	2002	2003	2004	Total (2000-04)	%
India	1,953	782	7,112	10,668	13,427	33,942	15.1
Singapore	100	7,180	143	3,673	21,294	32,390	14.4
UK	3,056	2,766	1,690	5,190	7,803	20,506	9.1
USA	219	381	473	428	10,628	12,128	5.4
Australia	4,812	72	946	480	297	6,608	2.9
China	270	3,103	150	265	619	4,407	2.0
South Korea	200	410	790	644	2,072	4,116	1.8
Japan	109	263	1,110	589	340	2,411	1.1
Multi-countries	1,230	1,256	5,160	14,160	2,447	24,252	10.8
Total (Includes others)	21,313	25,093	31,658	77,699	69,707	225,469	100.0

**By Sector** (Million Rp)

	2000	2001	2002	2003	2004	Total (2000-04)	%
Food/Drinks/Tobacco	481	2,816	3,390	9,752	2,090	18,529	8.2
Textile/Garments/Leather Goods	2,076	1,022	2,107	2,722	5,876	13,803	6.1
Wood/Wood Products	1,600	19	509	20	211	2,359	1.0
Chemicals/Oil/Rubber/Plastics	3,143	949	1,403	6,115	1,889	13,499	6.0
Non-metal/Mineral Products	71	175	2,004	3,386	404	6,040	2.7
Metal Products/Machinery/ Transport Machinery	270	1,385	4,086	6,576	3,064	15,381	6.8
Other Manufacturing	1,441	5,090	2,864	4,777	1,483	15,655	6.9
Services	12,203	13,366	15,296	43,859	54,689	139,413	61.8
Total (Includes others)	21,313	25,093	31,658	77,699	69,707	225,470	100.0

Source: JETRO, White Paper on Trade & Investment, 2002, 2003, 2004, 2005  
Based on the Sri Lanka BOI Data

liberalization, which played a vital role in attracting FDI. Sri Lanka has signed FTA with Pakistan in February 2005 in addition to FTA with India (ISFTA). Since Sri Lanka has good diplomatic relations with all SAAC countries, it is hoping to become a hub for other countries which are trying to gain access to Indian market.

The biggest bottleneck of Sri Lanka for FDI attraction has been the lack of peace and security. However, the issue is no more a problem at least for a time being, because of the progress of peace talks with LTTE. The problems on investment environment listed at Part I of **Table 8** are the opinions of Japanese affiliated companies operating in Sri Lanka which were surveyed by JETRO in November 2003<sup>15</sup>. One of the problems highlighted is the lack of continuity in economic policies. In fact, after the winning of the election

in April 2004 by the opposition party, which emphasizes the policy to protect labor, foreign investors seem to be more cautious in investing in Sri Lanka. FDI inflows into Sri Lanka (approval basis) decreased by 10.3% in 2004.

### III. Conclusion

In spite of their complementarities in trade and industry, the economic relations between Japan and BIMSTEC countries, especially with Bangladesh, India and Myanmar, have not been close. This is mainly due to the fact that these three latter countries had adopted a closed-door, socialistic economic policy in their early stages of development. As a consequence of this policy regime, the economic development of these countries had been quite slow because they had been cautious about utilization of international trade for their economic reconstruction.

Japan's structure of export commodities has drastically changed according with its rapid postwar economic development. However, because of the slow expansion of the markets and the slow diversification of the domestic demand in the BIMSTEC countries (except Thailand), Japan's exports to these countries has been limited. On the other hand, because the structure of export commodities of BIMSTEC countries has remained static, they could not respond to the rapid changes of demand in the Japanese market, resulting in the stagnation of exports from these countries to Japan.

In relation to Japanese direct investment, Japanese export-oriented enterprises were urged to relocate their production bases to foreign countries whenever the Yen appreciated. Such Japanese direct investment seeking new export production bases moved mostly toward Asian NIEs in the 1970s, then, toward the original country members of ASEAN in the latter part of 1980s. When the labor wages climbed higher and the shortage of skilled labor became apparent due to the progress of industrialization of such ASEAN countries as Malaysia and Thailand, China and Vietnam emerged as new investment destinations for Japanese investors. Japanese direct investment in import substitution projects which seek a domestic market in the host country, have not gone to the BIMSTEC countries (except Thailand), because of the pace of the market expansion in these countries has been too slow. As a result, for Japanese enterprises the importance of the South Asian countries and Myanmar has been relatively minor.

