WHAT THE ASEAN ECONOMIC COMMUNITY WILL MEAN FOR BUSINESSES
A LOOK OF THE CASE OF MYANMAR
What the ASEAN Economic Community Will Mean for Businesses
A Look at the Case of Myanmar

David Abonyi
and
Masato Abe
Preface

The ASEAN Economic Community (AEC) was officially launched with the signing of the ASEAN Economic Community Blueprint in 2007, based on a set of principles outlined in the 1997 document, ASEAN Vision 2020. The AEC’s fundamental goals are to foster economic integration, promote economic competitiveness, and ensure more equitable economic development among member states. Since the Blueprint was signed, considerable progress has been made in implementing the AEC’s objectives. Although a number of observers question whether all measures will be fully in place by the AEC’s official launch date of 31 December 2015, the AEC will have an impact on the ASEAN member states—an impact that will continue to grow in the coming years after implementation.

Thus far, much of the literature examining the AEC maintains a central focus on the broad perspective of examining policy implementation and the possible macroeconomic impact of the AEC. Such a focus is not misplaced; the AEC has the potential to substantially reshape the region economically, both in terms of the nature of trade and economic cooperation between ASEAN members, and in terms of ASEAN’s place in the global economy. With the AEC launch date looming, there will doubtless be a continued examination of the various member states’ implementation and readiness, especially since many AEC measures are still not yet in place. However, a great number of policies have already been applied, and even if not all AEC measures are realized by 31 December 2015, regional economic integration will likely only increase after this date. Therefore, businesses in ASEAN must ready themselves for the coming changes.

Resources aimed at assisting businesses to prepare for the AEC do exist, but for a variety of reasons, many businesses are still unsure of what to expect as the AEC comes into force. Most often, AEC-related materials for businesses tend to focus on investment opportunities within the region (this is, indeed, one of the primary benefits of the AEC for the private sector). It is important to note, though, that these benefits are more applicable to: a) relatively larger businesses; and b) businesses based in the relatively wealthier countries. Businesses that meet one or both of these criteria are best poised to take advantage of investment opportunities abroad. However, for small- and medium-sized enterprises (SMEs), which make up the vast majority of businesses in every ASEAN economy, new investment opportunities may be more limited. This will certainly be the case for SMEs based in the less-developed ASEAN countries, as these businesses will typically be less competitive than their foreign counterparts and will face more pressing issues with the advent of the AEC. Moreover, many business owners and managers have either not heard of the AEC, or have very limited knowledge of what it will actually entail.

This publication aims to fill this gap by providing a concise, but comprehensive, summary of the major changes businesses—particularly SMEs in the less-developed ASEAN member states—can expect to see and the likely effects on their enterprises. The focus of this publication is on the business perspective and is designed thematically to show how the AEC will likely affect various facets of business strategy and operations. The goal, therefore, is to inform enterprises and help them best prepare for the changing realities of doing business in an ASEAN country. On the other hand, this publication is also expected to provide useful information to policymakers who are responsible for various matters in the fields of commerce, trade, investment and industry and
enterprise development.

In examining the AEC and its impact, the authors felt that having a central focus on one specific country would allow for the most grounded and fact-based analysis of the issues at hand. Thus, this publication examines the conditions of Myanmar’s businesses relative to those of its neighbours (mainly in contrast to the six more powerful economies in the region—the ASEAN-6—i.e. Brunei Darussalam, Indonesia, the Philippines, Malaysia, Singapore and Thailand). By maintaining a focus on Myanmar, the publication can provide an in-depth and cohesive narrative that can demonstrate what it will be like for a business from one of the relatively less-developed ASEAN countries (in particular the CLMV countries, comprising Cambodia, Lao PDR, Myanmar and Viet Nam) trying to compete domestically as ASEAN realizes its goals of regional economic integration.
**Acknowledgements**

This research project was led by Masato Abe, Economic Affairs Officer, under the supervision of Marc Proksch, Chief, Business and Development Section, Trade and Investment Division of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). The publication was drafted by David Abonyi and Masato Abe. Nopparuth Ruengrangskul, Veronika Marinova and Wisanee Koopthanaroj at ESCAP provided valuable research contributions to the authors. Natthika Charoenphon, also at ESCAP, assisted with the editing and formatting of the publication, in addition to providing logistical support. Napidchaya Pichedtvananich (ESCAP) designed the cover of the book. I Chan Huang (ESCAP) also contributed to the publication by providing substantive inputs. Additionally, the authors would like to thank Dr. Kensuke Tanaka, OECD, for his insights, and Dr. Pana Janviroj, The Nation, for his support, in the development of this publication.

The publication of the guidebook was financially supported by both the Government of Japan and the Government of the Republic of Korea. The Transport Division of ESCAP also provided managerial and financial support to the publication. A special thanks finally goes to Fuyo Yamamoto, formally at ESCAP and currently at Hiroshima University.
## Abbreviations and Acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ABMI</td>
<td>Asian Bond Market Initiative</td>
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<tr>
<td>ACIA</td>
<td>ASEAN Comprehensive Investment Agreement</td>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<td>ADBI</td>
<td>Asian Development Bank Institute</td>
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<tr>
<td>AEC</td>
<td>ASEAN Economic Community</td>
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<td>AFTA</td>
<td>ASEAN Free Trade Area</td>
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<td>AHN</td>
<td>ASEAN Highway Network</td>
</tr>
<tr>
<td>ANZ</td>
<td>Australia and New Zealand Banking Group Limited</td>
</tr>
<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
</tr>
<tr>
<td>ASEAN-6</td>
<td>Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand[^1]</td>
</tr>
<tr>
<td>ASPEC</td>
<td>ASEAN Patent Search and Examination Cooperation</td>
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<td>ASW</td>
<td>ASEAN Single Window</td>
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<tr>
<td>ATIGA</td>
<td>ASEAN Trade in Goods Agreement</td>
</tr>
<tr>
<td>ATR</td>
<td>ASEAN Trade Repository</td>
</tr>
<tr>
<td>AWGIPC</td>
<td>ASEAN Working Group on Intellectual Property Cooperation</td>
</tr>
<tr>
<td>BTMU</td>
<td>Bank of Tokyo-Mitsubishi UFJ</td>
</tr>
<tr>
<td>CEPT</td>
<td>Common Effective Preferential Tariff Scheme</td>
</tr>
<tr>
<td>CLM</td>
<td>Cambodia, Lao PDR and Myanmar</td>
</tr>
<tr>
<td>CLMV</td>
<td>Cambodia, Lao PDR, Myanmar and Viet Nam</td>
</tr>
<tr>
<td>CMP</td>
<td>Cut, make and package</td>
</tr>
<tr>
<td>ESCAP</td>
<td>United Nations Economic and Social Commission for Asia and the Pacific</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>FDI</td>
<td>Foreign direct investment</td>
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<td>FTA</td>
<td>Free trade area</td>
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<td>GDP</td>
<td>Gross domestic product</td>
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<tr>
<td>GE</td>
<td>General Electric (GE)</td>
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<tr>
<td>GI</td>
<td>Geographical indication</td>
</tr>
<tr>
<td>GITR</td>
<td>Global Information Technology Report</td>
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<tr>
<td>GIZ</td>
<td>Deutsche Gesellschaft für Internationale Zusammenarbeit</td>
</tr>
<tr>
<td>GMS</td>
<td>Greater Mekong Subregion</td>
</tr>
<tr>
<td>GR</td>
<td>Genetic resources</td>
</tr>
<tr>
<td>ICBC</td>
<td>Industrial and Commercial Bank of China</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and communications technology</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organization</td>
</tr>
</tbody>
</table>

[^1]: The term “ASEAN-6” is used to refer to the first six member states to join ASEAN. These countries are also the ASEAN member states with the highest GDP per capita. Thus “ASEAN-6” and “CLMV” are two terms employed to subdivide ASEAN into, respectively, the richer, more-established members, and the poorer, newer members. Although certain authors use “ASEAN-6” to indicate the six largest economies in ASEAN, this guidebook utilizes the term as defined by the ASEAN Secretariat (e.g. in the ASEAN Trade in Goods Agreement, among other official documents). It is also important not to confuse the ASEAN-6 with the ASEAN Plus Six, which refers to all ASEAN member states and six additional regional economic powers, namely Australia, China, India, Japan, New Zealand and Republic of Korea.
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>IP</td>
<td>Intellectual property</td>
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<td>IPR</td>
<td>Intellectual property rights</td>
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<tr>
<td>IRU</td>
<td>International Road Transport Union</td>
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<tr>
<td>ISO</td>
<td>International Organization for Standardization</td>
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<tr>
<td>Km</td>
<td>Kilometre</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>Lao People’s Democratic Republic</td>
</tr>
<tr>
<td>LDC</td>
<td>Least developed country</td>
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<tr>
<td>Maybank</td>
<td>Malayan Banking Berhad</td>
</tr>
<tr>
<td>MSME</td>
<td>Micro-, small- and medium-sized enterprise</td>
</tr>
<tr>
<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-governmental organization</td>
</tr>
<tr>
<td>NSW</td>
<td>National Single Window</td>
</tr>
<tr>
<td>OCBC</td>
<td>Oversea-Chinese Banking Corporation</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PCT</td>
<td>Patent Cooperation Treaty</td>
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<tr>
<td>PTA</td>
<td>Preferential trading area</td>
</tr>
<tr>
<td>QAB</td>
<td>Qualified ASEAN Bank</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and development</td>
</tr>
<tr>
<td>RIA-Fin</td>
<td>Roadmap for Monetary and Financial Integration of ASEAN</td>
</tr>
<tr>
<td>ROO</td>
<td>Rules of origin</td>
</tr>
<tr>
<td>SEZ</td>
<td>Special economic zone</td>
</tr>
<tr>
<td>SKRL</td>
<td>Singapore-Kunming Rail Link</td>
</tr>
<tr>
<td>SMBC</td>
<td>Sumitomo Mitsui Banking Corporation</td>
</tr>
<tr>
<td>SME</td>
<td>Small- and medium-sized enterprise</td>
</tr>
<tr>
<td>SOB</td>
<td>State-owned bank</td>
</tr>
<tr>
<td>SPS</td>
<td>Sanitary and phytosanitary (measures)</td>
</tr>
<tr>
<td>TCE</td>
<td>Traditional cultural expressions</td>
</tr>
<tr>
<td>TK</td>
<td>Traditional knowledge</td>
</tr>
<tr>
<td>UMFCCI</td>
<td>Union of Myanmar Federation of Chambers of Commerce and Industry</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>UNIDO</td>
<td>United Nations Industrial Development Organization</td>
</tr>
<tr>
<td>UNISDR</td>
<td>United Nations Office for Disaster Risk Reduction</td>
</tr>
<tr>
<td>UOB</td>
<td>United Overseas Bank</td>
</tr>
<tr>
<td>US$</td>
<td>United States dollar</td>
</tr>
<tr>
<td>WEF</td>
<td>World Economic Forum</td>
</tr>
<tr>
<td>WIPO</td>
<td>World Intellectual Property Rights Organization</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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List of Authors ²

David Abonyi is an international consultant for the Business and Development Section, Trade and Investment Division, United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). He has spent his entire career in Bangkok, working on issues affecting Thailand and the region, first with the Mae Fah Luang Foundation under Royal Patronage, where he worked on the foundation’s social development projects. Subsequently, at the Fiscal Policy Research Institute he focused on macroeconomic topics related to Thailand and Viet Nam. In 2012, as Myanmar was just beginning its process of opening up, he worked at the Asian Development Bank’s Thailand Resident Mission, doing research and macro-analyses on the country. In addition to undergraduate degrees in political studies and economics, he holds a master’s degree in public administration from the Maxwell School of Citizenship and Public Affairs.

Masato Abe is an Economic Affairs Officer in the Business and Development Section, Trade and Investment Division, United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), Bangkok. He has extensive experience in enterprise development with a special emphasis on the SME sector, supply chain management and socially responsible business. Prior to joining the secretariat of the United Nations, he worked in the global automotive, electronics and high-technology industries. He has so far published over 90 books, book chapters, journal articles, policy papers and others for various outlets, such as ADB, ADBI, ESCAP, IRU, OECD, UNCTAD, UNIDO, UNISDR and WTO. He holds degrees in marketing, business administration and economics, and is a research fellow at Thammasat University, Bangkok.

² The opinions expressed in this publication are those of the authors and do not necessarily reflect the views of the United Nations.
Executive Summary

With the ASEAN Economic Community (AEC) coming into effect, the main purpose of this publication is to serve as a resource to businesses, particularly in Myanmar and the other CLMV countries, in navigating the coming changes. The guidebook is divided into three main parts: the introduction provides the background and context of the AEC’s development; Section I outlines the main AEC policies and attempts to explain the real-world outcomes of such policies; and Section II then analyses how the policies of the AEC will affect businesses, with a greater focus on SMEs, as they make up the vast majority of businesses in Myanmar and other CLMV countries.

The central conclusion of this guidebook is that despite the numerous opportunities the AEC will provide to the private sector, the reality for most CLMV businesses is that they will need to focus, at least initially, primarily on remaining competitive domestically in a more open and regionally integrated environment. This is due to several disadvantages they face in comparison to companies from the more economically powerful countries in the region. This includes underdeveloped domestic and cross-border infrastructure, less competitive human resources, lower quality technology and equipment, and a more challenging business environment. Thus, while some CLMV businesses may be able to benefit from the opportunities to export or link to more efficient production networks, the majority should place greater emphasis on being able to compete against foreign-based businesses expanding into their domestic markets.

Although the ASEAN Economic Community has often been discussed as “AEC 2015”, it has become increasingly clear that many reforms will not be in place by the official launch date, and that the year 2020 would be a more realistic target for full implementation of the agreement. Consequently, CLMV businesses still have time to prepare for the advent of the AEC by, for example, increasing training of their employees, focusing on product and process innovation, and incorporating more advanced technologies and processes. There is time, too, for CLMV governments and development organizations to address the main impediments to the private sector, such as lack of access to finance, corruption, and insufficient infrastructure.
Introduction:
History and Progress of the ASEAN Economic Community

The ASEAN Economic Community (AEC) is coming into effect in December 2015, although its full implementation will take a number of years. The AEC presents both challenges and opportunities for firms in the region. The main purpose of this publication is to serve as a resource to businesses, particularly in Myanmar and the other CLMV countries, in navigating the coming changes. It is therefore useful to begin by briefly placing in a historical context the emergence of the AEC as the next and key phase in the evolution of regional economic integration that began with ASEAN. It is also useful to see the AEC within the broader context of different stages of regional economic integration, in both theory and practice, and therefore potential lessons from other such efforts, such as the European Union (and the Eurozone) and the North American Free Trade Area (NAFTA). This can point toward possible future directions for the AEC and its implications for participating economies, as regional integration evolves in coming years. Discussion of the evolution of ASEAN and AEC also provides a backdrop to the discussions in Section I of particular AEC policies and Section II of implications for business.

History

The Association of Southeast Asian Nations (ASEAN) was founded on 8 August 1967 in Bangkok, Thailand. In ratifying the ASEAN Declaration (ASEAN’s founding document), Indonesia, Malaysia, the Philippines, Singapore and Thailand agreed that their countries would pursue the goals of: greater economic, social, technical, scientific and cultural cooperation, and regional peace and stability. Alongside the goals of the organization, the founding document also laid out a set of fundamental principles, resting heavily upon peaceable national conduct, non-interference in other members’ domestic affairs, and effective cooperation. Thus, the origins of ASEAN as a regional organization can be seen as coming primarily from a desire for peaceful coexistence amongst large South-East Asian countries, with mutual cooperation in economics and other areas a more secondary impetus. (The official aims and purposes of ASEAN can be found in Annex 1, and its fundamental principles can be found in Annex 2.)

Since its establishment, ASEAN has steadily increased in stature and scope, proving itself to be an important element in the region’s continued growth and cooperation. As a result, the organization has doubled in size from the original five members: Brunei Darussalam joined on 7 January 1984 (six days after it became independent from the United Kingdom), followed by Vietnam in 1995, both Lao PDR and Myanmar joined in 1997, and two years later Cambodia became the final member to join.

ASEAN’s progress on economic cooperation has been a decades-long process, with a number of key steps along the way. The first of these occurred during the First ASEAN Summit, held in Bali in February 1976. This summit saw the signing of the Declaration of ASEAN Concord, which set forth a framework for regional cooperation in a variety of areas, namely: political,

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3 ASEAN. (2014a). History: The Founding of ASEAN.
economic, social, cultural, information and security, as well as ASEAN organizational matters. The major economic outcomes involved enhanced industrial cooperation, cooperation on basic commodities, and cooperation in trade—the latter including an agreement to pursue preferential trading arrangements.

In 1992, ASEAN’s quest for greater economic cooperation took another big step forward. It was at the ASEAN Summit that year in Singapore that the then-six ASEAN members agreed to the establishment of the ASEAN Free Trade Area (AFTA), along with the Common Effective Preferential Tariff Scheme (CEPT)—the main mechanism through which AFTA would be realized. The CEPT meant that ASEAN members agreed to reducing tariffs on a variety of manufactured goods (including processed agricultural products) to levels ranging from 0% to 5%, over the course of 15 years.

This expansion in economic cooperation was turned into a more concrete goal with the ASEAN Vision 2020 laid out in Kuala Lumpur in 1997. It was the ASEAN Vision 2020 that stated the aim of “create[ing] a stable, prosperous and highly competitive ASEAN Economic Region in which there is a free flow of goods, services and investments, a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities.” This text was to be the initial foundation of the ASEAN Economic Community, and outlined greater cooperation in numerous areas, such as: trade in goods, trade in services, flow of investment, flow of services, SMEs, technology, energy, infrastructure, and capital markets.

The ASEAN Vision 2020 was followed up the subsequent year, at the Sixth ASEAN Summit in Hanoi. As its name implies, the Hanoi Plan of Action, in addition to expanding on the goals outlined in ASEAN Vision 2020, also delineated various steps to be taken by ASEAN members and the ASEAN secretariat to meet ASEAN Vision 2020’s goals. Interestingly, the Hanoi Plan of Action also included some measures that could have paved the way for a level of cooperation beyond what is involved in the ASEAN Economic Community: for example, the measure calling for member states to “study the feasibility of establishing an ASEAN currency and exchange rate system”.

In January 2007, at the 12th ASEAN Summit in Cebu, Philippines, the target date for economic integration was brought forward, from 2020 to 2015. This was under the Cebu Declaration on the Acceleration of the Establishment of an ASEAN Community by 2015. The document signed by the 10 ASEAN country leaders did not expand on the specific workings of integration; however, it did specify the creation of the ASEAN Community, resting upon the three pillars of the ASEAN Security Community, ASEAN Economic Community and ASEAN Socio-Cultural Community. Table 1 summarizes major historical events in the development of the AEC.

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7 Ibid.
10 Ibid.
Table 1: Major events in the development of the AEC

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>8 August 1967</td>
<td>Founding of the Association of Southeast Asian Nations (ASEAN)</td>
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<tr>
<td>February 1976</td>
<td>First ASEAN Summit</td>
</tr>
<tr>
<td>24 February 1976</td>
<td>Signing of the Declaration of ASEAN Concord</td>
</tr>
<tr>
<td>7 January 1984</td>
<td>Brunei Darussalam joins ASEAN</td>
</tr>
<tr>
<td>28 January 1992</td>
<td>Establishment of the ASEAN Free Trade Area (AFTA)</td>
</tr>
<tr>
<td>28 July 1995</td>
<td>Viet Nam joins ASEAN</td>
</tr>
<tr>
<td>23 July 1997</td>
<td>Lao PDR and Myanmar join ASEAN</td>
</tr>
<tr>
<td>15 December 1997</td>
<td>ASEAN adopts the ASEAN Vision 2020</td>
</tr>
<tr>
<td>15 December 1998</td>
<td>ASEAN adopts the Hanoi Plan of Action</td>
</tr>
<tr>
<td>30 April 1999</td>
<td>Cambodia joins ASEAN</td>
</tr>
<tr>
<td>7 October 2003</td>
<td>Signing of the Declaration of ASEAN Concord II, which establishes the goal of creating an ASEAN Economic Community by 2020 (under the goals of ASEAN Vision 2020)</td>
</tr>
<tr>
<td>13 January 2007</td>
<td>Signing of the Cebu Declaration on the Acceleration of the Establishment of an ASEAN Community by 2015</td>
</tr>
<tr>
<td>20 November 2007</td>
<td>Adoption of the ASEAN Economic Blueprint (the master plan for the establishment of the AEC)</td>
</tr>
<tr>
<td>31 December 2015</td>
<td>Official launch of the AEC</td>
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Source: Various.

An examination of regional economic integration and where the AEC fits

The focus of this guidebook is on the practical implications of the AEC for business, as distinct from a discussion of the theory of regional economic integration, or of the AEC’s general macroeconomic impacts. From a business perspective, regional economic integration is broadly intended to reduce barriers and align policies in order to expand the accessible market for trade and investment, and facilitate access to various factors of production, in order to strengthen the competitive performance of enterprises. It is therefore useful to provide a brief introduction to the nature of economic integration efforts in order to position the AEC within the broader context of such initiatives, and in order to understand possible future directions of AEC integration efforts.

Regarding the theory behind regional economic integration, there remains no consensus on what are the specific, significant stages in the process. This section will define the main stages, and identify where ASEAN (along with other regional integration initiatives) fits. Economic integration will be referred to as a “process” because such attempts typically develop and expand from similar, relatively smaller-scale beginnings. It should be noted, however, that despite being

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a process, most groups engaging in economic integration have not given serious thought to achieving the final stage of total economic integration (involving political integration). Thus, across the world, and particularly in the case of ASEAN, the early-to-middle stages are the most relevant and the most likely to be (or to have been) realized.

Economic integration has been defined in a number of ways. Bela Balassa, the author of one of the seminal works on economic integration, *The Theory of Economic Integration* (1961), defined the term as “the abolition of discrimination within an area”. Balassa also takes care to distinguish between economic cooperation and economic integration, stating that “whereas cooperation includes actions aimed at lessening discrimination, the process of economic integration comprises measures that entail the suppression of some forms of discrimination”. To illustrate the difference, he contrasts international trade policy agreements (cooperation) with the actual elimination of at least some barriers to trade (integration).

However, other economists apply less restrictive definitions to economic integration. For example, Fritz Machlup observed that economic integration was simply “the process of combining separate economies into a larger economic region”. Similarly, Willem Molle described it as “the gradual elimination of economic frontiers among member states (that is to say, the abolition of national discrimination), with the formerly separate national economic entities gradually merging into a larger whole”. Additionally, Jan Tinbergen differentiated between positive and negative integration. Negative integration involves the removal of obstacles to trade (and is a more central aspect of the earlier stages of economic integration). Positive integration, in his words, involves the “creation of new institutions and their instruments or the modification of existing instruments”, elaborating that positive integration “should consist of the creation of all institutions required by the welfare optimum [essentially, maximization of benefits to all] which have to be handled in a centralized way”. Thus, true economic integration—at least at an advanced level—must involve the removal of barriers in concert with institution-building.

The original widely-cited categorization of the stages of economic integration also came from Balassa. He observed five distinct stages:

1. Free trade area (FTA)
2. Customs union
3. Common market
4. Economic union
5. Total economic integration (an economic and monetary union)

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15 Ibid.
16 Ibid.
However, these stages were laid out by Balassa more than five decades ago—before the major progress of the European Union (EU) and other supranational instances of economic integration. As such, this categorization is widely seen as out of date, and has been expanded upon by a number of economists. This guidebook employs a categorization closely modeled on the work of Patrick Crowley, though with some minor differences. The stages of economic integration are as follows:

1. Reduction in trade barriers
   This stage involves measures designed to reduce or remove barriers to trade (especially trade in goods). The definition includes, then, both preferential trading areas (PTAs), as well as free trade areas (FTAs). Thus, this partially rejects Balassa’s distinction between economic cooperation and integration. It is true that preferential trading agreements are often entered into by countries who do not progress (nor do they intend to progress) on to more advanced levels of economic integration. Nonetheless, such agreements are clearly instances of countries drawing closer together economically. Furthermore, preferential trading agreements are often the initial step undertaken by countries that go on to extend their economic involvement to the subsequent stages of integration (as in the case of ASEAN). It therefore makes sense to denote this as the first stage of economic integration, while recognizing that it is a relatively limited step in the process.

   (a) Preferential trading area (PTA)
     A PTA usually entails lower tariff barriers among participating nations than with non-member nations. It is described as an arrangement between two or more countries in which goods produced within the union are subject to lower trade barriers than the goods produced outside the union.

   (b) Free trade area (FTA)
     An FTA is a PTA in which member countries do not impose any trade barriers (zero tariffs) on goods produced within the union. However, each country keeps its own tariff barriers to trade with non-members. This is usually referred to as “trade integration”.

2. Customs union
   This is an FTA in which member countries apply a common external tariff on a good imported from outside countries. This common external tariff can differ between goods but not across the members of the customs union.

3. Common market
   The common market is a customs union with the further allowance of free movement of labour and capital among member states. This is usually referred to as “factor integration”. This stage further requires governments to collaborate in additional policy

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areas to ensure comparable treatment in all countries. As a result, it also entails loss of policymaking autonomy to some extent.

4. Economic union
An economic union is composed of a common market along with a customs union. This means that participant countries have both common policies on product regulation, freedom of movement of goods, services and the factors of production (capital and labour) and a common external trade policy. Typically, the main purposes behind establishing an economic union include increasing economic efficiency, and establishing closer political and cultural ties between the member countries.

5. Monetary union
This stage requires that the monetary policies of member states are either harmonized or completely unified. The member countries at this stage of economic integration will have one single currency and one single central bank.

6. Fiscal union
As implied by the name, under a fiscal union, the regional group would rely on the group’s communal institutions to set the levels of taxation and expenditure.

7. Complete economic integration
At this level of economic integration, with common policies on trade, fiscal policy and monetary policy, the members would have practically no independent control over economic policy. In order to have this level of integration, this final stage would also entail political union amongst members, with a centralized body, in which all members have a say, making policy decisions.

Since member states are still in the process of achieving the aims of the ASEAN Economic Community, it is difficult accurately pin down exactly where the AEC will be located within the above framework when it comes into existence at the end of 2015. Indeed, a similar problem is encountered in trying to locate various instances of economic integration. The above framework is based on theory; in reality, country groupings may be very close to fitting the definition of a particular stage, but may have certain aspects or policy areas that do not quite meet the criteria.

However, if we are to assume that the AEC can meet its goals (at least within a few years after the official launch), then in many ways the AEC would be described as being between stages 2 and 3—that is, somewhere between a customs union and common market. It would not quite qualify as a common market primarily because the movement of labour would still not be quite free enough. Currently, the policies regarding the free movement of labour pertain to skilled jobs in a select few industries that make up a relatively small minority of total jobs in the region. Another complication is that even with regard to the free flow of these workers, there are a number of remaining barriers that members do not appear to be making any progress in overcoming (for example, individual countries’ licensing restrictions).

Ultimately, though, even if it achieves its targets, the AEC would still technically be at stage I(b), a free trade area. That is because there is no common external tariff rate being applied (to
countries outside the region), which is a prerequisite for a customs union. It may be quite difficult to get beyond this stage in the near future. This is due to the very disparate levels of development across member states. Singapore, for example, is an advanced economy and applies very low external tariffs. On the other hand, the CLMV countries, due to their relatively underdeveloped status, are allowed greater leeway to set higher external tariffs, in order to protect their local industries as necessary.

Thus, the AEC does lag significantly behind the Eurozone, which is at stage 5 as both an economic and monetary union. The European Union (EU) in general (that is, ignoring the Eurozone\(^{22}\)) is also more advanced than the AEC will be, given the EU’s much freer movement of labour and greater policy integration. However, the Eurozone is the most advanced example of supranational economic integration in the world, and is several decades older than ASEAN’s economic integration, so it is to be expected that the AEC would have much ground to catch up. (Annex 3 gives a more in-depth comparison of the AEC and the EU.)

In terms of other major international efforts at regional integration, the AEC could be placed in between NAFTA (the North American Free Trade Agreement, between the United States, Canada and Mexico) and Mercosur (the South American common market, with Argentina, Brazil, Paraguay, Uruguay and Venezuela as its full members). NAFTA is strictly a free trade area. Even though it has greatly enhanced economic integration in North America, restrictions on the free movement of labour and rules of origin amongst member countries, for example, mean that it is far from a common market and does not even qualify as a customs union. In contrast, Mercosur does apply a common external tariff, making it qualify as a customs union. It also has quite a free flow of labour and capital, which therefore makes Mercosur a common market.

**Summary**

It is useful to see the AEC as an evolution of South-East Asian regional integration that began with the establishment of ASEAN, and whose future trajectory is as yet uncertain. As an effort at strengthening regional economic integration, the AEC is aimed at expanding markets and promoting competition by eliminating barriers to trade, investment and production among participating economies. This is intended to increase economic welfare by allowing the efficient reallocation of resources to participating countries’ comparative advantages within a regional framework, generating greater productivity and exchange (the “trade creation effect”). It is also intended to increase the trade and investment attractiveness of the AEC to countries and firms outside the region. This is particularly important, since unlike European economic integration, whose origins reflected an inward-looking approach, the AEC, as an extension of ASEAN economic integration, reflects a philosophy of “open regionalism” aimed at strengthening, deepening, and diversifying linkages with key economic partners outside the region. The evolution of AEC in coming years, in terms of the different options and forms of regional economic integration, will reflect to a large extent the capacity and political will of participating economies to implement existing policy commitments—the focus of the next section.

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\(^{22}\) The Eurozone is the group of EU countries that use the euro as a shared currency; thus, the Eurozone exemplifies a higher level of integration than the EU.
Section I:
The Key AEC Policies, Defined and Explained

The ASEAN Economic Community will cover a broad array of policies and will have an impact on all aspects of the economies of the countries of ASEAN. In this section, the major policies that are likely to impact businesses in Myanmar (and other CLMV countries) most directly will be outlined and their main effects will be explained. This section relies heavily on official publications by ASEAN on the ASEAN Economic Community, particularly, the ASEAN Economic Community Blueprint (2008) and the ASEAN Economic Community Factbook (2011).

The broad pillars of the ASEAN Economic Community include: (1) single market and production base; (2) competitive economic region; and (3) equitable economic development; and (4) integration into the global economy. Each pillar includes a range of planned policy initiatives. The cornerstone of the ASEAN Economic Community is the development of ASEAN as a single market and production base. This entails “five core elements: (i) free flow of goods; (ii) free flow of services; (iii) free flow of investment; (iv) freer flow of capital; and (v) free flow of skilled labour”. While each of these five elements will address a different aspect of the economy, they each clearly demonstrate the goal of facilitating greater and easier trade across borders. In addition, there are a number of other policy areas covered, such as intellectual property rights, infrastructure development and integration into the global economy, that also promote greater trade and the further development of member countries’ economies.

Figure 1: The four main pillars of the AEC and related policy initiatives

<table>
<thead>
<tr>
<th>Four Pillars of AEC</th>
<th>Single Market and Production Base</th>
<th>Competitive Economic Region</th>
<th>Equitable Economic Development</th>
<th>Integration into the Global Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Elements</td>
<td>1. Free flow of goods</td>
<td>1. Develop competition policy</td>
<td>1. Accelerate the development of small- and medium-sized enterprises (SMEs)</td>
<td>1. Develop coherent approach towards external economic relations</td>
</tr>
<tr>
<td></td>
<td>2. Free flow of skilled labour</td>
<td>2. Strengthen consumer protection</td>
<td>2. Enhance ASEAN integration to reduce development gap between member countries</td>
<td>2. Form and manage Free Trade Agreements (FTAs) and Comprehensive Economic Partnerships (CEPs)</td>
</tr>
<tr>
<td></td>
<td>5. Free flow of capital</td>
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<td></td>
<td>6. Food and agricultural security</td>
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<td></td>
<td>7. Integration of 12 priority sectors</td>
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</tbody>
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Note: Twelve priority sectors include: agro-based goods, air transport, automotive products, ICT, electronics goods, fisheries, health care products, rubber based goods, textiles and clothing, tourism, logistics and wood-based products.

Free flow of goods

The free flow of goods is the first core element of the larger “single market and production base” area of the AEC. Its goal, as its name implies, is to promote the freer movement of goods within ASEAN—that is, to facilitate the faster, cheaper flow of goods, coupled with a removal of major impediments, between the countries of ASEAN. While the most obvious effect of this policy will be to affect final goods meant for consumers, it will also have a major impact on intermediate goods that businesses use to produce their own goods and services. Therefore, this policy will also shape the participation and performance of firms as suppliers in regional and global value chains, a key means for Myanmar enterprises to access international markets.

Prime among the measures for the free flow of goods is the elimination of tariffs and non-tariff barriers for the trade in goods, as laid out in the ASEAN Trade in Goods Agreement (ATIGA). ATIGA was signed in 2009, building and expanding upon previous similar agreements, with the greatest change being its heavier focus on non-tariff barriers. Among the various types of measures in ATIGA conducive to the free flow of goods, the most notable are those in the areas of: tariff liberalization, non-tariff barrier elimination, provisions on rules of origin (ROO), transparency of trade and efficient customs procedures. 24

Tariff liberalization essentially means that ASEAN member states will endeavour to minimize the additional costs they impose on imported (and exported) goods, making foreign-made goods cheaper for consumers in the integrated ASEAN market. This means that the number of goods that can have import duties placed on them will be minimal, and that there will be pressure to substantially reduce the value of the duties for goods that still have import duties. While the CLMV countries have greater flexibility than the other ASEAN member countries in the implementation of this policy, both the number and the value of import duties imposed by Myanmar are scheduled to be quite low by the advent of the AEC in 2015.

The effect of the elimination of tariffs will be that goods coming into Myanmar from other ASEAN countries will be cheaper and more plentiful. In addition, there is likely to be a greater variety of goods available, as before some foreign companies may have avoided exporting to Myanmar because of import duties making their products relatively more expensive, and thus less attractive, to consumers.

The elimination of non-tariff barriers is another crucial element, seeking to minimize the impact of obstacles to trade other than outright tariffs and import duties. Such obstacles can affect companies seeking to trade abroad by imposing additional costs and delays, or even completely preventing trade. Common non-tariff barriers include product quality standards, quotas, permit requirements, and sanitary and phytosanitary (SPS) measures. What all these measures have in common is that they reduce the total amount of foreign products entering the country, whether

24 Ibid, p.5.
through more explicit measures (quotas, bans) or through subtler measures that still dissuade companies from exporting to the country (complex or numerous requirements). As with the AEC policy on tariff liberalization, the policy on the removal of non-tariff barriers grants greater leeway to the CLMV countries. As stated in the ASEAN Economic Community Blueprint, the AEC’s goal on the removal of non-tariff barriers is to have it in place “by 2015 with flexibilities to 2018 for CLMV”. Therefore, this should see the great majority of such barriers in Myanmar removed by the start of the AEC in 2015, and all of them gone by 2018.

The result of this policy on the removal of non-tariff barriers will be that goods entering Myanmar, both for final consumption and for production (e.g. parts and components for electronics) from abroad will be cheaper and more plentiful, with a greater variety available. This is because the removal of quotas, for example, will allow more goods of a certain type into the country, increasing the quantity of this good, and also reducing its price if the demand for it is particularly high. The relaxation of difficult requirements and licenses will also make it cheaper for foreign firms to export to Myanmar, since they no longer must spend money trying to conform to those standards and pay for various procedures necessary earlier for market entry.

Rules of origin (ROO) help determine where products come from, although ROO may also be used as non-tariff barriers. In the application with regard to the AEC, ROO will ensure that goods produced in member countries are able to enjoy the benefits of free trade amongst member states. The AEC will also see improvements in streamlining ROO procedures, for example, “the electronic processing of certificates of origin, and harmonisation or alignment of national procedures to the extent possible”. As part of the AEC, the policies governing ROO are to be “continuously reform[ed] and enhanc[ed]… to respond to changes in global production processes, including making necessary adjustments”. The AEC’s stated policy on ROO means that ASEAN countries will work to ensure that more goods that have had some element of production (value added) with ASEAN countries are able to take advantage of the liberalized tariffs and reduced non-tariff barriers. This will increase the number of products from within the region that will benefit from such trade policies, thus making them cheaper and more plentiful, and allow them access to new markets in which they were previously not present.

ASEAN measures on transparency of trade primarily refer to the proposed ASEAN Trade Repository (ATR), which is to be created by 2015. The ATR will be a useful tool for companies looking to trade, as well as others working on trade issues, as it will include information about the various trade regulations for ASEAN, as well as those of each of the member states. The purpose of the ATR is to increase the amount of information about trade policies, rules and regulations, and to make this information freely and easily available to any private or public sector entity. This information would include: “tariff nomenclature; preferential tariffs offered under the ASEAN Trade in Goods Agreement (ATIGA); Rules of Origin; non-tariff measures; national trade and customs laws and rules; documentary requirements; and lists of authorised

28 Ibid, p.3.
traders of Member States.” 29 Having this information available would allow businesses to make better, more informed decisions about whether, and where, to export their products. It would also assist exporting businesses in reducing the costs to export.

Another AEC policy affecting trade is its initiative on customs integration and modernization. This policy involves many components, including those aiming to: “integrate customs structures; modernise tariff classification, customs valuation and origin determination and establish ASEAN e-Customs; smoothen customs clearance; strengthen human resources development; promote partnership with relevant international organisations; [and] narrow the development gap in customs”. 30 Furthermore, since the initial policy was laid out, additional measures have been implemented, including “the release of any containerised shipment in thirty minutes” and the introduction of information and communications technology (ICT) applications “in the customs clearance of goods in Member States in accordance with international standards”. 31 This slew of initiatives all target the member countries’ customs procedures and abilities, since customs is such a crucial focal point in the entry of goods into a specific country. This also has important implications for decisions of firms to invest in particular locations in the context of regional and global value chains (e.g. electronics, automotives), which require efficient and timely import and export of parts and components within the framework of cross-border production networks. These measures are mainly concerned with increasing the speed at which products can move across borders, including efforts to improve the human resources of customs agencies, increase connectivity and utilize ICT applications to enhance operations and institutional capacity. 32 By harmonizing and smoothing these procedures, and by enhancing the capability of customs operations in each country, this should mean that goods will be able to enter the country faster, more reliably, and more cheaply, since exporting companies will no longer be forced to expend considerable resources dedicated to clearing customs of each country. As a result, selling goods to new markets, including as suppliers within regional and global value chains, should also become relatively more attractive to Myanmar companies with the potential to export.

Finally, ASEAN plans to ultimately have in place the ASEAN Single Window (ASW). The ASW would be a mechanism that could greatly simplify trade procedures and improve the efficiency of transporting goods within the region. It is to be implemented by integrating the National Single Windows (NSW) of each of the member states. As explained in ASEAN’s AEC Blueprint, the National Single Window “enables a single submission of data and information, a single and synchronous processing of data and information and a single decision-making for customs clearance of cargo, which expedites the customs clearance, reduce transaction time and costs, and thus enhance trade efficiency and competitiveness.” 33 This again involves customs, as well as other trade processes and procedures, and aims to harmonize and standardize them among member countries, while making them more simplified. 34 A key facet of this is to allow the entry of information pertaining to a certain shipment of goods to be streamlined, so that the

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29 Ibid. p.4.
32 Ibid.
34 Ibid.
information is entered at one point, and then recognized at the various other points along its shipment route. This will allow goods to travel faster to their destination, as well as reduce the need to adhere to various diverse standards and procedures for different parts of the journey. This should make it cheaper and easier for companies to ship their goods abroad, especially shipments that will go through several countries. As a result, exporting to new markets will be more attractive to the region’s firms, including as suppliers in regional and global value chains.

Liberalization of financial services under the AEC single market

The AEC single market is a comprehensive set of policies designed to “make ASEAN more dynamic and competitive with new mechanisms and measures to strengthen the implementation of its existing economic initiatives, accelerating regional integration in priority sectors… and strengthening the institutional mechanisms of ASEAN”.

This framework also includes a focus on the “free flow of services”. One of the key components of the free flow of services is liberalization of the financial services sector. This essentially means removing restrictions on banks and other financial institutions and increasing the influence of the free market on financial services. This would lead to interest rates being determined by the market and greater privatization of financial services, among other effects.

However, the AEC stipulates that certain principles should influence the liberalization of financial services in member states. These principles are: “Liberalisation through ASEAN Minus X formula where countries that are ready to liberalise can proceed first and be joined by others later; and the process of liberalisation should take place with due respect for national policy objectives and the level of economic and financial sector development of the individual members.”

The first principle basically means that Myanmar, given its position relative to other members, will be able to delay liberalization until the sector becomes stronger, and that most, or all, other member states will liberalize their sectors before Myanmar. The second principle essentially grants a degree of leeway to Myanmar in its liberalization, so that Myanmar could liberalize certain parts of the sector, while maintaining greater central control of other parts, in order to best serve the development of the country.

Free flow of investment

A major goal of the AEC is to pave the way for greater investment in ASEAN member countries. As stated in the AEC Blueprint: “A free and open investment regime is key to enhancing ASEAN’s competitiveness in attracting foreign direct investment (FDI) as well as intra-ASEAN investment.”

The Blueprint outlined four key pillars for investment: i) investment protection, to provide assurance and reduce risk to potential investors; ii) facilitation and cooperation, making investment regulations and procedures more consistent across member countries, simplifying these procedures and increasing the availability of information about investment regulations and procedures; iii) promotion and awareness, to encourage greater investment flows, especially from the ASEAN-6 to CLMV countries; and iv) liberalization, to “achieve free and open

37 Ibid.
investment by 2015”, by eliminating restrictions on intra-ASEAN investment to the extent possible.

These pillars were reaffirmed in the 2009 ASEAN Comprehensive Investment Agreement (ACIA), which is now ASEAN’s main guide for continuing to develop ASEAN as an investment hub.

This comprehensive approach towards realizing the free flow of investment is likely to be quite successful in boosting investment flows in the region, particularly from within ASEAN, but also from external sources. The increase in investment is likely to be especially large in Myanmar. This is because Myanmar is a frontier market, with great potential that is widely recognized by international investors. However, due to the fact that Myanmar has only recently opened up to the world, many potential investors lack familiarity with the business environment, and other factors, including the still-evolving political and policy climate, particularly after the recent elections (November 2015) which has led to a fundamental change in government. This is likely to cause potential investors to proceed with caution until the business environment and policy directions and priorities become clearer. As a result, while greenfield investment will increase, a lot of foreign companies will pursue partnerships with local Burmese companies—providing financial backing while relying on their partners’ local expertise.