However, more recently, a number of aspects of South Asian region have changed significantly. Liberalization and the dynamic economic

growth of India, in particular, have been drawing the interest of Japanese enterprises toward this region. The policy shift from “inward looking” to “outward looking” in the countries of this region has not only led to the promotion of regional economic cooperation arrangements such as SAARC and BIMSTEC, but has also reduced the tension among countries in this region. In addition, globalization and the revolution of transportation and IT have drastically reduced the handicap of geographical distance. It is possible to say that economic relationships between Japan and the BIMSTEC countries are entering a new stage.

In order to develop closer economic relations between Japan and BIMSTEC countries, it is essential to promote Japanese direct investment into this BIMSTEC region. There is little point in making future projections based on an analysis of trade complementarities and the past minor trade record between Japan and BIMSTEC countries. Through FDI inflows, trade complementarities and the trade intensity between the countries will change significantly.

To attract Japanese direct investment, although we can not deny the importance of an improved infrastructure in this region, the continuous efforts by the BIMSTEC countries to push their economic reform by implementing deregulation, liberalization and the reform of state owned enterprises etc., namely, “leveling the play ground” seems more important. Unlike previously, Japanese enterprises are now accustomed to operating on the same level playing field as the host country enterprises.

Such countries like Myanmar, Bangladesh and Sri Lanka where the business costs, especially labor costs, are cheap, will be able to attract Japanese direct investment in export oriented projects, if they can improve their investment environment by implementing the necessary deregulation. On the other hand, the investment interests of Japanese enterprises in India are mainly directed towards India’s rapidly expanding markets and human resources in IT, biotechnology and pharmaceuticals etc.. Although India’s per capita GDP is about a half that of China, labor costs in India (New Delhi) are generally higher than in China (Beijing) as seen at **Table 7**. This may reflect the fact that the labor market in India is not flexible enough because of its protected labor law regime. In addition, there is a possibility that the new entry of labor per population into the modern sector may be smaller than in China because of the caste system. India’s higher labor costs and higher transaction costs compared with China seem to be preventing FDI inflows into export-oriented projects. In order to decrease unemployment and soften employment pressure, it is important for India to attract

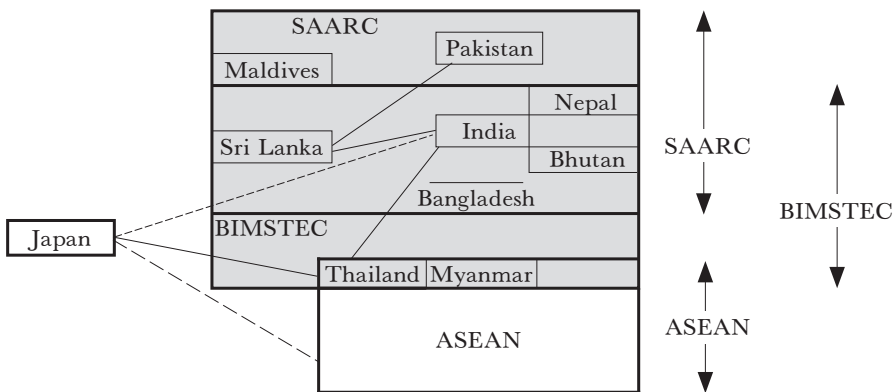


FDI into labor-intensive export-oriented industries. In order to realizing this aim, India faces many tasks and challenges ahead.

It would be ideal to establish a multilateral EPA between Japan and BIMSTEC countries, in order to realize closer economic relations. However, judging from the present stage of economic development and the current situation with regard to the policies and institutions of BIMSTEC countries, in reality, this will not be easy. In fact, negotiations for a Japan-ASEAN EPA are going far from smoothly and there is even a possibility that no agreement will be reached in the near future.

The **Figure III-1** below shows the present status of the FTA network around BIMSTEC and Japan. Japan has reached agreement in principle for an EPA with Thailand in August 2005 and has been negotiating a multilateral EPA with ASEAN countries, including Thailand and Myanmar. Furthermore, a joint study on a possible FTA between Japan and India is underway. Considering the status of the above efforts to promote liberalization of trade and investment between Japan and BIMSTEC countries, a bilateral rather than a multilateral approach, seems more realistic. In this way, a FTA (not EPA) could be linked to investment guarantee agreements but only with those countries which are ready to sign.