**Financial integration**

The goal of this aspect of the AEC is to achieve “integrated financial and capital markets by 2015”. The reason for this is that a “well-integrated and smoothly functioning regional financial system, with more liberalised capital account regimes and inter-linked capital markets, will facilitate greater trade and investment flows in the region”.

The main guide for financial integration in the region is the Roadmap for Monetary and Financial Integration of ASEAN (RIA-Fin), agreed-to in 2009. In addition to the aforementioned liberalization of financial services, its priorities were capital account liberalization and capital market development. Its focus under capital account liberalization was the “removal of capital controls and restrictions to facilitate the freer flow of capital, including elimination of restrictions on current account transactions and FDI and portfolio flows”. Capital market development, as envisioned by RIA-Fin, means that ASEAN will “build capacity and construct the long-term infrastructure for development of ASEAN capital markets, with a long-term goal of achieving cross-border collaboration between the various capital markets in ASEAN”.

Essentially, by achieving these two goals under RIA-Fin, the AEC would lead to more money flowing more efficiently between countries. The capital account liberalization would allow people or businesses looking to move their money across borders to do so, without restrictions on the amount of money. This will lead to greater total financial flows across borders in the region, e.g. for investment, banking/credit support for businesses. The effects of the capital market

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40 Ibid.
41 Ibid.
42 Ibid.
development, as envisioned within RIA-Fin, would strengthen the individual capital markets of each member country, while creating an integrated capital market in ASEAN. An integrated regional market would allow money to flow more quickly, efficiently and reliably from country to country. This would allow companies to conduct business (including receiving funds) more quickly, and to dedicate fewer resources (financial or labour) to navigate the process. Additionally, these measures would make the region as a whole more attractive to prospective foreign investors. This is because an investment into one country would thus allow it to be a gateway to the entire region, giving the investor the option of taking advantage of region-wide measures and invest in more ASEAN countries, if they identified promising opportunities.

In addition to the RIA-Fin, another avenue in which AEC is pursuing the goal of regional financial integration is the Asian Bond Market Initiative (ABMI). The ABMI has been in place since 2005, and applies to ASEAN+3, which includes China, Japan and the Republic of Korea. Its main interest is in “strengthening bond issuance, facilitating demand, enhancing regulatory regimes, and building bond market infrastructure”.

Although bonds are currently not of great importance to Myanmar businesses, as the country’s capital markets develop, corporate bonds could be a useful tool for firms to raise capital from both domestic and foreign sources. The advantages of bonds as a means to raise capital are that they do not cede ownership like stocks, and that they allow companies to avoid strict conditions for loans that a bank or other lender might impose. However, a corporate bond is essentially a debt that the company must repay to the owner of the bond over a given period of time. It should be noted that higher debt also means higher risk, since in financing through bonds a firm takes on a commitment for fixed payments of interest, in both good and bad times. In Myanmar now, the only bonds are government treasury bonds; there are no means in place for the issuance of corporate bonds. However, as the capital markets develop, Myanmar will become more ready to support a corporate bond market. Furthermore, it has been indicated that a corporate bond market is a priority for financial regulators, and may emerge in the short-term. If Myanmar does indeed proceed with its plans to develop a corporate bond market, the ABMI could provide valuable assistance in supporting and strengthening it, shortening the time required to make the market fully-functional. As Myanmar’s financial sector deepens and diversifies, including through the development of corporate bond markets, firms will also need to become more knowledgeable about financing options, for example to maintain a proper balance between debt and equity, which can vary among sectors and economies.

**Free flow of skilled labour**

The free flow of skilled labour is another policy goal contained in the AEC. The AEC will “facilitate the issuance of visas and employment passes for ASEAN professionals and skilled labour”. This will enable skilled workers to travel to and work in any country in the region.

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more easily. However, at this stage, AEC policies in this area only apply to workers in: medicine, dentistry, nursing, engineering, architecture, surveying, accounting, and the hotel and tourism industry.\textsuperscript{47} Furthermore, any workers seeking to work abroad under these policies must prove their full proficiency in the local language of that country.\textsuperscript{48} Thus, while the AEC policies would, in principle, lead to greater movement of skilled labour throughout the region, in reality the effect may not be that large for Myanmar firms, especially in the near future.

**Intellectual property rights (IPR)**

The AEC plans for intellectual property rights (IPR) focus on IPR’s potential for: fostering greater creativity (and the ability to economically benefit from that creativity), accessing and efficiently utilizing advanced technologies and “continuous learning to meet the ever-rising threshold of performance expectations”.\textsuperscript{49}

In order to achieve these goals, the AEC IPR policy involves a considerable focus on cooperation amongst member states. This cooperation is to take the form of consultations and information sharing across the relevant agencies of member states, greater coordination between ASEAN countries’ intellectual property (IP) offices and particular regional cooperation on issues of traditional knowledge, genetic resources and “cultural traditional expressions”.\textsuperscript{50} (These cultural traditional expressions are the “forms in which traditional culture is expressed”, often through artistic means, but also including, e.g. names, ceremonies and symbols.)\textsuperscript{51}

Additionally, in 1994 ASEAN set up the ASEAN Working Group on Intellectual Property Cooperation (AWGIPC), which comprises ASEAN countries’ IP offices, to deal with issues of intellectual property.\textsuperscript{52} Its work in the lead-up to the launch of the AEC has been guided by the IPR Action Plan 2011-2015. The action plan contains five strategic goals. Strategic goal 1 “focuses on registration, protection, and enforcement of IPRs and the programmes that will enable the region to provide simple and user-friendly protection frameworks, and improve the quality and accessibility of IP services”.\textsuperscript{53} Initiatives under this goal include reducing the waiting time between filing for a trademark and registering the trademark, and “capacity building for patent professionals/attorneys”.\textsuperscript{54} Strategic goal 2 is related to participation in global, widely-recognized IP protection systems. Strategic goal 3 aims to raise awareness and knowledge of IP within the region, to encourage businesses and individuals to innovate and legally protect their innovations. Strategic goal 4 is centred on ensuring that ASEAN is a key dialogue partner in the global discussion around IP. Strategic goal 5 promotes “intensified cooperation among [ASEAN member states] and increased level of collaboration among them to enhance human and


\textsuperscript{48} Ibid.


\textsuperscript{50} Ibid, p.20.


\textsuperscript{52} ASEAN Intellectual Property Portal. (undated). About AWGIPC.


\textsuperscript{54} Ibid, pp.5-6.
institutional capacity of IP [o]ffices in the region”.\footnote{Ibid, p.17.} This should strengthen Myanmar’s IPR system as those working in IP offices become more knowledgeable and better trained. It should be noted that Myanmar’s IPR system and capacity is so underdeveloped, that Myanmar is the only ASEAN country that is not in charge of any of the 28 initiatives within the strategic goals. (These initiatives are listed in Annex 4.)

ASEAN member states have also committed to accede to the Madrid Protocol, as well as any other major global treaties on IPR.\footnote{ASEAN. (2011). p.19.} When a country accedes to the Madrid System, a company from that country that has registered a national trademark can then apply for an international trademark covering all Madrid System member countries. This reduces the time and cost for acquiring the trademark internationally, and allows for that company’s intellectual property to promptly be protected in numerous countries. Currently, the Philippines (2012), Singapore (2000) and Viet Nam (2006) are the only ASEAN signatories of the Madrid Protocol.

**Transport infrastructure development**

The AEC includes provisions for infrastructure development in a number of different areas, including transport, energy, tourism and information/telecommunication infrastructure. The transport infrastructure development initiatives under the AEC include measures to improve physical infrastructure and agreements to improve the speed and ease of transportation between member countries. (See figure 2 for map of major transport infrastructure initiatives in relation to the three designated special economic zones (SEZs) in Myanmar, namely Thilawa, Dawei, and Kyaukpyu.)

**Figure 2: Major transport infrastructure initiatives in Myanmar**
Efficient transportation is essential for achieving expected gains from greater trade and investment through regional economic integration. The AEC incorporates several agreements that aim to improve the transportation of goods within ASEAN. These agreements cover: the facilitation of goods in transit; multimodal transport; and the facilitation of inter-state transport. Their aim is to “simplify and harmonise trade/transport procedures and documentation, formulate
uniform guidelines and requirements for the registration of transit transport and multimodal transport operators, and promote ICT applications for seamless cargo transportation. The result of these agreements will be to smooth and hasten the transport of goods within the region by reducing or removing obstacles to the seamless transportation of goods within the region. Harmonized procedures and documentation, for example, will reduce the time that the transport vehicle must stop at each border or point in the journey. Formulating uniform guidelines and requirements, would also save time and money for exporters, both in preparation and the actual travel, by eliminating the need to identify and meet each country’s specific and unique requirements. Thus, transportation of goods from country-to-country within the region will become faster, smoother and cheaper. Its strategic location, bordering on China and as a land bridge for ASEAN to India and South Asia, makes Myanmar’s lagging domestic and cross-border transport infrastructure particularly important constraints on both domestic development and regional economic integration.

The ASEAN Strategic Transport Plan 2011-2015 recognizes the regional importance of Myanmar, listing a number of priority investments in Myanmar’s transport sector. These include missing links in the Singapore-Kunming Rail Link; the ASEAN Highway Network Project, including required road connections as part of the Greater Mekong Subregion (GMS) programme (e.g. East-West Economic Corridor); and Yangon, Thilawa, and Kyauphyu as three of the 47 main ports in the trans-ASEAN transport network. The next phase of the Plan (2016-2025) was approved by the ASEAN transport ministers in November 2015.

The Singapore-Kunming Rail Link (SKRL) is to be almost 7,000 km in length, connecting Singapore, Malaysia, Thailand, Cambodia, Viet Nam, Lao PDR, Myanmar, and China. Although the SKRL has a large amount of its north-south infrastructure in place (connecting Bangkok to Singapore), missing links include a section between Myanmar and Thailand, which is still being discussed between the two governments; and a section linking China to Myanmar, whose construction has currently stalled, and it is unclear when it will resume. Essentially, Myanmar currently has no SKRL links with any other country, and it is unknown when (or if) these links will be constructed.

However, the Government of Japan has committed to supporting ASEAN connectivity through the development of economic corridors and railway lines. The “Southern Economic Corridor”, a road infrastructure project, is to connect Dawei with Bangkok and Ho Chi Minh City, while the “East-West Economic Corridor” is to create a road link between Mawlamyaing and Da Nang (running through Thailand). These corridors along with the development of railway lines, illustrated in figure 2, should contribute greatly to enhancing connectivity and easing the transportation of goods (or travel of people) between Myanmar, Thailand, Cambodia, Lao PDR and Viet Nam. These regional linkages will likely significantly boost trade between these countries.

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57 Ibid. p.59.
59 Mission of Japan to ASEAN. (2015). Japan’s cooperation towards the AEC.
The ASEAN Highway Network (AHN), an ASEAN initiative, is set to cover 38,400 km, with 23 routes. The major routes are planned to be upgraded to Class I standards by 2020.\textsuperscript{60} In addition to land transport, air and maritime links are also being enhanced; an agreement has been signed committing ASEAN countries to full air-freight liberalization, and ASEAN is working towards a similar agreement for maritime transport.

One of the key outcomes of these projects will be to increase the speed at which goods are transported, both across borders and within Myanmar as well. As a result of the increased speed of land transport and the improved road (and possibly rail) conditions, businesses will be able to move greater quantities of goods more efficiently to their destination markets. Additionally, with faster travel and more direct routes, businesses will be able to save money on transportation—for example from decreased expenditure on truckers and fuel. Another key outcome of these land transport projects is new options they will provide for companies to transport their goods to markets where no viable options existed before. For example, the East-West and Southern Economic Corridors will create high-standard, direct road connections between Dawei SEZ and Bangkok, as well as Da Nang and Ho Chi Minh City, making fast, cheap transport of goods between these centres a reality.

**ICT infrastructure**

ASEAN is also determined to increase and improve member countries’ access to information and communications technology (ICT). Its primary vehicle for doing so is the e-ASEAN Framework Agreement, whose objectives include: to “develop, strengthen and enhance the competitiveness of the ICT sector in ASEAN”; “reduce the digital divide within individual ASEAN Member States and amongst ASEAN Member States”; and to “promote the liberalisation of trade in ICT products, ICT services and investments to support the e-ASEAN initiative”.\textsuperscript{61}

There are a number of other ASEAN initiatives with similar goals of promoting and enhancing the use of ICT, and improving its quality within the region. Of particular importance is the ASEAN ICT Masterplan (2011-2015). It includes “key initiatives on ASEAN Broadband Corridor, ICT Skills Certification, harmonisation of ICT regulations, international roaming charges, cyber security, universal service, digital content, and e-services, etc.”\textsuperscript{62} With this suite of measures, the ASEAN ICT Masterplan and related initiatives would help improve access and quality, and decrease costs, for the use of ICT throughout the region.

These measures, when taken together, should help support the ICT sector in Myanmar, essential for modern business; and which is underdeveloped compared to its peers in the region. This should improve both reliability and coverage of the services — allowing a greater proportion of Myanmar’s population and businesses to have access to ICT services. However, while ASEAN is seeking to strengthen ICT in the region, improvement in Myanmar is to a large extent dependent on the country’s own efforts to upgrade domestic infrastructure and promote ICT use. In this context, as a result of Myanmar’s sectoral liberalization initiatives, two international

\textsuperscript{60} Ibid.

\textsuperscript{61} ASEAN. (2011). p.61.

\textsuperscript{62} Ibid.
companies, Ooredoo (a Qatar-based wireless carrier) and Norway’s Telenor Group have been granted telecommunications licenses. In addition, the World Bank is supporting Myanmar’s telecommunications sector reform project aimed at improving the enabling environment in the telecommunications sector, including a focus on coverage in rural and remote areas.

Energy infrastructure

The AEC includes plans to enhance energy cooperation and upgrade energy infrastructure. The policies will serve primarily to “enhance energy security and sustainability for the ASEAN region” in order to “support and sustain economic and industrial activities”. There are two major initiatives. The Trans-ASEAN Gas Pipeline (TAGP) is still in its initial stages, but is planned to ultimately lead to “the construction of 4,500 km of mainly undersea pipelines”. For the, second, the ASEAN Power Grid (APG) project, construction is underway, and this will eventually lead to the creation of extensive energy interconnections between countries in the region (table 2). These are complemented by domestic developments in Myanmar, in particular by the proposed National Electrification Plan, aimed at achieving universal access to electricity by 2030. This is especially important for Myanmar’s businesses, since while the country has significant and diverse energy sources, its electrification rate and electricity consumption are among the lowest in the world, with the urban-rural gap especially pronounced. Therefore, AEC and Myanmar’s initiatives in energy will help contribute to domestic development through cheaper and more widely available power; and support ASEAN regional integration.

Table 2: ASEAN power grid integration

<table>
<thead>
<tr>
<th>Status of ASEAN Power Grid projects (as of October 2015)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing</td>
<td>11 cross borders</td>
</tr>
<tr>
<td></td>
<td>Total power: 3.489 MW</td>
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<tr>
<td>Ongoing</td>
<td>10 cross borders</td>
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<tr>
<td>(to be operated in 2018/2019)</td>
<td>Total power: 7.192 MW</td>
</tr>
<tr>
<td>Future</td>
<td>17 cross borders</td>
</tr>
<tr>
<td>(beyond 2020)</td>
<td>Total power: 25.424 MW</td>
</tr>
</tbody>
</table>


E-commerce

65 ASEAN. (2011). p.3.
The AEC Blueprint includes provisions encouraging the development of e-commerce in the region. This is mainly through the encouragement of harmonized regulations and policies (in particular regarding dispute resolution and mutual recognition of digital signatures), in addition to the development of a “common framework” to form the basis for recommended best practices and guidelines.70

**ASEAN’s integration into the global economy**

ASEAN’s integration into the global economy is the externally-focused component of the AEC. It aims at improving ASEAN’s position with regard to attracting foreign investment and increasing ASEAN’s prominence as a major exporter. In order to achieve these ends, ASEAN is engaging in economic agreements with major trading partners as the nexus. This has primarily taken the form of free trade agreements (FTAs) and comprehensive economic partnerships (CEPs), which are designed to share many of the benefits of the AEC with economic partners outside ASEAN. For example, the FTAs and CEPs involve tariff liberalization and are based on ATIGA, ACIA and other AEC agreements.71 The partner countries comprise economically-developed countries (Australia, Japan, the Republic of Korea and New Zealand), as well as less-developed but very large economies (China and India). Furthermore, there are initiatives aimed at increasing ASEAN enterprises’ involvement in global value chains through the integration of business best practices and through technical assistance directed towards ASEAN’s less developed members.72

**Box 1: OECD/ESCAP/UMFCCI business survey in Myanmar**

OECD, the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), and the Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI) jointly carried out the first-ever nationwide business survey in Myanmar in 2013 and 2014. The survey covers all the States and Regions of Myanmar and almost all industrial sectors. The survey conducted on-site interviews with more than 3,000 firms that operate in Myanmar.

Among the 34 choices of major obstacles to the current operations of the firm (ranging from infrastructure issues to human and institutional capital), corruption was identified most frequently as a very severe obstacle. Although corruption can be present in various aspects of economic transactions and interactions with public authorities, a particular question inquired about the below-the-table payments required to register a firm or to get a business licence or a permit. While 40 per cent of firms found it not necessary to pay above the officially required fees for registration, half of the respondents calculated the amount of extra payments for registration, license or permit to be MMK 500,000 or less (equivalent to slightly above USD 500). There were approximately a dozen respondents who assessed the required extra payments as exceeding MMK 10 million (over USD 10,000). Other serious bottlenecks to firms’ current operations are the lack of skilled labour and lack of technology. Access to land, factory or office space also appears to constitute an important barrier to operations, as does political instability.

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The next group of issues in the ranking relate to financing, which indicates difficulties in accessing to financing and high interest rates. Electricity supply, which is often cited as a bottleneck to any activity in developing countries, not just business, surprisingly ranks below corruption, skills and financing issues. Some aspects of institutional capital, including the protection of intellectual property rights, taxation, business and labour regulation and administrative procedures all appear at the very bottom of the ranking of the major obstacles to business operations.

Finally, an explanatory factor analysis and theoretical background indicate that those obstacles for business in Myanmar can be broadly categorized into six groups, namely:

1) Corruption
2) Access to financing
3) Access to markets, labour, supplies, and technologies
4) Regulations and taxation
5) Infrastructures and utilities
6) Conditions for international business


Summary

Notable progress has been made toward the AEC becoming a single market and production base, although there is still a long way to go. Tariffs have been substantially reduced, facilitating intra-ASEAN trade in manufacturing and agricultural goods. Although some progress has also been made in trade in services, this is proving to be more difficult to implement, given powerful national interests. Slow but steady progress is being made in liberalizing investment and capital flows, including through the signing of the ASEAN Comprehensive Investment Agreement (ACIA). Implementation of a key trade facilitation initiative addressing non-tariff barriers, the National Single Window (NSW) programme is progressing, though at varying pace, given the different levels of development of the ASEAN economies, and will contribute significantly to reducing trade-related time and costs. There is also progress in the implementation of various ASEAN infrastructure connectivity agreements, including in cross-border transport, energy and ICT. These diverse AEC policies and related initiatives will have significant impact, individually and collectively, on ASEAN firms’ business strategy, operations and performance.
Section II: How the AEC Policies Will Affect Your Business

Attracting customers and making them satisfied

The implementation of the ASEAN Economic Community or AEC will provide Myanmar businesses the opportunity to reach a greater number of customers, including household consumers, as well as suppliers. In addition to expanding the overall potential customer base, the AEC is likely to affect customers’ buying patterns, creating new opportunities, while presenting new challenges to which local businesses will need to adjust.

Another major development in Myanmar, occurring in parallel with the realization of the AEC, will be the creation of special economic zones (SEZs) and industrial zones in various locations throughout the country, including Thilawa, Kyaukpyu, and Dawei (see figure 3). An SEZ strategy focuses on strengthening the business environment in specific protected settings to compensate for existing constraints in the wider domestic economy such as gaps in physical infrastructure and distorted business environment. Given Myanmar’s enormous promise for economic growth and development, but considerable constraints at this stage, these SEZs have tremendous potential to attract significant investment to the zones and surrounding areas, which would unlock a new and large customer base for businesses prepared to expand operations to those areas.

Figure 3: Special economic zones (SEZ) and industrial zones in Myanmar

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73 This section, by necessity, involves some overlaps in the discussion of various topics given the multidimensional impacts of ASEAN initiatives. Attempts have been made to minimize repetition, but to some extent it is unavoidable. For example, improved infrastructure can have an impact on price, market access, procurement, e-commerce, production process, and access to finance, to name just a few.

74 Industrial zones have been developed mainly for local manufacturers which target domestic markets (OECD, 2014).
Seizing the opportunity of an expanding market

The AEC can lead to a greater number of potential customers for Burmese businesses. For many Burmese businesses, SMEs in particular, that are not yet ready to sell abroad, the increased potential customers will likely be primarily new business clients seeking competitive suppliers within the framework of regional and global value chains, such as garments, electronics and...
agro-industry.\textsuperscript{75} This would be caused by the AEC’s initiatives to develop a single market and production base, including provisions on enhancing the free flow of goods and investment. Strengthened intellectual property rights (IPR) protections would also encourage greater interest from foreign companies in Myanmar, as will free trade agreements (FTAs) and comprehensive economic partnerships (CEPs) with countries beyond ASEAN’s borders. Additionally, measures to improve transport and information infrastructure could help attract not only businesses as buyers, but also new customers looking to make purchases for personal consumption.

A key overall impact of the AEC policies promoting the single market and production base will be that companies from other ASEAN countries will have easier and cheaper access to the products of Burmese businesses. These foreign businesses would be interested in purchasing Burmese goods for use as inputs into the final products that the foreign companies sell. When targeting Burmese goods, the foreign companies would most likely be attempting to secure their inputs at lower prices, while in other cases it may be an attempt to access resources that are unique to Myanmar. For example, the expansion of sourcing by Thai-based businesses in the electronics value chains to Viet Nam and Cambodia, including relocation of lower cost/lower skill activities in this and other value chains such as garments, provide suggestive examples for Myanmar business.\textsuperscript{76}

Tariff liberalization enhances foreign companies’ access to Burmese goods by making such goods relatively cheaper, since tariffs are eliminated or greatly reduced. It is particularly advantageous to Burmese businesses that the greatest tariff reductions have occurred in the most economically powerful ASEAN countries. This is because the more-developed ASEAN-6 countries have more of the large firms that would be the major regional buyers of intermediate goods for use as inputs. As a result, these large firms will be more likely to investigate Burmese businesses as potential suppliers, as reflected in the example of Thai-based firms, including leading global competitors from countries such as Japan and the Republic of Korea.

The reduction of non-tariff barriers to trade will have a similar overall effect, making it cheaper and easier for foreign (ASEAN-based) companies to source more Burmese goods. The removal of quotas, for example, could mean that a foreign firm that was limited before could now source more intermediate goods to use in all their products, or that a foreign firm could now import the Burmese goods in high enough quantities to make it worthwhile for the firm. The removal, or easing, of quality standards could mean that an entirely new set of products can now be imported as inputs by a foreign business in a country which previously maintained quality standards that were too high for such imports. The main effect of the elimination of permit requirements will be to effectively make it cheaper and easier for foreign companies to import Burmese products as the cost and complications of obtaining the permit will no longer factor into a good’s price and sourcing process.


The AEC policies on rules of origin (ROO) should also expand the potential market for Burmese goods within ASEAN. This is especially true since the rules will be regularly updated to support the expansion and strengthening of “regional production networks”—meaning companies from ASEAN countries buying inputs from other ASEAN countries. In this context, developing the capability for self-certification (e.g. with respect to safety standards for relatively simple products with low risks) could also reduce costs for exporting businesses, and allow them to respond more quickly to the ASEAN-wide market for their goods.

With the ASEAN Trade Repository (ATR), information about trade rules and regulations would be widely and easily available to Burmese exporters and foreign importers. This means that when a Burmese and foreign business conduct trade, they can both save on money and time they otherwise would have spent researching all of the regulations. This could make the Burmese goods more price-competitive with similar goods produced in the foreign company’s home country. Additionally, simply the ease of access to so much information on trade regulations could make it easier for foreign companies to explore potential sourcing within Myanmar.

The ASEAN Comprehensive Investment Agreement (ACIA) is designed to increase the free flow of investment throughout ASEAN. This will make it easier for foreign investors to invest in sectors or industries that they perceive to have high potential in Myanmar—for example, the hotel industry. In some cases, this will take the form of foreign direct investment (FDI), where outside investors see potential in a local business and invest in it, expanding its operations. As well as bringing more money to selected firms, investment by richer foreign companies could help to grow the overall domestic market for some consumer goods and services. For example, if a wealthy foreign company invests in developing the market for a certain type of good, such as processed dairy products, it might spend heavily on related advertising. As a result of this advertising, awareness of, and interest in, that foreign company’s brand would certainly increase. However, interest in processed dairy products in general could increase as well. This could lead to many new customers interested in buying such products, including from local competitive producers.

For Myanmar, improved IPR protection could encourage companies based in other ASEAN countries to sub-contract the production of components/parts to local businesses. Because intellectual property “creation, commercialisation, and protection have been a significant source of comparative advantage of enterprises and economies and hence a major driver of their

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77 The ASEAN Trade Repository (ATR) is an online resource that consolidates information useful to businesses wishing to export or import within ASEAN, in particular, information about laws, regulations and procedures on trade. The ATR can be found at: http://atr.mnconcept.eu/.
78 The ASEAN Comprehensive Investment Agreement (ACIA) is ASEAN’s guiding document for creating an open investment regime in ASEAN, in accordance with the goals of the AEC. Its purpose is to foster greater liberalization of investment, protection of investors, transparency of procedures and promotion of investment within ASEAN. The text of the ACIA can be found at: http://www.asean.org/images/2012/Economic/AIA/Agreement/ASEAN%20Comprehensive%20Investment%20Agreement%20%20ACIA%202012.pdf.
competitive strategies”,

companies will go to significant lengths to safeguard their intellectual property. Thus, without adequate protections in place, in the form of policies and regulations, firms are likely to be more cautious about giving away proprietary information to external parties. As Myanmar, along with the rest of ASEAN, implements improved IPR protections, firms will be more confident in hiring sub-contractors to produce parts for their products, with less fear and risk of their ideas being stolen and copied without punishment. Consequently, Burmese businesses that can produce such parts and components could see an increase in demand from abroad.

The AEC includes, as noted, a number of land transport infrastructure initiatives that will enhance connectivity between countries in the region. The result of this enhanced connectivity could be that Burmese businesses will have access to a greater number of local customers, both household consumers and businesses sourcing product inputs. As roads are upgraded, and quality rail travel evolves as a viable means of transport, potential customers can travel farther and more quickly. This means that businesses that were once geographically too far away for many customers could expand their customer base. However, while this can be a significant opportunity for businesses that are competitive in quality and price (particularly those situated in urban centres), this greater ease and speed of travel for customers could also pose a threat for businesses (especially in more rural or remote areas) that produce relatively expensive or less desirable goods and services since substitutes would now be more easily accessible.

In addition to the internal changes, ASEAN is also pursuing free trade agreements and economic partnerships with major trade partners outside the region. The effect of these agreements will be to make it similarly cheaper, easier and more convenient for large firms and consumers from partner countries to become customers of Burmese businesses. The potential to attract major firms from these partner countries represents a tremendous opportunity for Burmese businesses.

**Box 2: Apparel and garment value chains**
The apparel and garment value chains provide an example of potential opportunities for Myanmar businesses as suppliers, resulting from the various AEC trade- and investment-related initiatives, coupled with the lifting of European and American export sanctions. This has historically been a key industry, driving the export-oriented development of Asian emerging economies, given the opportunities it provides for low-cost and low-skill labour-intensive activities for international markets. It also provides opportunities for adding value (“moving up the value chain”) over time, as has been the case of firms in Taiwan Province of China; Hong Kong, China; and the Republic of Korea. In Myanmar this sector is still limited in size and is in its early stages, comprising mostly low value and low skill “Cut, Make and Package” (CMP) activities, involving the basic production of garments; however, there is considerable potential for business expansion and diversification. Rising costs in countries such as Thailand, Viet Nam, and China also make Myanmar increasingly attractive for relocation of activities in the lower end of the garment value chains, for regional and global markets. This would provide opportunities for Myanmar firms to expand the scale of CMP activities; add value over time as firms build up increasing capabilities and the Myanmar business environment strengthens, as in the case of

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Adapting to changing customer preferences

The AEC policies outlined above are likely to expand the potential customer base for many local businesses, but they could also affect the preferences of customers, forcing Burmese businesses to adapt to these changes. The major effects on local businesses’ customer preferences are likely to come from ASEAN Trade in Goods Agreement (ATIGA), and from a similar agreement on services, the ASEAN Framework Agreement on Services (AFAS). There could also be some impact from the policies on IPR and infrastructure development, as well. The potential changes in customer preferences might be seen in local household consumers, local companies, and foreign companies.

Local consumers

The liberalization of tariffs, combined with the other measures encouraging free trade in goods and in services, could cause local households to demand higher standards in their purchases. This is because many higher quality goods and services from abroad will become more widely available, and at lower prices. With greater exposure to better-quality and affordable products, local customers might be unwilling to purchase the locally-made products they then regard as being of an inferior standard. In addition to higher standards, consumption patterns are also likely to change as a result of wider choice. For example, as in other emerging economies (such as India), dietary patterns may evolve from the consumption of milk to processed fresh dairy products, which in turn require refrigeration, and therefore increasing demand for refrigerators – and an expanding electricity grid to power them.

Local businesses

The effect on local businesses could mirror the effect on household consumers. Burmese businesses that traditionally used inputs purchased from other Burmese businesses could now have access to higher quality goods made by foreign companies. This greater access could be from increased availability due to the reduction in non-tariff barriers, or it could be from greater affordability resulting from the reduction in tariffs and other associated costs. In any case, local businesses might adjust their products/services or production techniques, and start to rely on the higher quality goods from abroad, becoming unwilling to buy any locally-produced goods that do not meet these new, higher standards. In addition, more demanding domestic consumers are likely to put pressure on Myanmar businesses to improve the quality and selection of their products and services in order to remain competitive with the new entrants – foreign firms. This, in turn, could also strengthen the potential of Myanmar firms for internationalization by improving their capacity to provide competitive export products and services.

Foreign businesses as buyers

At this stage, Myanmar remains one of the most underdeveloped countries in the region (and is by far the biggest among the least developed countries, or LDCs). Due to the lower standard of living in Myanmar, combined with its vast resources and workforce, as well as its strategic geographic location, the country is likely to attract a significant interest from foreign businesses looking to source low-cost components/parts.\textsuperscript{82} It is possible that if this effect is very large (i.e. many foreign companies seeking low-cost Myanmar-made goods), this will affect the overall perception of the country in the international business community, leading to the country being seen primarily as the producer of cheap (and low-quality) goods. This could result in local businesses being locked into low-profit-margin production, as well as causing some potential investors to underestimate and overlook Myanmar firms’ potential as suppliers.

In this context, it appears that Myanmar’s reputation is lagging among consumers in other ASEAN countries. In a 2013 survey on the subject of the AEC, marketing firm JWT found that out of all 10 member states, ASEAN consumers were least likely to buy products from Myanmar (figure 4).\textsuperscript{83} Furthermore, when questioned on the reasons for such consumption preferences, the overwhelming response was “quality”.\textsuperscript{84} While the survey specifically targeted individual consumers rather than businesses, the results show that at this time products from Myanmar are generally poorly regarded. This is an obstacle that all Myanmar businesses will need to strive to overcome if they hope to do business elsewhere in the region.

\textbf{Figure 4: ASEAN consumers’ likelihood to purchase from each ASEAN country}

![Figure 4: ASEAN consumers’ likelihood to purchase from each ASEAN country](image)


\textsuperscript{83} J. Walter Thompson (JWT). (2013). \textit{ASEAN Consumer Report: ASEAN Consumers and the AEC.}

\textsuperscript{84} Ibid, p.25.
To combat this perception, individual Myanmar businesses will need to work hard to show that their products are of internationally-acceptable standards. The most important and straightforward, if operationally challenging, way to do so is for a business to focus as a priority on making sure its products are of high quality. This can work to both maintain a loyal customer base and benefit from word-of-mouth. As domestic consumers become more demanding, Myanmar firms will have to adjust accordingly, in the process also strengthening their potential for export to international markets. It is also important for businesses to find a means of signaling their improving quality to new, unfamiliar consumers. One way to do so is to obtain certification from an internationally-recognized body—for example, the International Organization for Standardization (ISO).

Furthermore, as individual firms strengthen their capacity to provide higher quality competitive products and services, collaboration among firms in a given value chain can provide significant additional benefits to such firms on regional and global markets. This is the concept of a cluster that allows firms, particularly SMEs, to collaborate to compete, including enhancing their attractiveness as potential suppliers to international buyers from both within and outside ASEAN. For example, as individual garment producers improve their capacity to compete on the basis of price and quality, they can collaborate in “marketing Myanmar” as an attractive location for sourcing and investment for the industry, e.g. “Myanmar as your strategic base for garment production”.

Summary

The AEC policies hold significant potential for Burmese businesses ready to sell to other businesses based in countries either within ASEAN, or that have major trade agreements with ASEAN. As trade is liberalized, Myanmar could become even more competitive in an area where it already holds some advantage: price. This could draw many companies from both within ASEAN and beyond to look to buy from Burmese businesses. However, Burmese businesses that sell to locals—both household consumers and other businesses—might struggle as they see their goods and services become seen as relatively less attractive compared with the foreign-made goods and services that enter the market.

In general, Myanmar businesses can strengthen their competitive performance in stages. In the first stage, firms can improve their capacity to compete on the domestic market, including by responding to more demanding consumers who now have wider choices, given the entry of foreign enterprises, and also as suppliers to foreign firms producing for the domestic market. As their capabilities improve, Myanmar businesses can increasingly target export markets, both as suppliers to international buyers and directly to final consumers in the region and beyond.

**Staying ahead of the competition**

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The fostering of an economic environment more open to foreign competition is one of the core aspects of the AEC. The purpose of reducing barriers to foreign companies is to help to “encourage competition in [member states’] domestic market[s] and ensure higher quantity and quality of supply” within those markets. Implementation of various policies associated with the AEC, combined with the ongoing political and economic reforms in Myanmar and the growing interest of the international business community in the potential of Myanmar, will lead to greater competition from abroad (and domestically) within the Myanmar economy. New foreign competitors from within and outside the region are likely to enter markets for all types of goods and services.

In addition, as AEC policies are fully implemented and the Myanmar economy changes, local companies are likely to experience also greater competition from domestic businesses. This will occur as AEC policies will strengthen some Myanmar businesses more than others, while simultaneously enhancing all companies’ ability to compete in more locations across Myanmar.

Staying ahead of foreign competitors

Many of the foreign entrants are likely to have a natural advantage over domestic firms, as Myanmar significantly lags all other ASEAN economies in terms of country-specific factors that affect business competitiveness (see figures 5 and 6). Simply put, Myanmar businesses, especially SMEs, may find it difficult to compete with foreign rivals on price and/or quality of goods and services.

However, while figure 5 does show a stark difference between Myanmar and other countries in the region, there are factors that mitigate the negative implications for local businesses. First, many of the factors that negatively affect local businesses will also affect foreign competitors that invest in, or export to, Myanmar (e.g. the relatively low level of domestic infrastructure will also make it difficult for foreign firms to efficiently transport their goods). Second, Myanmar is developing rapidly, and many of these areas (e.g. infrastructure or technological readiness) should improve substantially in coming years. This, combined with the fact that many foreign businesses are still hesitant to invest in Myanmar (many foreign companies have been waiting to assess the level of political stability and policy priorities after the 2015 elections), means that conditions should help local businesses become more competitive by the time they have a large number of foreign rivals in the local market.

Figure 5: The ranking of ASEAN countries in its Global Competitiveness Index 2013-2014 (out of 148 countries)

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88 OECD. (2014).
### Figure 6: ASEAN countries’ scores in the Global Competitiveness Index 2014-2015 (out of 7)

<table>
<thead>
<tr>
<th>Country/economy</th>
<th>Basic Requirements</th>
<th>Efficiency Enhancers</th>
<th>Innovation and Sophistication Factors</th>
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<td>Viet Nam</td>
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<td>82</td>
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<td>Lao PDR</td>
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<td>63</td>
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<tr>
<td>Cambodia</td>
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<td>91</td>
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<tr>
<td>Myanmar</td>
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The overall effects of the ASEAN single market and production base, and its associated policies, will be to greatly enhance the flow of products throughout ASEAN member states. The liberalization of tariffs and elimination (or reduction) of non-tariff barriers will enable companies to sell their products in neighbouring countries more cheaply than before, as they will no longer need to pay import duties and will save money in complying with various regulations. (These costs of complying with non-tariff barriers include: costs in the production process of the product to ensure compliance, human resource costs to research the regulations and procedures and the costs of applying for permits and completing documentation.) Furthermore, the easing of restrictions on the types of goods allowed into the various ASEAN member states will mean that a greater variety of products will be traded within ASEAN.

There are other policies associated with the ASEAN single market and production base, noted earlier, that will make it easier for companies to conduct business in different countries within the region. The ROO improvements should ensure that a greater number of ASEAN-based businesses are able to take advantage of the tariff and non-tariff benefits detailed above. Additionally, the planned enhancements to streamlining and alignment of ROO procedures should reduce both the time and the cost of related compliance. Businesses that are considering selling their products abroad will be able to save time and costs by accessing the ASEAN Trade Repository (ATR), which will include all the relevant information on regional trade regulations and procedures. The cost and time savings, combined with the increased ease of exporting will increase businesses’ propensity to export their goods. Enhancing customs procedures within the region will, as mentioned, increase the speed at which products and equipment can cross borders. Faster shipment of goods to different countries would benefit exporting businesses in a number of ways: it would be a tremendous aid to the export of perishable items; it would allow exporting businesses to react more quickly to changes in the destination markets; and it would improve a company’s ability to manage and/or participate in regional and global value chains. The effects of the ASEAN Single Window (ASW), when fully implemented, will reinforce the effects of other policies outlined above. The implementation of the national single windows (NSWs), and subsequent integration into the ASW, will reduce the time, effort and cost required to comply with trade procedures and regulations, while also permitting goods to be shipped more quickly.

The key outcomes of the ASEAN initiative on IPR, once fully implemented, will be that companies seeking to safeguard their brands and innovations will be able to do so more quickly and efficiently and will need to dedicate fewer resources to obtaining this protection, while national enforcement of IPR will be improved. This will lead companies to be more likely to enter into ASEAN countries’ markets. The greater ease and reduced cost of protecting their IP will reduce companies’ barriers to exporting and allow them to sell at more competitive prices. Stronger and more vigilant protection of IP will encourage foreign firms to export because of the reduced fear that their products would be copied by local competitors. Thus, Myanmar is likely to see more foreign products enter the country, particularly high value added products that are likely to embody greater investments in innovation.

The development of new transport infrastructure, such as the highway network (and its associated road upgrades), the East-West and Southern Economic Corridors, as well as the Singapore-Kunming Rail Link in the future, will yield significant advantages for companies
around the region, and likely to increase the relative attractiveness of Myanmar to foreign firms. Regarding the scale of their impact, the Economic Research Institute for ASEAN and East Asia, or ERIA, has stated that “[t]he ASEAN Highways and SKRL network when completed will serve as the main skeleton of land transport for the region.”90 These major infrastructure projects are expected to enable companies to transport their goods faster, transport a greater volume of goods, and allow them to access new markets. The greater speed of transport will assist foreign firms in being more responsive to the market, in addition to increasing the variety of goods that could be shipped (e.g. perishable food products from farther away). Thus, the net effect will be that foreign companies can increase significantly their presence in Myanmar, and engage with local consumers in an efficient and well-targeted manner.

As the physical infrastructure projects will boost the potential ability to transport goods faster and more efficiently, the agreements on the facilitation of goods in transit, multimodal transport and the facilitation of inter-state transport will ensure that companies are able to use the land infrastructure, as well as air and sea transport, more efficiently. As these agreements reduce the barriers to transporting goods, the effects for exporting companies will be: reduced time to transport goods across borders, reduced overall cost to transport those goods and greater control over their goods in transit. In short, this will encourage more competitors to enter the Myanmar market and enable current exporters to increase the volume and reach of their exports. Additionally, these foreign firms will be competitive with domestic sellers due to the reduction in costs to export and the increased ability to respond quickly to market changes.

It should be noted, however, that the AEC’s goals for the development of physical infrastructure are unlikely to be realized within the short-term, particularly for Myanmar. Rather, these changes are likely to occur over a longer timeframe. Thus, the greater effect will be from the transport agreements. These different timeframes also mean that Burmese businesses will see a more gradual impact, and have a better opportunity to adjust to the changes.

The AEC measures to promote and improve e-commerce are unlikely to have a very large immediate impact; however, they will still help to make e-commerce easier for companies looking to sell abroad. Adoption of best practices should mean that national policies are more business-friendly; better dispute resolution services will reduce the risk of selling (or buying) online; and mutual recognition of digital signatures and harmonized policies will reduce the cost and simplify the process of intra-ASEAN e-commerce.91 Furthermore, these policies, particularly dispute resolution, could give local Myanmar consumers—both households and businesses—the confidence to begin buying from foreign companies online. These e-commerce policies should then lead to a greater flow of goods into Myanmar from foreign-based businesses. Foreign companies that choose to heavily pursue e-commerce will gain a further benefit of being able to potentially enter the Myanmar market without needing to spend money on local offices or employees. However, a business choosing to follow this model would be reliant on progress being made with respect to the transport infrastructure improvements outlined above, to ensure that their products can be transported efficiently and reliably, and that the ICT infrastructure

essential for e-commerce is in place. While Burmese businesses will also benefit from e-commerce, foreign companies are likely to have an advantage from the higher number of workers with ICT expertise at their disposal, and generally greater experience with e-commerce.

Economic cooperation agreements of ASEAN with economies outside the region, such as free trade agreements (FTA) and comprehensive economic partnership agreements (CEP), will also have an impact on Myanmar’s domestic market. These agreements all work to reduce barriers to trade by liberalizing tariffs, easing restrictions on the trade in services, and, in the case of some agreements, establishing rules of origin (ROO) and investment facilitation measures. Therefore, the expected effects of these agreements on Myanmar businesses will be similar to the anticipated effects of the ASEAN single market and production base. As companies from outside ASEAN can sell their products to ASEAN members without additional costs or restrictions, Burmese businesses can expect more both cheaper and higher quality goods and services coming into the domestic market. This effect is likely to be quite large due to the nature of ASEAN’s FTA and CEP partners, which are either very developed economies (Japan, Republic of Korea and Australia-New Zealand) or very large emerging economies (China and India).