**Figure III-1 Regional FTA Network around BIMSTEC Countries and Japan**



- Japan-Thailand: Bilateral EPA (Agreement in principle)
- Japan-ASEAN: Multilateral EPA (Under negotiation)
- Japan-India: Joint Study for EPA/FTA
- Thailand-India: FTA Framework
- India-Sri Lanka: FTA
- Sri Lanka-Pakistan: FTA
- India-ASEAN: CECA Framework
- SARRC: SAFTA Framework

\* BIMSTEC is a regional economic forum formed in 1997 comprising of 5 countries, namely, Bangladesh, India, Myanmar, Sri Lanka and Thailand. It was named by using country initial, **B**angladesh-**I**ndia-**M**yanmar-**S**ri Lanka-**T**hailand **E**conomic **C**o-operation (BIMST-EC). After, joining of Nepal and Bhutan in 2004, BIMSTEC is changed to call the Bay of **B**engal Initiative for **M**ulti-**S**ector **T**echnical and **E**conomic **C**ooperation.

They agree to sign FTA among BIMSTEC countries and are planning to set its goal to form a Bay of Bengal Economic Community by the year 2020.

By the initiative of Sasakawa Peace Foundation, Japan and the CSIRD (Center for Studies in International Relations and Development, Kolkata, India), the research project to enhance closer economic relations between Japan and BIMSTEC countries has started since May 2005. This is the paper which I presented at the December meeting 2005 in Kolkata.

- 1 Myanmar's trade share against GDP is underestimated. Because Myanmar's trade figure in US\$ is converted into Kyat by using official exchange rate. On the other hand, GDP figure includes the production which is valued in market exchange rate. Official exchange rate has been kept for a long time at 1\$ = about 6 Kyats, while the market rate has depreciated greatly in the past several years. The market rate on January 31, 1997 was 165 Kyats, which is now 1,400 Kyats on October 7, 2005. Based on the Myanmar National Account Statistics in constant price of 1985/86, the share of trade against GDP in 2000/01 was 19.4. This figure in 1985/86 constant price seems still underestimated because of the gaps between official rate and market rate; however, it seems closer to the real situation.
- 2 JETRO, "White Paper on Trade and Investment 2005", Aug. 2005.
- 3 Guang Xi Daily, Sept. 15, 2005.
- 4 Myanmar Times, Oct. 10-16, 2005.
- 5 JETRO, "White Paper on Trade and Investment 2004", Aug. 2004, p. 202.
- 6 JETRO, "Survey on Actual Management State of Japanese Affiliated Enterprises in Asia (ASEAN/India Edition)", March 2005, p. 3.
- 7 JETRO, Trade Bulletin, Aug. 9, 2005.
- 8 According to the Myanmar Government statistics, GDP growth rate since 1999 were 10.9% (1999), 13.7% (2000), 11.3% (2001), 10.0% (2002), 13.8% (2003) and 12.6% (2004).  
However, those figures are not reliable and not compatible when considered ICOR, growth rate of imports and consumption of electricity etc.. If ICOR were fixed as it was in 1998, GDP growth rate in 1999 and 2000 is estimated to be about 5%. As for the GDP growth rate of 2003 and 2004, we can not make such estimate because of the lack of detailed statistics on national account. EIU (Economic Intelligence Unit) GDP growth estimates are -2.1% (2003) and -1.3% (2004).
- 9 In 1959, the Burma Investment Act was introduced and enacted in 1962. Foreign Investment Law in 1988 seems to be based on that Act. See Myat Thein, "Economic Development of Myanmar", ISEAS, 2003, p. 43.
- 10 JETRO, "White Paper on Trade and Industry 2005", Aug. 2005, p. 234.

- 11 Ibid, pp. 235-236.
- 12 JETRO, "Survey on Actual Management State of Japanese Affiliated Enterprises in Asia (ASEAN/India Edition)", March 2005, p. 24.
- 13 JETRO, "Trade Bulletin", Aug. 9, 2005.
- 14 JETRO, "White Paper on Trade and Industry 2005", Aug. 2005, p. 246 and JETRO, "Survey on Actual Management State of Japanese Affiliated Enterprises in SAFTA Countries", March 2005, p. 25.
- 15 JETRO, "White Paper on Trade and Industry 2005", Aug. 2005, pp. 239-240.