Competing with local companies

With the implementation of the AEC, businesses in Myanmar will likely face increased domestic competition strengthened by the effects of AEC policies. In general, these effects can be grouped into two main categories: i) local competitors strengthened by partnership with, or investment from, foreign companies; and ii) local competitors being able to more easily expand their operations into new geographical locations within Myanmar. The first effect will come mainly as a result of policies leading to the freer flow of investment. The second effect, wherein Burmese companies can expand to new domestic markets, will come about as transportation, energy, and information infrastructure improve, reducing the costs of selling to customers farther away.

Given the existing interest in Myanmar, these investment flows have the potential to be quite large and extensive, and will therefore have the potential to significantly affect the competitive market structure in many industries, or to further exacerbate the disparities in industries already dominated by a few firms. The Burmese companies that receive foreign investment will benefit from being able to augment the volume of their supply of goods or services, they may be able to access technology that would allow them to produce more cheaply or to upgrade their goods or services. In some cases, partnering with a large foreign firm could enable them to sell globally-recognizable brand name products with mass appeal. The businesses that are unable to attract foreign investment, but whose local rivals succeed in doing so, will face greater difficulty trying to compete in the domestic market.

Infrastructure development

The development of land transport, information infrastructure, and electricity will play large roles with regard to increasing the competitive performance of Burmese businesses in the context of the AEC and beyond. Myanmar is lagging behind its regional peers in all these areas, requiring significant investments and upgrading. The logistics and general infrastructure gap is presented in figure 7; the limited access to electricity in figure 8; and the scale of the digital
divide is indicated in table 3. These reflect the significant shortcomings and constraints for businesses in Myanmar, and therefore investment requirements in business- and trade-related infrastructure. As touched on earlier, AEC initiatives in all these areas will contribute to Myanmar closing this gap.

**Figure 7: Logistics performance and quality of infrastructure (2014)**

![Logistics performance and quality of infrastructure (2014)](image)


**Figure 8: Electricity use per capita in selected ASEAN countries (2011)**

![Electricity use per capita in selected ASEAN countries (2011)](image)


**Table 3: ASEAN fixed telephone subscriptions per 100 people (2013)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Subscriptions per 100 people</th>
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<tbody>
<tr>
<td>Singapore</td>
<td>36.35</td>
</tr>
<tr>
<td>Malaysia</td>
<td>15.26</td>
</tr>
<tr>
<td>Brunei Darussalam</td>
<td>13.58</td>
</tr>
</tbody>
</table>
Indonesia & 12.30 \\
Lao PDR & 10.37 \\
Viet Nam & 10.13 \\
Thailand & 9.04 \\
Philippines & 3.20 \\
Cambodia & 2.78 \\
Myanmar & 1.00 \\


The land transport policies have been outlined earlier, but the key aspects will be the ASEAN Highway Network and the upgrading of roads. Information infrastructure development is guided by the e-ASEAN Framework Agreement, whose goals include increased competitiveness of the ICT sector in ASEAN, the reduction of the “digital divide” between and within member countries, and greater liberalization of the trade in ICT products and services.\(^{92}\) The ASEAN Power Grid (APG) will contribute to increased availability of power for Myanmar businesses.

Taken together, these infrastructure development policies and initiatives should enable Burmese businesses to expand their reach within Myanmar, and beyond its borders. By improving roads linking major cities in Myanmar, the AEC could enable businesses to transport their products more quickly and more cheaply. This means that businesses that traditionally operated only in one city or region could expand to serve more locations, while businesses that already have a nationwide presence could scale-up their presence in the various parts of the country. The ultimate effect would thus be the potential for an increased number of businesses present in each of the major markets in the country.

If the e-ASEAN Framework Agreement can achieve its goals, the improved information and communications infrastructure would also enhance the ability of Burmese businesses to compete effectively in new locations. This would in large part be due to the improved capacity for logistics management, allowing businesses to better communicate with the various channels, and more precisely managing distribution and point of sale operations. Furthermore, improved information infrastructure would allow businesses to better market their products or services in locations where the business has no actual physical presence. Given the ICT realities within Myanmar, initially this would primarily apply to businesses marketing either to wealthier households, or to those engaging in business-to-business sales. Thus, with the possible improvement in the ability to market what they are selling, coupled with the improvement in managing how the product or service reaches consumers, businesses would have a greater opportunity to sell in new locations. For businesses that do not take advantage of this, however, the major effect would probably be a greater number of competitors emerging within their market.

**Branding**

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With the entry of foreign firms and the intensified domestic competitions, the Myanmar market for a great variety of goods and services will become much more crowded with sellers. For many businesses, it will be important to place an increased focus on their branding, so that they can stand out in this increasingly crowded and competitive market. Developing a brand presence is an important form of business model innovation, redefining the nature of the business to its customers. Effective branding will help businesses by making them, and their products or services, more easily recognizable to consumers and more memorable. That is, consumers who purchase a particular business’s product or service, including for the first time, will be more likely to remember the business and, if satisfied by the product/service keep buying from that business. Furthermore, a business whose branding strategy targets a certain type of consumer, given potentially better knowledge of domestic buyers as compared with foreign entrants, might be able to increase its appeal and therefore sales to this segment of the market.

There are various means by which a business can pursue branding. One is the use of a “trade name”, the name that a business calls itself when selling its products/services. It might choose a slightly different name than the one under which it is legally registered in order to sound more appealing or more memorable to customers. Another option to make a business more immediately recognizable, or to help it stand out, is to create a trademark. A trademark is a design, symbol or slogan that is associated with a particular business and/or its products/services. When done successfully, a trademark can be very powerful for a business—for example, Nike’s “swoosh” symbol, and the McDonald’s “golden arches” in the shape of the letter “M” are instantly recognizable to consumers worldwide and hold their own unique allure. In principle, Myanmar businesses should be in a stronger position to understand the domestic market for developing effective trade names and trademarks, as a way of differentiating and increasing the relative appeal of their products and services. However, they are likely to lag foreign firms in branding and marketing skills—areas where they can learn to strengthen their competitive position in the domestic market, and over time, to compete more broadly within AEC.

Summary

Given the number and variety of AEC policies that will have an impact on business- and trade-related infrastructure, the number of competitors in the Myanmar market will increase. The sizeable effect of the ASEAN single market and production base, combined with additional policies on IPR, transport development, energy, e-commerce and ASEAN integration with the global economy, will alter the landscape for Myanmar businesses. Across a great number of industries, local companies will see a greater number of foreign products and services entering the market, as market access is improved and other developments facilitate more efficient, cheaper, and faster movement of goods and services into the country. Competition amongst Burmese businesses will also intensify, as some companies benefit from foreign investment, and as conditions foster the ability for domestic businesses to expand to new parts of the country. In this connection, the establishment of strong brands could help local firms enhance their positions in the more competitive markets under the AEC.

What to sell and how to sell it

AEC policies in a variety of areas may have a direct and significant impact on what Burmese businesses sell, the prices they charge and the channels through which they sell. Policies on the free flow of goods and services, investment, infrastructure, labour and export processes will all play a role.\textsuperscript{94} Many local businesses will be forced to adapt, in order to survive in the face of the various changes. However, there will also be a number of opportunities for Burmese businesses that are ready to take advantage of the changing market.

Adapting to new market realities: Changing how to compete

The entry of new competitors in the Myanmar market, facilitated by the AEC policies for regional integration discussed earlier, will create challenges for many local businesses. These foreign companies’ goods and services will in many cases be cheaper, at least before full implementation of the AEC, and will often be of a higher quality than what was previously available in the local market. As a result, without making necessary changes, Burmese businesses trying to compete directly with these foreign companies could face significantly decreased sales. There are certain steps, however, that local firms can take to strengthen their chances of surviving, or even flourishing, in the evolving market place. Businesses seeking to improve their positions in the post-AEC domestic market should attempt to improve the attractiveness of their current products through cheaper price and/or improved quality. This will increase their attractiveness as suppliers to foreign companies within regional and global value chains, and to final customers, both domestic and foreign.\textsuperscript{95}

For most businesses, the upcoming changes that will be brought about by the AEC will require making their products and services more attractive to consumers. One major sub-strategy is to upgrade the current product/service in terms of overall quality and value added in order to compete with the greater and more diverse offerings from foreign companies that will enter the domestic market. Despite its potential for economic growth, Myanmar remains a least developed country within ASEAN. Thus, many of these foreign competitors will have already been selling goods or services elsewhere in the region to customers who have more disposable incomes, and who have higher expectations regarding the quality of what they purchase. Furthermore, many of these foreign companies will have access to more advanced technology and production processes, as well as potentially a better-educated and higher-skilled workforce. These factors combine to mean that most of the companies entering the Burmese market from abroad will be selling higher quality products and services.

Therefore, one way to compete with these companies is, as noted, for Burmese businesses to upgrade the quality of their own products and services, or to increase their value added. One primary way to accomplish this is to increase innovation within the business. In addition to product innovation, this could also come about through new or improved production processes and techniques. Such process innovation can reduce the cost of production, improving price competitiveness. It can also improve the product or service, strengthening quality- or value-based

\textsuperscript{94} Kotler and Keller. (2011).
competitiveness. Businesses would need to be able to find information about the options for production processes and techniques employed in its industry. In this context, the presence of foreign competitors can serve as an example or source of information about new processes and techniques, ultimately leading to improved business cost competitiveness amongst local enterprises. Firms could encourage more innovative-thinking and creativity among their employees, and provide incentives for them to suggest ways to improve existing production processes. Local businesses can also invest in new equipment used in production, which could allow them to increase the quality of the goods and services they offer, as well as improve efficiency. To increase value added, businesses can explore opportunities for further processing their goods. For example, a business that operates a banana plantation and sells raw bananas may be able to expand and process some of the bananas into banana cakes, which could increase the profit margin per banana.

Another aspect of increasing value added is coordination and cooperation among firms. This could be achieved by multiple domestic businesses pooling their resources to improve their products. For example, one business with a banana plantation might not have enough money to purchase the facilities necessary to make banana cakes. However, if that business cooperated with a number of other, similar businesses to jointly purchase such facilities, each business and the group of firms as a whole could be in an improved situation for facing foreign competition and increasing profitability. That is, Burmese businesses can form enterprise clusters in particular value chains, e.g. garments, as noted earlier. Clusters have proven to be important in both strengthening competitive performance, particularly of SMEs, and making firms more attractive as suppliers to large foreign firms by reducing the transaction costs of having to locate and engage appropriate and sufficient suppliers. Additionally, by clustering, local businesses may be able to source new, cost-effective, higher quality inputs to improve the products, and therefore their attractiveness to buyers. Coordination and cooperation among firms, in particular value chains (clusters), can facilitate such search and reduce the cost of inputs, especially for SMEs.

For some Burmese businesses, the better strategy, particularly in the shorter term, may be to compete with foreign companies on a price basis, rather than, at least initially, focusing on improving quality of the goods or services which is likely to be more demanding of capabilities and financing. This strategy could be used by businesses that already sell higher quality goods or services, and believe that they can reduce their costs without sacrificing quality. It could also be used by businesses that sell to consumers with low incomes, for whom price may be among the most important factors in making purchasing decisions. In this case, businesses have to maintain an acceptable level of product or service quality, but they can focus primarily on decreasing costs. Coordination, the essence of clusters, is also useful under this strategy. Many small businesses in close proximity that buy the same good as an input could combine their orders. As noted, this could help them access cheaper prices for bulk orders from their suppliers. It could also allow them to save on transportation costs either directly or by negotiating

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97 Abe and Dutta. (2014).
preferential rates with logistics companies. Another method to cut costs is by reducing expenditure on employees. This could involve reducing the workforce, or reducing the total hours worked by employees, while ensuring that overall production and output does not suffer. Businesses can also reduce expenditures on equipment. A business might decide, for example, to keep its older equipment for longer periods, rather than replacing them. Or it might decide to change its production process in order to incorporate cheaper equipment. Alternatively, if financing can be arranged, a business can invest in new technology, which, although it will involve up front expenditures, could reduce the cost of production, leading to potentially significant savings over time. Finally, businesses may be able to reduce their expenditures on rent by moving to a new, cheaper location, particularly as infrastructure coverage—transport, energy, ICT—expands. As mentioned above, while this general focus on price competitiveness is likely to be used primarily businesses selling lower-quality or lower value added products or services, in some cases, businesses that previously sold high value added products or services might wish to use this strategy. This may be because these businesses realize that their products or services, while regarded as good quality in the current marketplace, will soon be overshadowed by better products or services coming into the market from abroad after the AEC is fully in effect.

Businesses that are able to reduce costs (or maintain already-low costs) while selling products of a high standard will put themselves in a position to take advantage of significant opportunities that will come with the AEC, including integrating into regional and global value chains serving international markets.99 The changes that the AEC will bring will lead to greater interest in the relatively large Burmese domestic market by foreign companies. However, beyond that, the AEC policies that make regional trade easier and cheaper (e.g. by reducing or removing tariffs, reducing or removing non-tariff measures, improving regional coordination) will also cause foreign companies to look to Myanmar as a potentially important source of inputs for their products or services. These companies will be looking throughout the region for the products (e.g. parts, components, sub-assemblies) whose mix of quality and affordability will give the greatest boost to their products’ or services’ competitive edge. In this context, Burmese companies could leverage some of their advantages to secure a role as suppliers to foreign companies. Burmese businesses could take advantage of the relatively low domestic prices for their own inputs, relatively low costs of labour (especially low-skilled labour), and relatively cheap cost of some equipment by offering products of a competitive quality at a more affordable price than found in other countries within the region. For example, this can be the case in the labour-intensive, low-skill activities of the garment and electronics (e.g. assembly) value chains, attracting both foreign buyers and foreign investors to look to Burmese suppliers.

Pricing determinants

As the AEC is implemented, policies related to freer trade in goods and services, transport infrastructure, energy infrastructure, labour mobility, and investment will all have an impact on the prices that Myanmar businesses can, or should, charge for their products and services. As previously mentioned, one of the most significant impacts will be that new competitors in the local market will force many domestic businesses to adjust their pricing strategies—most often

by lowering them to remain competitive. However, the policies in support of the free flow of goods, in addition to leading to increased foreign competition, could benefit Burmese businesses. This is because Burmese businesses could acquire input materials/goods from other countries in the region more cheaply and easily. For businesses that already import some inputs and for businesses that would switch from domestic inputs to cheaper inputs from abroad, this could lead to decreased costs, and thus either lower prices or increased profit margins. In addition to increasing total volume of sales through exports, some Burmese companies could take advantage of the increased ease of access to more affluent regional consumers by increasing the quality of the products and increasing prices, leading to higher profit margins for the exported goods.

Improvements to infrastructure will also benefit local businesses (though, again, these AEC-led changes will probably take full effect some years after most of the other policies). The improvements in transport infrastructure, both within Myanmar and cross-border, can help companies reduce their transportation costs. Regional energy developments, when coupled with domestic improvements to energy infrastructure, should lead to improved energy supply in the form of increased quantity, coverage, reliability, and potentially lower prices. This could in turn enable businesses to decrease their costs (directly from lower prices, as well as from reduced disruptions in the energy supply), while increasing their outputs. These developments can lead to Myanmar businesses increasing the attractiveness of their products or services through decreased prices, or increasing profit margins, while simultaneously increasing the total volume of sales.

Skilled labour could become more expensive for Burmese businesses. This might happen as a result of AEC regulations promoting the free flow of labour in selected areas. For example, Burmese accountants might seek employment abroad, making it more difficult for local businesses to find accountants, and driving up their domestic wages. Even if the labour policies of the AEC have a limited direct effect, foreign competitors entering the market may push up the wages of skilled workers they wish to attract that has been already observed in some areas of Myanmar. In general, companies from other AEC countries that establish some form of operations within Myanmar will be hiring workers, which would increase demand, and thus wages, for Burmese workers in demand.

Similar to the case of the labour market, increased investment into Myanmar could lead to higher prices for certain other factor inputs. For example, as many companies from abroad build production facilities, warehouses, and stores in Myanmar, the prices for renting or purchasing land may increase. This could force local businesses to charge higher prices without a commensurate increase in the quality of their goods or services, or accept lower profits if higher prices cannot be supported by existing demand. However, some Burmese businesses will have the opportunity to partner with foreign companies looking to invest in the country. These businesses that are successful in attracting investment could begin to produce higher quality products or services, and increase their prices and their profit margins.

Improving distribution channels

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101 Ibid.
The distribution channels are the means, the pathways, through which a good passes from the producer to the consumer. Some businesses sell directly to the end consumer, while other businesses might sell their goods to wholesalers, and the wholesaler would then sell to a retailer, who would then sell to the end consumer. Regardless the path a good takes, AEC policies could help businesses get their products to the market more quickly and cheaply.

The ASEAN Single Window (and Myanmar’s National Single Window) will allow Myanmar businesses to move their products across borders faster, increasing their responsiveness to foreign consumers and to changes in taste and demand. Most importantly, these businesses will be able to realize cost savings due to reduced transaction costs and reduced time and manpower spent navigating the complex processes involved in exporting goods.

Improved ICT infrastructure, combined with adequate energy infrastructure, would enhance access to communications technologies for businesses, including phone and Internet. This would thus allow businesses to have better, faster and more responsive communication with their intermediaries, wholesalers and retailers. This could again lead to decreased transaction costs and greater responsiveness to changes in the market. The improvements in transport infrastructure, mentioned earlier, should also make the process of physically moving a product to the end consumer, wholesaler or retailer faster and cheaper (due to savings in fuel, labour costs for the driver, and lost or damaged goods from poor roads).

Burmese businesses that are able to attract foreign investment might be able to attract sufficient funds to take greater control of their distribution channels. For example, a business that previously was only involved in the manufacture of a good might be able to expand into retail, selling its own product directly to the end consumer. This could greatly improve coordination, communication and efficiency throughout the entire process from manufacture to final sale. It would enable the company to be more responsive to consumers, and to sell its products at the higher retail prices.

Summary

The effects of the AEC on Myanmar businesses’ products could be profound. Firms should evaluate whether it is in their interests to put significant effort into upgrading product quality or decreasing their prices, in order to survive the changing competitive domestic market brought about by the entry of foreign companies. Their arrival will also bring opportunities that some businesses can take advantage of to increase sales through product and process improvements, or by finding new customers and markets. Beyond this, AEC policies, particularly in the areas of transport, energy and ICT infrastructure will make it easier for a great number of Burmese companies to conduct business, and provide them with opportunities to increase their profits.

Future changes that affect how you make your product

With the advent of the AEC, Myanmar businesses are likely to operate under improved conditions for producing their goods or services. The slew of policies being implemented to promote the free flow of goods and investment are likely to improve businesses’ access to
production equipment and machinery, and improve procurement of materials, goods, and services. This will come in the form of a greater selection of goods and services that are cheaper, arrive faster, and are available in greater quantities. However, these same policies will also create pressures on local businesses to improve their production processes in order to compete with foreign entrants into the market.

Equipment, machinery and production facilities

For any business, the equipment, machinery and production facilities will affect the price charged, the quantity produced, and the overall quality of the good or service. Ideally, a business would like to have the best possible equipment and machinery at the cheapest price to make a high quality product, in large volumes. While this is not always possible, it is still desirable, and, indeed, achievable, for a firm to at least have a broad selection of equipment and machinery available—to allow the business to select the right price/quality trade-off for its particular needs, according to its business plan.

In general, the AEC should see a significant improvement in the equipment, machinery and production facilities that businesses use in the process of making their products. This will be a result of the AEC helping to bring in to Myanmar cheaper or better quality materials, as well as a wider variety for businesses to choose from. The result of this should be that businesses will be able to produce their goods and services more cheaply, in higher quantities and to a higher standard when compared with before.

As outlined above in the discussion of the relevant AEC initiatives on the free flow of goods (Section I), the policies being implemented will allow for the imported goods to enter Myanmar from other member countries more cheaply, faster, in greater quantities, and in a greater variety. These policies can have a particularly large effect on durable goods, like equipment and machinery. For example, import duties on expensive machinery at present add to the cost, potentially causing those items to become too expensive for many businesses. The relaxation of quotas and reduction of duties on certain types of equipment would allow greater available supply and therefore likely at lower price, for Myanmar businesses.

However, there are AEC policies whose effects are less immediately obvious, though nonetheless very significant. For example, as noted, the customs modernization and the ASEAN Single Window will greatly enhance the speed at which goods move across borders. In addition to the noted (secondary) effects regarding price, quantity and variety, the value of speed of delivery of equipment and machinery is also very important. This is because when a business has a shortage of a particular piece of equipment, or when a machine in the production process breaks down, the business’s entire production is disrupted causing rising costs, and potentially loss of sales. By reducing the time necessary for shipments to cross borders, the AEC will help reduce the time it takes for a business to replace production machinery or equipment, or to receive a specific part to repair its equipment. This reduces the overall time that a business’s production is disrupted or delayed, minimizing adverse effects for the business.

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102 Dunning, (1980).
Another beneficial policy is on rules of origin (ROO).\(^\text{103}\) As stated, the AEC’s measures in this regard will seek to increase the number of goods that can take advantage of the AEC policies based on the extent to which their production (their domestic value added) is linked to AEC member countries. Due to the complexity of the manufacturing of machinery, different parts and components of machines are likely to have been produced in a number of different countries, including non-AEC countries. By reworking the standards on ROO, more of those products will be able to take advantage of AEC policies, despite not being produced entirely within the region. This will benefit Myanmar businesses by providing machinery and equipment cheaper, faster and in greater quantities.

The free flow of investment is also likely to benefit Myanmar businesses in a variety of ways. As noted earlier, the measures being implemented to facilitate the free flow of investment should result in greater investment into Myanmar, both from within ASEAN and from countries outside the region.\(^\text{104}\) Much of this investment, at least initially, is likely to be in the form of foreign companies partnering with local businesses to produce for the domestic market. The Myanmar businesses that are able to attract such investment will likely benefit from improved machinery and equipment. This is because it is in the interest of the foreign investor to supply its local partner with improved and likely more advanced technology, and assist with related skills and production processes. Even if the foreign investor does not provide new technology, it is likely to share some of its experience and knowledge to help the Myanmar business to identify the newer and improved production equipment. Local firms with or without foreign partners are likely to also benefit from foreign investors establishing manufacturing operations in Myanmar for production machinery and equipment. This would enhance Myanmar businesses’ access to a greater variety of machinery and equipment, some of it likely more advanced than what was previously available locally. Furthermore, these goods that are produced locally are likely to be relatively cheaper than imported goods, because of various cost savings from producing in Myanmar noted earlier, such as lower cost inputs and lower transport costs. In addition to technology, an important potential contribution of foreign direct investment (FDI) is to raise the skill level of both workers and managers by bringing in “better practice”, as well as technology-related training and skill development by foreign firms.\(^\text{105}\)

**Procurement**

Procurement refers to businesses purchasing goods (often materials or components) or services (such as logistics and transport; maintenance and repair for equipment/machinery) that they then use in producing their own good or service.\(^\text{106}\) With regard to procurement, a business’s chief priorities are the cost, quality and speed with which they can get this good or service. The AEC includes a number of policies that will improve procurement by Myanmar businesses.

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\(^\text{103}\) Puusaag, Abonyi and Abe. (2015).

\(^\text{104}\) Ibid.


The improved transport infrastructure should improve procurement opportunities for businesses in several respects. A key benefit is time savings. With transport infrastructure improvements, businesses will be able to access goods (or services, such as repair or maintenance technicians) more quickly and reliably. This will help businesses react to the market more quickly, for example, scaling up production to meet increases in demand. Another benefit of the shorter procurement time is that businesses might be able to save on costs associated with holding inventory. At present, given constraints on logistics and shipping, businesses may be forced to hold relatively large inventories of both inputs (e.g. parts, components) and finished products. For example, a firm may produce larger quantities than existing demand warrants, so that it has goods on-hand to sell in case of supply chain disruptions, in order to not miss out on future potential sales. If a business can be sure to get its supplies and ship its final products faster and more reliably, it would be able to better adjust its production to more closely match demand conditions in the market. This reduces the amount of money tied up in inventory, decreases the risk of obsolescence of products (e.g. due to changing tastes), and may lead to cost savings due to the need for less warehouse space and related personnel.

Improved transport infrastructure has additional benefits. As transport-related procedures are eased, companies’ shipping costs are likely to decrease because of savings on requirements such as licenses and various official forms, and related expenses on personnel. Streamlining of shipping procedures is also likely to increase speed, which can translate into lower costs in the form of savings in fuel and wages. These cost savings may be reflected in cheaper prices for consumers, or in higher profits for firms. Furthermore, the quantity and variety of available inputs and final goods may also increase because of transport infrastructure improvements. For example, as noted, foreign companies that might have exported to Myanmar may have been discouraged from doing so because of the cost, complexity and uncertainty of transportation to the market. Harmonized and streamlined procedures and documentation may encourage these companies to export to Myanmar and other ASEAN countries. Improved roads are also likely to allow access for businesses to new consumers and markets. This could apply to firms in major city centres accessing products or services from rural areas; or it could lead to rural businesses accessing products or services from the cities. In general, it is likely that businesses in Myanmar will benefit from being able to better select the products or services that are best suited to their purposes, in addition to the benefits on price and quality of increased competition in the market.

Currently, ICT utilization in Myanmar is extremely limited when compared with both its neighbours, and the rest of the world, representing a huge missed opportunity to businesses. The Global Information Technology Report (GITR) of 2014, published by the World Economic Forum (WEF), illustrates the extent to which Myanmar lags the region and the world in ICT availability to, and usage by, business. The GITR ranks countries according to various criteria, within ten different “pillars”. Under the pillar “Business and innovation environment”, on the criterion “availability of the latest technologies”, Myanmar ranks last—148th out of the 148

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108 Ibid.
countries assessed. Within the pillar “Business usage”, Myanmar ranks 140th out of 148 on “business-to-business Internet use”, by far the lowest in ASEAN (table 4).

Table 4: Rankings on selected ICT criteria (out of 148 countries)

<table>
<thead>
<tr>
<th>Country</th>
<th>Availability of the latest technologies</th>
<th>Business-to-business internet use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>16</td>
<td>14</td>
</tr>
<tr>
<td>Malaysia</td>
<td>37</td>
<td>28</td>
</tr>
<tr>
<td>Philippines</td>
<td>47</td>
<td>51</td>
</tr>
<tr>
<td>Brunei Darussalam</td>
<td>50</td>
<td>59</td>
</tr>
<tr>
<td>Indonesia</td>
<td>60</td>
<td>63</td>
</tr>
<tr>
<td>Thailand</td>
<td>75</td>
<td>74</td>
</tr>
<tr>
<td>Cambodia</td>
<td>82</td>
<td>82</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>112</td>
<td>98</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>134</td>
<td>32</td>
</tr>
<tr>
<td>Myanmar</td>
<td>148</td>
<td>140</td>
</tr>
</tbody>
</table>


Clearly, then, there is much room for Myanmar businesses to increase their use of ICT in their operations, and procurement is an area where the use of ICT could be of significant benefit. By making greater use of the Internet and business-to-business communication in various forms, Myanmar businesses would be able to identify in “real time” a greater number of potential sources for goods and services in their production. This could also enable Myanmar businesses to compare prices—finding the best possible bargains at any given time—as well as, to some extent, assess the quality of the goods and services. This would allow businesses to adjust their prices and, to some extent, the quality they offer consumers, increasing the appeal of their products or services, and likely increasing sales. Greater use of ICT could also enable businesses to track shipments of their goods and materials, or at least to be in close communication with their suppliers, in order to monitor shipments. This could then allow the businesses to anticipate and react to potential disruptions in supply, for example by securing another order for inputs from a different firm, in order to maintain production levels. Even as ICT infrastructure, product availability and related skills improve in Myanmar as a result of the AEC and domestic initiatives, the process of improvement will likely be gradual, and it will be a number of years before Myanmar is on par with its neighbours. Thus, a local business adopting more advanced or extensive ICT practices may see low returns initially if it deals primarily with the domestic market. This is because the business may not be able to use its technology widely to interact with other local businesses if they are not using similar advanced technologies. This relates to both direct business-to-business communications, as well as technologies utilized for managing

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110 The ranking for this criterion was based on the responses to the Executive Opinion Survey, asking respondents to rate the extent to which businesses use ICTs for transactions with other businesses.

logistics or production processes. However, greater use of ICT is likely to be advantageous in dealing with foreign companies, and it would also put the firm in a good position as ICT use expands in Myanmar business in the coming years.

Improvements to infrastructure and ICT, while offering significant opportunity to local enterprises, will simultaneously create a threat. That is, if certain businesses do not take advantage of these improvements, then their rivals in the domestic market who do integrate these advances into their business models may capture a greater market share. Therefore, all Myanmar enterprises should constantly be analysing how to benefit from new technologies or better infrastructure, so as to avoid the risk of falling behind domestic competitors.

The range of policies being implemented to promote the free flow of goods should have the straightforward effect of increasing business access to goods for use in the production process. The impact on businesses’ procurement is likely to be very similar to the impact on the availability of machinery and equipment outlined earlier. The removal of tariffs and non-tariff barriers, along with the various other trade facilitating measures should allow for cheaper entry into the Myanmar market of a greater quantity and variety of goods. This will increase the selection available to local businesses in sourcing inputs, and will likely give them access to cheaper and higher quality goods. In addition, the policies on customs modernization and the ASEAN Single Window (with its harmonized, standardized processes and regulations) should allow goods to enter Myanmar with fewer delays and therefore more quickly. By both increasing the speed of transit, and perhaps more importantly, reducing unpredictability in a cross-border supply chain, these measures can give Myanmar businesses the confidence to procure from foreign-based companies without posing a risk to their business operations; and at the same time, allow for foreign companies to source from Myanmar businesses with greater confidence.

With respect to procurement, a local business partnering with a foreign company could gain access to better goods and services for use in its production. This could be a result of an inflow of capital to the business, allowing it to spend more on higher quality materials and services (and allowing it to spend more on searching for the supplier with the best quality/price). Or the foreign partner might establish a connection between its own supplier and the local Myanmar business, ensuring more favourable deals. In addition, a Myanmar business that receives foreign investment would likely be able to expand production, therefore requiring more inputs. This might give the business increased bargaining power with its suppliers, as a “privileged customer” allowing it to negotiate a better price, or other favourable conditions (e.g. increased priority as a customer of the supplier).

The production process

In addition to the machinery/equipment and the inputs used in production, the actual process by which goods are produced is also a key component to a business’s competitiveness. Overall, the AEC will bring some changes that will help to improve businesses’ production processes.

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However, the effect of the AEC in this area is also likely to increase competition, thus forcing local businesses to try to adapt their processes in order to stay competitive.

The increased competition from foreign goods entering the domestic market (free flow of goods) as well as foreign firms setting up operations in Myanmar (free flow of investment) will increase competition. One way to improve the competitive performance of domestic businesses is by streamlining and upgrading their production process. This can improve efficiency and lower costs and therefore potentially increase quantity produced, given favourable market conditions. It can also lead to the production of higher quality goods. In both respects, though more so the latter, domestic businesses can learn from foreign competitors in order to develop new ideas for adjusting their production processes. Improving the production process, in turn, requires upgrading the skills of both managers and workers.

An additional negative effect of foreign investment in Myanmar is likely to come in the labour market. As large foreign companies set up operations, they will hire workers locally. As noted, this could tighten the labour market, particularly for more skilled workers likely to be in high demand (e.g. engineers, technicians, managers) pushing up wages—perhaps beyond what many local businesses can readily afford. It would force domestic businesses to either train such workers themselves, or to alter production processes so that there is a lesser need for those skilled jobs.

One major obstacle to be overcome in Myanmar is access to electricity. There is limited electricity grid coverage; and where there is access, users are plagued by power outages at much higher rates than in other ASEAN countries (figure 9). These power outages cause disruptions in production/operations, driving up costs. While many Myanmar businesses address this problem by relying on their own power generators (figure 10), such power outages exact a significant cost on Myanmar businesses, and the economy as a whole, in the form of lost revenue (figure 11).

**Figure 9: Number of electrical outages per month**

![Graph showing number of electrical outages per month](image_url)

Notes: Data is most recent available, taken from the following years: Cambodia-2013, Indonesia-2009, Lao PDR-2012, Myanmar-2014, Philippines-2009, and Viet Nam-2009. The category East Asia and Pacific covers the following countries: Cambodia, China, Fiji, Indonesia, Lao PDR, Malaysia, Micronesia, Mongolia, Myanmar, Philippines, Samoa, Thailand, Timor-Leste, Tonga, Vanuatu, and Viet Nam.

**Figure 10: Percentage of businesses with access to a generator**

![Bar chart showing percentage of businesses with access to a generator by country](image)


Notes: Data is most recent available, taken from the following years: Cambodia-2013, Indonesia-2009, Lao PDR-2012, Myanmar-2014, Philippines-2009, and Viet Nam-2009. The category East Asia and Pacific covers the following countries: Cambodia, China, Fiji, Indonesia, Lao PDR, Malaysia, Micronesia, Mongolia, Myanmar, Philippines, Samoa, Thailand, Timor-Leste, Tonga, Vanuatu, and Viet Nam.

**Figure 11: Percentage of annual sales lost to electrical outages**

![Bar chart showing percentage of annual sales lost to electrical outages by country](image)


50
Notes: Data is most recent available, taken from the following years: Cambodia-2013, Indonesia-2009, Lao PDR-2012, Myanmar-2014, Philippines-2009, and Viet Nam-2009. The category East Asia and Pacific covers the following countries: Cambodia, China, Fiji, Indonesia, Lao PDR, Malaysia, Micronesia, Mongolia, Myanmar, Philippines, Samoa, Thailand, Timor-Leste, Tonga, Vanuatu, and Viet Nam.

Summary

The process of production of goods and services by Myanmar businesses will be affected by AEC policies in a variety of ways. The measures promoting the free flow of goods and investment, combined with infrastructure improvements in ICT and transport could enable local businesses to have cheaper, more reliable access to inputs (including equipment and machinery, as well as services). It is also likely to create pressures and incentives for improving production processes, as well as products and services, in order to remain competitive, leading to greater value for consumers. Local businesses should be proactive, actively identifying and taking advantage of potential opportunities for improvements, and strengthening their capacity to do so.

Empowering your human resources: finding and keeping the best talent

Human resources are crucial to the success or failure of any business. They are the critical part of all business operations, from management and planning to production to selling the good or service to consumers. The AEC and its wide-ranging provisions will have potentially important effects on the labour markets in ASEAN countries.

AEC policies may create some difficulties for Myanmar businesses seeking to hire or retain workers. This would occur because of policies that lead to greater competition in the local labour market. However, in this environment, it is still possible for local businesses to compete and attract the workers they need in order to succeed.

Compensation

The primary effect on Myanmar businesses is likely to be an increasingly competitive domestic labour market due to the entry of foreign firms and expansion of local firms, leading to tighter supply and higher wages. This increased competition will be the result of a variety of factors detailed earlier in this section. Briefly, the numerous AEC measures promoting the free flow of goods and the free flow of services will make it easier, cheaper and faster for firms based in other ASEAN countries to sell their goods and services in Myanmar. Although foreign companies may not wish to establish major operations in Myanmar, preferring instead to export their goods and services that are produced abroad, these companies may still need to hire local staff, for example to work in areas such as marketing, customer service, and distribution. The AEC could therefore have significant implications for how much local businesses will need to pay in order to attract and to keep sufficiently talented workers to keep the business competitive. At the same time, Myanmar firms are also expected to find more business opportunities to expand their operations and enter into new markets at both local and regional levels, resulting in new hiring of managers and workers.
An even greater impact on the local labour market will be felt from the AEC’s promotion of the free flow of investment. As foreign companies invest in Myanmar to build offices, production facilities, and warehouses, as well as partner with domestic firms, the country will see a significantly increased foreign business presence. Due to the substantial potential of Myanmar as a production base and market, there is likely to be an increasingly large number of companies establishing operations in the country in a variety of sectors.

As a result, it is likely that Myanmar will see a major increase in the overall demand for local workers. Both foreign and local companies will be hiring unskilled workers to work in factories, transport their products, etc., and they will also be hiring skilled and “white collar” workers to work in offices and production facilities as secretaries, managers, analysts, accountants and other such positions.

Such a sharp increase in demand is likely to push up wages across many sectors and for many different job types. This is because, at least for the medium term, it is unlikely that Myanmar will produce a sufficient number of workers, in particular skilled workers, to make up for the increased demand. Thus, with greater demand for largely the same number of workers, businesses will likely need to offer higher wages in order to attract new employees, and also to ensure that current employees do not leave the business to join another company offering more competitive wages. At the same time, this is also likely to lead to raising the skills of available workers through experience with foreign firms, and these workers could subsequently become available to domestic firms. Therefore, the overall quality of workers is likely to be strengthened over time. Ideally, the education and vocational training system should also improve by becoming more responsive to changing market demand for skills.

Myanmar has already seen the impact of foreign businesses on the labour market in recent years. As the country opened up in 2011, there was a dramatic increase in foreign firms looking to expand into the domestic market. There were also immediate impacts on the tourism industry, as international visitors sought to visit the country in increasing numbers. In response, many local businesses began entering the industry, for example, constructing accommodations and catering to tourists through various services such as hotels and restaurants. These various forces combined to push up the demand for unskilled workers in jobs like construction and factory work. This led to average wages for unskilled workers increasing significantly. For example, from June 2014 to May 2015, average base wages for unskilled factory workers increased from $59 per month to $90 per month—a rise of roughly 50 per cent in under one year. Although the forces pushing up wages will be tempered, somewhat, by the fact that many foreign companies expanding into Myanmar will bring in some of their own employees from their home countries (primarily skilled, white collar workers), this effect is unlikely to offset an overall increase in demand with a relatively stable labour supply, so wages will still likely rise significantly. Table 5 shows the average base monthly compensation for various jobs in Myanmar as of May 2015.

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113 Abe and Dutta. (2014).
Table 5: Basic compensation in Myanmar for selected jobs, May 2015 (US$)

<table>
<thead>
<tr>
<th>Basic Compensation (Myanmar)</th>
<th>US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skilled labour (Manufacturing)</td>
<td>300</td>
</tr>
<tr>
<td>Un-skilled labour (Manufacturing)</td>
<td>90</td>
</tr>
<tr>
<td>Production engineers</td>
<td>700</td>
</tr>
<tr>
<td>Account</td>
<td>150</td>
</tr>
<tr>
<td>Plant manager</td>
<td>800</td>
</tr>
<tr>
<td>Driver</td>
<td>200</td>
</tr>
</tbody>
</table>


Increases in wages will also be a result of competition from domestic enterprises. Various factors, such as improvements to infrastructure, maturing markets, and domestic partnerships with foreign firms, should combine to encourage the growth of local businesses. This, in turn, will mean domestic businesses seeking to employ more workers, which will increase the upward pressure on wages.

The AEC also includes provisions for the free movement of skilled workers, and although this might concern Myanmar business owners, it is not likely to be a significant factor in the near future. Theoretically, free movement of skilled workers would make it easier for Burmese skilled workers to move to countries like Singapore or Malaysia, where they could earn more for their work than in Myanmar. Similarly, it can allow foreign skilled workers to enter Myanmar more easily. However, the AEC provisions on skilled labour are extremely restrictive, and are unlikely to lead to particularly large effects at this time. These provisions only pertain to a narrow range of professions, namely: medicine, nursing, dentistry, accounting, surveying, engineering, and hotel/tourism. Furthermore, professionals in these areas are subject to very stringent regulations, such as passing a written test of competency in the local language in order to be able to work in another country. These regulations are likely to mean that relatively few Burmese professionals will take advantage of such provisions in the AEC, and thus, there is unlikely to be any significant increase in the flow of skilled labour out of the country.

As the cost of labour increases, local businesses may find it difficult to compete with their competitors, both foreign and local companies, in offering the most competitive wages, thus risking losing workers and/or being unable to hire sufficient new workers. One way in which local businesses with limited financial resources may attract and retain workers is by offering improved non-monetary incentives in the form of perks and benefits. These are incentives offered by a business that improve the lives of workers aside from direct payment to workers. Some examples of these incentives are: transportation provided by the business, annual and sick
leaves, flexible schedules for workers, free lunches or provision of some food/drinks at work, free or discounted products/services offered by the business, and opportunities for self-improvement or skills training. Such benefits could help a local business become a more attractive place to work and help bridge the gap between what it can offer in wages compared to its competitors.

Finally, a local business that can successfully attract foreign investment could gain an advantage in terms of the compensation it can offer current and prospective employees. As mentioned throughout in this publication, there will be a substantial number of foreign companies that will seek to enter the Myanmar market by partnering with a local business. A local business that is able to attract a foreign investor could gain access to resources that would enable it to offer higher wages and certain non-wage benefits such as training and skill development. This would allow the business to retain employees who might otherwise seek higher wages, and to attract new, highly talented workers.

Recruitment

In order to succeed, it is very important that a business employ the best workers that it can find. Although a business owner can devise a strong business plan and business model, it is the employees who will be carrying out the work to support such a plan or model. Therefore, recruiting the right employees is crucially important to a firm. As noted above, attracting workers depends to a large extent on being able to offer competitive wages. Thus, the AEC effects outlined above—greater domestic competition for workers caused by the entry of foreign businesses and expansion of local businesses, pushing up demanded wages—will likely lead to local businesses experiencing greater difficulty in attracting the same level of talent as before.

An additional constraint on business recruitment of new employees could come from AEC measures on greater financial integration in the region (also referred to as “freer flow of capital” in AEC documents). This could make it easier, faster and cheaper for Burmese working abroad to send money home to their families in the form of remittances. Currently there are many Burmese working abroad, particularly in Thailand, often in unskilled work. This is illustrated in figure 12, which shows the source countries of immigrants to Thailand. As shown, Burmese nationals currently account for 65 per cent of immigrants to Thailand. Many of these immigrants go to Thailand in search of relatively low-skilled work, e.g. in the construction or fishing industry. If it is relatively easier, cheaper and faster for a Burmese working abroad to send money home, this effectively incentivizes Burmese to work abroad, meaning more local labourers might be enticed to cross borders in search of work. This would further deplete the domestic labour pool, thus making recruitment more difficult for local businesses.

**Figure 12: Sources of immigrants to Thailand**
A complicating factor for local businesses anticipating an increase in the cost of labour is that these businesses are likely to be facing more intense price competition in a more open domestic market. In order to be able to offer better prices, local businesses will seek ways of cutting costs, and one straightforward way is by paying lower wages. As discussed, such a strategy could ultimately be unsuccessful for businesses, causing them to either not be able to attract sufficient number of workers, or to only attract less efficient and less productive workers. For businesses under great pressure to lower costs, lowering wages is likely to be successful only in limited cases. For example, lowering wages for certain type of workers that do not appear to be in great demand, or in cases in which the business is located in a geographical area where there has been little increase in competition and that sees limited labour outmigration (i.e. it is difficult for locals in the area to travel to cities/other areas in search of better opportunities).

There could also be some positive indirect benefits from foreign competition in the area of workers’ skills for local businesses located in close geographic proximity to the foreign companies. If a significant number of foreign businesses that require similar skills move into the same city or area, this will cause workers with these skills to move to this area in search of employment. Thus with substantial numbers of skilled workers close by, local businesses could also benefit by attracting some of these workers. This may come about because the number of skilled workers moving in is greater than the number of available positions in foreign businesses. Or the workers initially hired by the foreign businesses may quit or be laid off and then search for another job with a local business. Additionally, foreign companies in many cases will provide further training for their employees, and some of these workers will inevitably leave these companies as regular staff turnover occurs. Thus, for local businesses located in areas with a large number of foreign companies, there will be a number of these workers who have been trained by foreign companies currently seeking jobs.

Even though many of the AEC measures will lead to greater competition to attract and keep workers, the growth of certain sectors in Myanmar could potentially attract some skilled workers from abroad. For example, the tourism industry in Myanmar is currently undergoing very strong, steady growth, and is projected to grow significantly over the next decade (see figure 13). Such
strong growth could attract workers in the tourism industry from neighbouring countries, thus expanding the pool of labour available to Myanmar businesses in this industry.

Figure 13: Thousands of jobs in the Myanmar tourism industry, with projection for 2024


The AEC has measures that should help local businesses improve training of their employees. The measures for improving the level of ICT, in particular, should aid in this effort since computer and ICT related skills are lacking at all job levels in Myanmar.\(^\text{116}\) The promotion of investment in ICT and the liberalization of trade in ICT products and services in the region should improve access and decrease the cost of ICT products and services for local businesses. This could then make it easier and cheaper for local businesses to create computer-based training or e-learning opportunities for its existing employees. Such initiatives could be a very cost-

effective way of developing the skilled employees the business needs, despite the constraint of a competitive skilled labour market.

Labour standards

Regional economic integration will also bring greater pressures to adhere to international standards, including labour standards. Labour standards, as defined by the International Labour Organization (ILO), are “legal instruments… setting out basic principles and rights at work”.117 These include laws and regulations protecting workers’ right to organize and to engage in collective bargaining, laws against child labour and laws against discrimination in workers’ pay as well as regulations on safe and healthy working practices and conditions. Additionally, there are certain standards that are normative; they are not actually laws, but are still recognized by many companies and consumers worldwide. These normative standards are more vague, but pertain to providing decent working conditions and offering a certain “fair” level of pay, often as adjudged by consumers in wealthier foreign countries.

Many companies looking to Myanmar businesses as possible destinations for investment or looking to local businesses to supply intermediate goods as part of regional or global value chains are likely to take into account the working conditions and standards at the local businesses. A number of major global brands, particularly in the apparel industry, have attracted significant negative attention when their suppliers’ factories in Asia and the Pacific were exposed in the media as having “shocking working practices”.118 This resulted in a lot of bad press for these companies and hurt their sales and brand image. Major international companies will therefore not want to risk hurting their image and sales by engaging with businesses that have poor labour practices. Thus, local businesses wishing to attract foreign investment or to integrate as suppliers into regional or global value chains will need to ensure that they are aware of, and in compliance with global and regional labour regulations and norms. Chief among these is to ensure that they pay at least the legislated minimum wage, do not employ child labour, provide safe working conditions, and do not prevent workers from organizing or bargaining collectively. Therefore, even under the pressure of increasing price competition, Myanmar firms will need to resist cutting labour-related costs by not complying with labour standards essential for their business.

Summary

The AEC will create both challenges and opportunities for local businesses. Given the low wages currently in place in Myanmar, combined with significant potential that is attractive to foreign businesses, it is inevitable that there will be some upward pressure on wages as the region becomes more fully integrated. This will in turn create difficulties for businesses in keeping and attracting both unskilled and skilled workers.

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However, local businesses can still compete in this area. As outlined in this section, businesses can make employment more attractive by offering extra benefits in addition to wages, they can also put themselves in a position to find skilled workers, and to train their workers and develop the skills they need themselves. If a business can access foreign investment or partner with a foreign firm, it would put the business in a strong position to attract and retain talent. This, in turn, requires that the firm’s labour practices meet the standards of prospective foreign investors or partners.

**Accessing money to help grow your business**

In the short-to-medium-term future, Myanmar’s financial sector is likely to strengthen, advance and expand, which will improve the outlook for businesses that are seeking access to capital. Changes to Myanmar’s financial sector will come from local developments as well as from certain initiatives of the ASEAN Economic Community. The AEC’s provisions on financial integration, in particular, are likely to have a major, largely positive, impact on local businesses seeking funding. Additionally, the AEC’s initiatives towards a freer flow of goods, services, and investment in the region will also improve the prospects of businesses’ access to finance (though these policies also imply the threat of greater competition from foreign businesses as examined in this chapter).

Current conditions

Currently, Myanmar is primarily a cash-based economy, with less than 20 per cent of its population having access to formal financial services. The financial sector in Myanmar is very weak and is not up to the role of supporting significant private sector activity and expansion. Access to finance is therefore identified as the key constraint on business performance and growth (figure 14), and Myanmar firms have by far the greatest difficulty in ASEAN getting access to credit (table 6). Although MSMEs (micro-, small-, and medium-sized enterprises), which make up the vast majority of businesses, are the most under-served by the financial sector, large enterprises cite access to finance also as a key (second biggest) constraint (figure 15).

**Figure 14: Share of firms identifying the main obstacle to business (percentage)**

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120 Soans and Abe. (2015).
Table 6: Businesses in Myanmar have the greatest difficulty getting credit in ASEAN (2014)

<table>
<thead>
<tr>
<th>Country</th>
<th>Getting credit ranking (out of 189 countries)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia</td>
<td>12</td>
</tr>
<tr>
<td>Singapore</td>
<td>17</td>
</tr>
<tr>
<td>Malaysia</td>
<td>23</td>
</tr>
<tr>
<td>Viet Nam</td>
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<tr>
<td>Indonesia</td>
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<tr>
<td>Brunei Darussalam</td>
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<td>Thailand</td>
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<tr>
<td>Philippines</td>
<td>104</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>116</td>
</tr>
<tr>
<td>Myanmar</td>
<td>171</td>
</tr>
</tbody>
</table>


Figure 15: Financing constraints faced by Myanmar firms of different size
Within the financial sector, banks are by far the most influential players. Although there has been significant growth in recent years, the banking system remains small, with deposits equal to 33 per cent of GDP, and credit to the private sector at only 16 per cent of GDP (fiscal year 2014/15). The Myanmar domestic banking sector includes four state-owned banks (SOB) and 23 private banks, of which seven are partly government owned (i.e. by ministries and municipalities). The SOBs had been the dominant presence in the banking sector but this is now changing rapidly (see below). In general, the banking sector and financial sector as a whole are still very much insufficient to support the private sector. The vast majority (70 per cent) of Myanmar firms do not have a bank account (figure 16), and only seven per cent have a loan (figure 17)—with MSMEs having the most limited access to such financing. Therefore, the vast majority of Myanmar firms use personal loans or retained earnings to finance business activities. However, this is changing as the banking sector undergoes fundamental transformations, with credit to businesses growing recently on average by 50 per cent per year, driven mostly by the expansion of domestic private banks and foreign banks establishing operations in Myanmar (see below).

Figure 16: Share of firms with a bank account (percentage)

Note: World Bank categorizes firm size as follows—micro: fewer than five employees, small: fewer than 20 employees, medium: 20-99 employees, and large: 100 and over.

122 OECD. (2013).
123 IMF. (2015a).
The overwhelming dominance of banks in the financial system is reflected in their holding 99.9 per cent of all financial assets in 2011.\footnote{Foerch, Thein and Waldschmidt. (2013).} It is difficult to give a complete picture of how the Myanmar banking sector will develop in the near future under the establishment of AEC, as the internal conditions are still undergoing major changes. However, it is clear that the sector is in the process of fundamental transformation, with far reaching consequences for businesses and
households.\textsuperscript{126} The share of SOBs in total banking sector assets has declined to 52 per cent (March 2015) from 67 per cent just two years before; and private banks now account for almost two-thirds of total deposits and 80 per cent of total loans. The range of banking products and services remains limited, with a dominance of collateral-based lending, primarily real estate and other immovable assets. The SOBs are constrained by limited risk management capabilities, weak corporate governance, and dependence on government subsidies. Private banks generally have low funding and a weak equity base, and are also constrained by limited risk management and banking capacity. The recent entry of foreign banks is rapidly changing the structure of the banking sector. A new law on banking presently being drafted with support from the International Monetary Fund (IMF) will have a significant impact on the sector as a whole, including on the role of foreign banks.

There are a number of measures included in the AEC that will affect the banking sector, and the ability of businesses (particularly SMEs) to access capital from banks. The measures that will most directly affect the financial sector in Myanmar are policies under the ASEAN single market to liberalize the financial sectors of all member states, and the policy of greater financial integration of member states. In particular, Qualified ASEAN Banks (QABs) will have greater cross-border access to expand their operations in the AEC under the ASEAN Banking Integration Framework, with QAB criteria for market access to be established on the basis of bilateral reciprocity between ASEAN countries. In addition, other aspects of the AEC, such as free flow of goods, services, investment, capital, and skilled labour will also influence Myanmar’s financial sector’s evolution and businesses’ access to capital.

Until recently, Myanmar was the only ASEAN country with no operating foreign bank branches or subsidiaries. Liberalization of the Myanmar banking sector is therefore consistent with the direction of the AEC policy agenda, and is already transforming the sector in important ways. In this context, the entry of foreign banks has the aim of modernizing and developing Myanmar’s banks.\textsuperscript{127} Since April 2015, nine foreign banks have started branch operations, although these are limited at this time to wholesale banking.\textsuperscript{128} Their combined capital of one trillion kyat (around one billion US dollars) has doubled the size of the banking system and increased by around one third the number of banks. This is introducing competition that is transforming in important ways banking operations in terms of improving services, extending coverage, and diversifying financial instruments. The basic effect will be expanding credit to businesses (as well as households) essential for their competitive performance and growth.

At this stage, foreign banks are not permitted to enter retail banking. They are allowed to operate as a branch with one place of business, with a minimum (paid-in) capital of US$75 million, of which US$40 million is deposited with the Central Bank of Myanmar. Their clients are restricted to foreign corporations and domestic banks, which will take deposits and provide both foreign

\textsuperscript{126} OECD. (2013; 2014).

\textsuperscript{127} See IMF (2015a).

\textsuperscript{128} The nine banks include three Japanese banks (Bank of Tokyo-Mitsubishi UFJ (BTMU), Mizuho Bank, and Sumitomo Mitsui Banking Corporation (SMBC)); two Singaporean banks (Oversea-Chinese Banking Corporation (OCBC), United Overseas Bank (UOB)); and one bank each from Australia (Australia and New Zealand Banking Group Limited (ANZ)), China (Industrial and Commercial Bank of China (ICBC)), Malaysia (Malayan Banking Berhad (Maybank)), and Thailand (Bangkok Bank).
and domestic currency loans. In the future, it is expected that the role of foreign banks will be expanded, including transactions with domestic firms.

Essentially, the major outcome of AEC’s policies pursuing greater regional financial integration will be to expand and modernize the financial sector in Myanmar. By making it easier and cheaper to move capital between ASEAN member states, those interested in investing in Myanmar can do so. And given the attraction of Myanmar as a large market with immense potential, there will be many eager to invest in the country. Although the Myanmar’s domestic financial sector may be unable to handle significant surges of capital inflows, and foreign investors may not yet have full confidence in local Myanmar financial institutions, this should be less of an impediment in the medium- and long-terms. This is because of the strong indication by the Myanmar government of encouraging the presence of foreign banks in order to modernize and develop the country’s banking sector, and the corresponding very strong interest by foreign banks to enter Myanmar. Thus, within the next few years, foreign banks can be expected to play a substantially larger role in the country’s financial system, greatly relaxing the present financing constraint on businesses.

Thus, as a result of the AEC policies, combined with domestic developments, particularly in banking, the financial sector in Myanmar will be infused with much more capital than at present. This should make it easier for businesses, including SMEs, to gain access to financing. As banks have more capital, they will be looking to make more loans, thus expanding the pool of potential clients. Furthermore, banks will be able to invest their revenues as the sector expands. This could be in new branches in smaller towns, farther away from the major population centres, which could allow local SMEs to have easier access to financial institutions. Or banks may choose to invest in improving their business operations and staff training. This could lead to improvements in banks’ risk assessment capabilities. The effects of this could be that banks are more willing to lend to SMEs that are deemed sound clients, it could lower banks’ demands for collateral on certain loans to more affordable levels, and it could also make the risk assessment process faster and more efficient, thus reducing the time between application for a loan and actual receipt of funds. The foreign banks entering the market can be generally assumed to already have an advanced level of operations and capital. They should therefore be relatively efficient at processing loans (at least after a brief period of training for local staff), and they may be more willing and better prepared to lend to SMEs than their more risk-averse domestic counterparts.

Improvements in infrastructure should also benefit businesses seeking access to money from the financial sector. Improvements in ICT infrastructure would allow banks to improve their operations. Better access to more reliable, more advanced ICT would allow them to operate more efficiently, and also improve communication and processing of information between different branches, or branches and headquarters. For businesses, improved ICT, and access to ICT, would enable them to increase their awareness of options for sources and types of financing. Businesses could learn of the variety of financial service institutions in their area, and may be able to better compare the requirements and conditions of loans from the different institutions, allowing them to get loans from the institutions that can best meet their needs. Additionally, improved transport infrastructure would be a boon to SMEs that operate outside major population centres, reducing the time a business owner or representative needs to travel to financial institutions in multiple locations, thus increasing their chances of receiving a loan.
As Myanmar’s financial sector evolves, businesses that are able to attract foreign investment will be able to benefit relatively more in terms of accessing capital. These businesses will be seen by the banks as better, more reliable investments, which should improve their likelihood of successfully gaining a loan, and improving the terms of their loan contract due to the decreased risk. In addition, businesses that gain foreign investment are likely to have more collateral for the banks, which would enable them to access greater sums of money, and thus expand their business more rapidly.

The freer flow of goods in the region should enhance the development of regional value chains, and also increase opportunities for Myanmar businesses to integrate into these value chains. Myanmar businesses that are able to secure an agreement to be a supplier of goods to a larger foreign company can benefit in terms of greater access to trade and supply chain finance. Trade finance includes loans and guarantees for imports and exports, with guarantees often in the form of letters of credit (LOC), which shift an exporter’s payment risk to the bank. Supply chain finance is a form of receivables finance, or factoring. For example, the SME supplier sends an invoice to a (larger, international) buyer, who approves it in a supply chain finance platform, on an irrevocable basis, allowing the supplier to sell the invoice to a financial institution. Supply chain finance could be particularly important for Myanmar businesses, including SMEs, within the framework of the AEC and beyond. It provides an opportunity for firms, especially SMEs, that generally have difficulty accessing financing, by addressing two key constraints: poor financial position, and lack of collateral. Unlike traditional bank lending, such as for working capital, that stresses a firm’s financial position and available collateral, supply chain finance focuses on the strength and longevity of a supply chain, and the longer-term mutual dependence of buyer and supplier. For Myanmar suppliers it allows for early payment of invoices; reduces working capital requirements by reducing outstanding payables; leads to more predictable payment flows, and therefore easier cash management; strengthens relationships with international buyers; and reduces the cost of financing.

Summary

The various provisions of the AEC, combined with ongoing developments specific to Myanmar’s financial sector, should significantly enhance the ability of businesses, including SMEs, to get financing from banks and other financial institutions. Over the coming years, the Myanmar financial sector is likely to have a much-improved capacity to mobilize savings and provide financing to businesses (and households). However, businesses should also be proactive in putting themselves in the best position to take advantage of these changes. Improvements in infrastructure will enhance their ability to access financial institutions, and to find the institutions that can offer the most attractive conditions for loans. Furthermore, Myanmar businesses will greatly increase the likelihood of their access to financing if they focus on improving and growing the business itself—including by strengthening their capacity to attract foreign investment, integrating into regional and global value chains, and ensuring they remain competitive in a changing domestic market.

Creating and protecting your company’s innovation

As the AEC takes effect, Myanmar businesses will have greater opportunities—and pressures—for innovation. Innovation can be defined as “the generation of a new idea and its implementation into a new product, process, or service, leading to… creation of pure profit for the innovative business enterprise”\(^1\). Product innovation involves development of new types of products and services. Process innovation is new ways of producing those goods and services. Business model innovation means finding new ways of doing business, for example with marketing and distribution channels.\(^2\) It is important that businesses put more advanced technology to good use, because in the future increased competition from foreign (and domestic) companies will likely force local businesses to innovate.\(^3\) Further encouraging local innovation are AEC initiatives on intellectual property rights (IPR) that will help companies to protect and profit from the innovations that they make. Although Myanmar businesses may initially be at a disadvantage, the enterprises that are able to successfully adapt and innovate will have the potential for strong growth.

E-commerce as innovation

The AEC policies on ICT and the free flow of goods should combine to make the use of e-commerce a much more viable innovative option for Myanmar businesses, especially SMEs.\(^4\) E-commerce provides a wide range of opportunities for innovation by Myanmar businesses. At present, given the lack of widespread availability of modern technology for businesses, as well as poor access to power, e-commerce is under-utilized in Myanmar. (E-commerce can be defined as “the sharing of business information, maintaining of business relationships, and conducting of business transactions by means of telecommunication networks”\(^5\).) It can be an extremely valuable tool for businesses for new ways to reach their customers and build business relationships with other enterprises. As noted, a big part of the attractiveness of e-commerce is in selling goods and services online. This allows for a business to sell to customers, both businesses and households, located far away—who might otherwise not have known about the particular business. It also allows firms to reduce their costs, by reducing the need for physical brick-and-mortar stores, saving on associated costs like rent, maintenance and staff. Other advantages include the ability for a business to sell to customers 24/7, rather than being limited to traditional business hours; and businesses can make/sell a greater variety of goods without the need for having space to display all the goods in a store. Furthermore, with the proliferation of e-commerce in a country or region, there would be advantages for businesses that source intermediate products (e.g. parts, components). The purchasing businesses would be able to more easily compare the prices of the various prospective suppliers. E-commerce could also make

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\(^2\) Abe, et al. (2012).


\(^4\) ESCAP. (2006).

purchase the goods/services a faster, easier process (as well as saving the business owner/manager time in traveling to negotiate and make the deal in person). Thus, e-commerce could hold significant potential for new ways for Myanmar firms to do business. Currently a number of major issues in terms of lack of access to technology (see table 7) and reliable energy supply constrain the spread of e-commerce in Myanmar. But the combination of the gradual elimination of these barriers, along with numerous other beneficial developments resulting from the AEC, will provide a wide range of opportunities for businesses in Myanmar.

Table 7: ASEAN fixed broadband subscriptions per 100 people (2013)

<table>
<thead>
<tr>
<th>Country</th>
<th>Fixed broadband subscriptions per 100 people</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>26.03</td>
</tr>
<tr>
<td>Philippines</td>
<td>9.12</td>
</tr>
<tr>
<td>Malaysia</td>
<td>8.22</td>
</tr>
<tr>
<td>Thailand</td>
<td>7.36</td>
</tr>
<tr>
<td>Brunei Darussalam</td>
<td>5.71</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>5.62</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1.30</td>
</tr>
<tr>
<td>Least developed countries (UN classification)</td>
<td>0.34</td>
</tr>
<tr>
<td>Cambodia</td>
<td>0.22</td>
</tr>
<tr>
<td>Myanmar</td>
<td>0.18</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>0.13</td>
</tr>
</tbody>
</table>


The implementation of the measures on ICT will be quite important for those hoping to engage in, or improve their operations, in e-commerce. The AEC’s commitment to reduce the digital divide, both between and within countries, should help businesses (and households) throughout Myanmar to get improved access to ICT products and services. Certainly, access to ICT products and services, especially for those who previously did not have access is vitally important to fostering e-commerce for businesses within the country. Additionally, this goal of reducing the digital divide within ASEAN, if successfully achieved, should improve access to ICT for potential consumers or other businesses living in areas close to Myanmar who had limited access before, including rural parts of Thailand, as well as Viet Nam, Lao PDR and Cambodia. This would further increase the reach of Myanmar businesses that engage in e-commerce. The AEC goal of liberalizing the trade in ICT products and services should also further help in increasing access to ICT within Myanmar. Its other major effect would be to make ICT products and services significantly cheaper (just as liberalization of trade in other goods), thus making it more accessible for a business to utilize e-commerce. The liberalization of trade, and therefore more widespread use of ICT services in other ASEAN countries, could be especially helpful for Myanmar businesses looking to outsource the development of their website/online payment processes/etc., who then could consider foreign-based firms as options.

The ASEAN Broadband Corridor contained within the ASEAN ICT Masterplan should have numerous benefits for e-commerce. The project “aims to promote greater broadband penetration,
affordability and universal access in ASEAN in order to enhance economic growth.”¹³⁵ This initiative, a greatly helpful tool for e-commerce, should increase access to ICT in Myanmar. Furthermore, the ASEAN Broadband Corridor could help ensure that the broadband is available at a lower price than might otherwise be the case. Due to the ambitious objective of this initiative and the local conditions in Myanmar, the ASEAN Broadband Corridor ultimately might only have a substantial impact on Myanmar’s major cities, or possibly just Yangon and perhaps Mandalay in the near future. Another initiative under the ASEAN ICT Masterplan, the intended improvements to cyber security, could be also a key benefit to local businesses engaging in e-commerce. This is because Myanmar consumers, not used to buying products/services online or giving out sensitive financial information online, might be otherwise wary of the risks of e-commerce. Such improvements to cyber security could also bolster foreign consumers’ confidence in the ability of Burmese enterprises to keep consumer information private and secure. If the AEC is successful in its aim to improve cyber security in the region, this could help assuage potential concerns of customers, thus making e-commerce more popular.

The measures on the free flow of goods will also be greatly beneficial to businesses looking to e-commerce. Tariff liberalization, as well as the initiatives to reduce the number and complexity of standards and procedures, will mean that local businesses can sell their products in other ASEAN countries more cheaply and easily than before. This will help “level the playing field”, making their prices more competitive with the local companies in those countries, who do not have to deal with tariffs, customs and other related issues. In this way, e-commerce can become a viable option for not only selling to customers within Myanmar, but ASEAN as a whole. The initiatives to make the various procedures and standards easier to navigate should make a particularly great difference to SMEs, who might otherwise not be able to spare the time and money necessary to surmount these barriers to exporting their products.

Effects of greater competition

As discussed at length previously in this publication (see “Staying Ahead of the Competition” earlier in this section), the AEC includes numerous measures that will have the effect of increasing competition in the Myanmar domestic market. One of the main ways that local businesses can compete with the foreign entrants and growing domestic competitors is through innovation. This is particularly true in the case of SMEs, who might not be able to compete with larger companies on price or quality alone. And in fact SMEs are a key source of innovation globally.¹³⁶

When a business innovates by creating a new product or service, it could potentially see a significant jump in revenues and profits. If the product or service is sufficiently unique and holds real appeal for a substantial portion of the customer base, the business selling this product or service can benefit from increasing its total sales as more people/businesses demand what the business is selling. With greater demand and differentiation from its competitors, the business may also be able to charge a higher price for the product/service, leading to higher profits.

Innovating in production and business processes could also be an important way for local businesses to compete with the new foreign competitors. By investigating and experimenting with changes in how the business creates its good or service, it could find improvements, for example, in increasing the efficiency of the production process (productivity), leading to lower costs, allowing the firm to sell its good or service more cheaply than before, or to generate higher profits. Process innovation could also increase the quality of the product to better compete with foreign companies’ offerings. This could help a local business maintain (or even increase) its sales in the face of foreign competition.

Exposure to new, high-quality foreign products and services could also help Myanmar businesses improve their own products and services. As the AEC takes effect, foreign competitors will enter the Myanmar market and sell products and services that will often be of a higher quality than those of most local businesses. By observing these new foreign products and services, and the market response, local businesses may be able to gather valuable information useful in improving the quality and attractiveness of what they are selling.

Getting more advanced technology into the hands of local businesses

Utilization of more advanced technology can help businesses to increase their profits in a number of ways. For example, as noted earlier, if more advanced technology is introduced into the production process, businesses could further reduce costs and/or improve the quality of their products or services. Use of ICT in particular can improve a business’s information and knowledge management, intra-company and external communications, customer service, marketing, and logistics management.  

The AEC’s liberalization of the trade in ICT products and services will reduce price and increase availability and choice. This should give many Myanmar businesses the opportunity to better implement ICT in their organizations, improving performance. A study in Thailand in 2003 found that in the manufacturing sector, for example, companies “using computers had on average 10 times higher sales per employee than manufacturers without computers” and that “the order of magnitude is higher when comparing sales per employee in firms with and without web presence”. Although the difference from Internet use might not be as great initially in the case of Myanmar (due to the lack of positive network effects—relatively fewer firms in Myanmar will have the Internet, thus reducing the total amount of business-to-business Internet-based communication, even for companies that are online), the clear improvement that ICT use makes in sales in the Thai case suggest the improvements it can make to a business.

Some businesses in Myanmar could gain access to more advanced technology through foreign investment. As noted, the foreign company may provide the local partner with more advanced technology, and strengthen related skills to improve operations. This may involve communications technology, which the local business could also use to more efficiently manage and expand relations with other potential buyers and suppliers. Or the technology might be

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equipment or machinery used in the production process, improving efficiency and reducing costs, or increasing the quality of the product as noted earlier. Furthermore, a local business that gets this more advanced technology could then be in a better position to innovate—improving its production process or creating a new product or service altogether.

**IPR and its effect on innovation**

The AEC aims to improve conditions for intellectual property rights (IPR) in the region, in order to help make ASEAN more globally competitive. As defined by the World Intellectual Property Rights Organization (WIPO), “intellectual property [IP] refers to creations of the mind: inventions; literary and artistic works; and symbols, names and images used in commerce”.\(^{139}\) Thus, intellectual property rights “allow creators, or owners, of patents, trademarks or copyrighted works to benefit from their own work or investment in a creation”.\(^ {140}\) Essentially, then, IPR are a means by which the innovation and creativity of businesses (and individuals) can be protected.

These developments on IPR should encourage businesses to create and innovate, since the development and enforcement of IPR means that businesses’ rights to their creations and innovations are protected, providing a greater advantage in the marketplace. Businesses could then direct more effort and resources into their branding, for example, since a business that is successful and has a distinctive brand can prevent rivals from trying to steal customers by copying or mimicking that business’s name/slogan/logo/etc. Similarly, businesses that innovate with respect to their production process or create new products would be able to better protect their innovations so that other businesses cannot copy them. The result of this would be that businesses could derive a greater competitive advantage from innovation, and therefore would have a greater incentive to innovate. A business that creates a new product that has high sales would not have to worry about rivals producing an identical version of that product, and thus the high sales could be maintained.

However, these IPR policies coming into effect also means that businesses should check that their present products and operations are not in violation (either intentionally or unintentionally) of any copyrights/trademarks/industrial design/etc. Whereas before it may have been a good strategy to copy competitors, after the AEC is implemented, if competitors register their IP, then any businesses copying their competitors could face legal sanction (i.e. being forced to stop violating the IPR, and possibly fines). Furthermore, foreign companies and individuals looking to invest in Myanmar might not want to invest in businesses that appear to be violating IPR, for fear of future legal sanction and negative impact on the business.

Given the nature of the changes that the AEC will bring, Myanmar businesses—especially those in larger urban centres—should try to take advantage of improved access to cheaper, better technology. It is important that they put themselves in a good position to innovate in the future, as increased foreign and domestic competition could potentially transform local markets and force local businesses to adopt new approaches to how they operate and what they sell.


\(^{140}\) Ibid, p.3.
Furthermore, businesses will be able to take full advantage of any innovations that they make, thanks to better IPR enforcement.

Innovating for the ASEAN and Asian emerging markets

The AEC provides an opportunity for Myanmar firms to export through innovation, and to approach innovation in a more accessible way, particularly for SMEs. Growing disposable incomes, leading to rising purchasing power, coupled with demographic shifts to a younger, better-educated population (projected to reach 650 million by 2020, half under age 30) and increased urbanization, will create in ASEAN a consumer market with distinct needs and strong buying power. Added to this, Myanmar borders two of the world’s largest and most dynamic emerging economies, China and India. However, ASEAN, China, and India are very much emerging markets. Although the region’s aggregate weight in the global economy is increasing appreciably, spending levels will remain considerably lower in coming years compared to those of developed economies such as the United States (table 8), which along with the EU has been the primary final market for much of the region’s (manufactured) exports. This creates new types of opportunities for firms, including SMEs, to innovate products, processes and business models particularly suited to these consumers and markets. To take advantage of these opportunities in Asian emerging markets require a non-traditional wider concept of innovation, but one that is likely to be much more accessible to Myanmar businesses, including SMEs.

Table 8: Nominal ASEAN-6, China and India GDP per capita (compared with the United States’ GDP per capita)

<table>
<thead>
<tr>
<th>Nominal GDP per capita (exchange rate adjusted)</th>
<th>2000</th>
<th>2010</th>
<th>2030 (projected)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>2.2%</td>
<td>6.2%</td>
<td>13.6%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>11.6%</td>
<td>17.8%</td>
<td>25.4%</td>
</tr>
<tr>
<td>Philippines</td>
<td>2.8%</td>
<td>4.2%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Singapore</td>
<td>65.0%</td>
<td>91.6%</td>
<td>No projection</td>
</tr>
<tr>
<td>Thailand</td>
<td>5.7%</td>
<td>10.2%</td>
<td>18.8%</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>1.1%</td>
<td>2.4%</td>
<td>5.5%</td>
</tr>
<tr>
<td>India</td>
<td>1.3%</td>
<td>3.1%</td>
<td>8.8%</td>
</tr>
<tr>
<td>China[^142]</td>
<td>2.7%</td>
<td>9.3%</td>
<td>34.3%</td>
</tr>
</tbody>
</table>


The usual approach to innovation tends to focus on high-level research and development (R&D), advanced science and technology, and highly sophisticated education and skills. These are very


[^142]: The estimate by Euromonitor (2014) is significantly lower, putting the United States’ per capita gross income at 4.6 times that of China in 2030, or China at 21.7% of the United States. (Source: Euromonitor International, (2014).*China Overtakes the US as the World’s Largest Economy: Impact on Industries and Consumers Worldwide*).
important, but likely to remain beyond the reach of the vast majority of Myanmar firms in coming years. The economies of ASEAN, China, and India are, and will continue to be, characterized by mostly lower income customers (figure 18), fragmented markets, large rural populations, constraints on infrastructure such as power, and inadequate access to maintenance and supporting services—similar in many ways to Myanmar’s domestic market. This can present opportunities for Myanmar businesses through more accessible market-responsive innovations appropriate to opportunities provided by the region’s economies. The challenge is to innovate products and services that are suited to local user conditions, which also have similarities to Myanmar’s domestic market.

**Figure 18: ASEAN households by annual disposable income band: 2014 and 2030 (projection)**

![Diagram showing income bands for ASEAN households](image)


In these settings, innovation is likely to be most effective when it starts from an understanding of the particular customer needs and constraints, and works back to a product or service. Therefore investments in early stage product-related interactions with consumers, production process improvements, technology adaptation, and in new types of business systems—including sales, distribution, and support activities—may be as, or more, important than the traditional focus on high technology R&D, in shaping innovation and commercializing new ideas. Innovation for ASEAN (as well as for China and India) is thus a wider concept that includes the creation of new products and production processes, adapting existing technologies to local user needs and constraints, and developing new types of marketing and distribution channels, services, and business models, tailored to consumers and conditions in the region’s markets. This is particularly important for Myanmar firms, especially SMEs, for whom adapting existing technology to particular local user needs and settings is most likely to provide more accessible routes to commercially viable products and services in coming years. This is the concept of
“frugal innovation”, which in turn, can provide the basis for potentially scaling up to serve global niche markets, or “reverse innovation”.

Box 3: Frugal innovation and reverse innovation

There are numerous successful examples of frugal innovation and reverse innovation, particularly from India and China. There are important potential lessons for Myanmar firms that are likely to allow for more accessible innovation suitable for ASEAN (and Chinese and Indian) markets.

First Energy's Oorja stove, developed originally for rural India, is low-smoke, low-cost, highly efficient, powered by rechargeable batteries with pellets from organic biofuel made of processed agricultural waste, and distributed and marketed in innovative ways using rural housewives and NGOs. It is now sold in urban centres and exported to South-East Asia. China’s Rapoo computer mouse responds to the constraints, needs, and incomes of Chinese households, where it is often used as a remote control device for televisions. Galanz (China) developed microwave ovens that are simple, energy-efficient, low cost, small, and flexible for local needs with novel applications for stir-frying, deep-frying, and steam cooking, then built on local success for expanding global exports. In India and China, General Electric (GE) also developed ultrasound and electrocardiogram machines specifically to meet income, infrastructure and service constraints found in emerging Asia, and they have also found lucrative niche markets in the EU and United States.

Summary

Given the challenges and opportunities of the AEC implementation, Myanmar businesses have to focus increasingly on innovation as a response. This includes product, process and business model innovation, all of which allow firms to be more competitive in both domestic and regional markets. E-commerce provides important ways for Myanmar enterprises, particularly SMEs, to change the way they do business, as can adopting and adapting more advanced technology, in turn improving their competitive performance. Strengthening IPR rules and compliance will allow Myanmar businesses to protect their ideas, and will make the country more attractive to foreign firms concerned about placing their products and technology at risk. Furthermore, consumers in ASEAN, (as well as China and India), have high aspirations, but relatively low incomes and a variety of constraints similar to Myanmar, including fragmented markets, infrastructure gaps, and high proportions of rural populations. Innovation for these markets is likely to be most effective when it starts from an understanding of the particular customer needs and constraints, and works back to a product or service. This provides the basis for a broader concept of innovation, one more accessible to Myanmar firms, including SMEs.

Conclusion

The ASEAN Economic Community or AEC will bring a large number of changes to the economy of Myanmar and other CLMV countries, as well as to the ASEAN region as a whole. Goods and services will flow more freely and cheaply across borders throughout the region, investment flows between countries (and into Myanmar) are likely to rise significantly, and connectivity will be enhanced through improvements in physical infrastructure, including transport, energy and ICT.

These changes will undoubtedly bring new challenges and opportunities to Myanmar businesses. Myanmar is an attractive “frontier market” with a large consumer base, strategic geographic location, and much potential to grow. These factors mean that businesses from around the region will be seriously considering whether to export to, or invest, in the country, if they are not already doing so. Given the development gap between Myanmar (and other CLMV countries) and its neighbours, many of the foreign businesses are likely to have advantages in their production or operations that render them more competitive than local businesses. Furthermore, the entry of a large number of foreign competitors into the domestic market will also indirectly impact local businesses, for example in the land or labour markets.

However, despite this, it is possible for Myanmar businesses to compete and succeed in the domestic market and beyond after the official implementation of the AEC 2015. While the official unveiling of the AEC is on 31 December 2015, its full implementation will take place gradually over time, meaning that businesses have time to prepare for, and adjust to, the coming changes. Meanwhile, as Myanmar’s development continues apace, many of the inhibiting factors currently experienced by businesses will see some level of improvement over the coming years. The Government continues to implement new regulations designed to improve operating conditions for business, access to technology is increasing, and the banking sector is slowly expanding and developing.

There are ways in which Myanmar businesses can improve their position for when the AEC takes effect. They should increase efforts to innovate, examining their production, logistics processes and business systems to see what improvements can be made to make their products and services cheaper and/or of a higher quality to consumers. This will also likely require some investment in research and development, and the introduction of newer, more advanced technologies and skills. Additionally, business-owners should determine how they will ensure they can retain their talented employees if they anticipate high levels of foreign investment in their industry. This could include maintaining wages that are competitive, and improving the quality of life for employees through non-wage benefits and improved work conditions. Table 9 finally summarizes detailed AEC policies and their implications for business.

Using the information in this publication as an entry-point, businesses should also conduct further research in the specific areas in which their business can take advantage of the coming changes. For example, businesses that feel that their product or service can be competitive on a regional level should prepare to take advantage of the relevant policies of the AEC. This would involve learning about the new requirements for export (e.g. certification, permits) and research the other markets in ASEAN, as well as the logistics of transporting and distributing their
products to the foreign markets. Firms need to research the variety of standards, for example relating to safety and quality necessary to export their particular product, and make sure that they can meet them.

Although this guide maintains a central focus on Myanmar and the likely impact of the AEC on Burmese enterprises, much of the core analysis and recommendations are also applicable to businesses in Cambodia, Lao PDR and Viet Nam (the other CLMV countries). As shown in the figures and tables throughout this guide, businesses in these three countries are in broadly similar positions to Myanmar—faced with relatively underdeveloped infrastructure, lower average domestic incomes, poorer reputations among ASEAN consumers, and limited access to technologies. Thus, Cambodian, Lao, and Vietnamese can use this publication as a resource to help in interpreting how they may be affected by developments associated with the AEC.

While focusing on the near-term changes as the AEC takes effect, it is also important to look ahead to the longer-term future of ASEAN. As discussed in this guide, the AEC, as currently envisaged, is still at the relatively early stages of integration, as compared to the EU or Eurozone. This is to be expected, given the disparate levels of development in the region and the relatively recent concerted efforts at formal economic integration. If the AEC’s implementation is successful, however, then as the development gap in the region narrows in coming years, ASEAN can consider progressing further along the path of economic integration.

The ASEAN Economic Community will create both challenges and opportunities for Myanmar businesses and all businesses in the region. Through sufficient preparation for the coming changes, businesses can navigate future difficulties and take advantage of the benefits that the AEC has to offer.
## Table 9: Summary of AEC policies and their implications

<table>
<thead>
<tr>
<th>Key AEC Policies</th>
<th>Key Implications for Your Business</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Single Market and Production Base</strong></td>
<td></td>
</tr>
<tr>
<td>Free flow of goods</td>
<td>- Reduces costs of exported/imported goods to buyers</td>
</tr>
<tr>
<td>- Tariff liberalization</td>
<td>o Cheaper for foreign firms to export to Myanmar (increasing competition in the domestic market)</td>
</tr>
<tr>
<td></td>
<td>o Cheaper for foreign firms and households to buy from Myanmar businesses (increasing opportunity for sales)</td>
</tr>
<tr>
<td>- Elimination of non-tariff barriers (NTBs)</td>
<td>- Reduce costs and improve efficiency (e.g. time, complexity) of getting goods and services to buyers</td>
</tr>
<tr>
<td></td>
<td>o Cheaper and easier for foreign firms to export to Myanmar (increasing competition in the domestic market)</td>
</tr>
<tr>
<td></td>
<td>o Cheaper and easier for Myanmar businesses to export (increasing opportunity for sales)</td>
</tr>
<tr>
<td>- Streamlining Rules of Origin (ROO)</td>
<td>- Revising rules of origin increases the amount of products that can benefit from liberalized tariffs and reduced non-tariff barriers</td>
</tr>
<tr>
<td></td>
<td>o More foreign-made products entering the Myanmar market at reduced cost</td>
</tr>
<tr>
<td></td>
<td>o More attractive for foreign buyers to source from Myanmar firms</td>
</tr>
<tr>
<td></td>
<td>o Myanmar enterprises using some inputs from outside of ASEAN can still take advantage of lower tariffs and fewer NTBs</td>
</tr>
<tr>
<td>- Creation of ASEAN Trade Repository (ATR)</td>
<td>- ASEAN Trade Repository will provide key information on trade rules and regulations to exporters</td>
</tr>
<tr>
<td></td>
<td>o Cheaper and easier for foreign companies to export to Myanmar</td>
</tr>
<tr>
<td></td>
<td>o Cheaper and easier for Myanmar exporters to access regional markets</td>
</tr>
</tbody>
</table>
| Customs integration and modernization | Reduces time and complexity (and cost) of shipping goods to foreign countries  
| | o Easier (faster and cheaper) access for foreign goods to reach Myanmar markets  
| | o Easier access for Myanmar exporters to reach foreign markets  
| | o Increases potential for integration into regional or global value chains (businesses may have opportunity to be regular suppliers to larger enterprises)  

| ASEAN Single Window (ASW) | Greatly reduces complexity in exporting goods (particularly to/through multiple countries); increases speed of the export process  
| | o Increases opportunity for Myanmar businesses (including those with limited experience exporting) to export abroad to ASEAN countries  
| | o Encourages foreign companies to export to Myanmar, increasing competition  

| Free flow of services | Easing restrictions on banks and other financial institutions  
| | o Could help increase access to financial services, at better rates  
| | ▪ However, this measure may be implemented more slowly in Myanmar than in neighbouring countries  

| Liberalization of financial services | Investment protection will reduce risk to investors and make them feel more confident in making investments  
| | Facilitation and cooperation will simplify and increase the consistency of regulations across countries, as well as making relevant information more accessible to businesses  
| | Promotion and awareness will try to encourage more investment flows from ASEAN-6 to CLMV countries  

| Free flow of investment | Liberalization reduces restrictions on investment flows  
| | Investment protection  
| | Investment facilitation and cooperation  
| | Promotion and awareness  
| | Liberalization  

| Free flow of investment | Liberalization | Reduces restrictions on investment flows | Investment protection | Investment facilitation and cooperation | Promotion and awareness | Liberalization  
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| | Investment protection will reduce risk to investors and make them feel more confident in making investments | Facilit
Taken together, these initiatives should help to increase the amount of foreign investments flowing into Myanmar, potentially from outside ASEAN as well, which local enterprises can try to take advantage of to help grow their business. Such investments will expand the domestic market for local firms by introducing new products as new market opportunities also for local firms. They also can lead to expanded sourcing by foreign buyers setting up local operations within the framework of regional and global value chains.

- However, foreign companies may still be wary of investing in Myanmar due to unfamiliarity with the country, or questions about the political environment.
- For the (relatively few) larger Myanmar companies, it will be easier and safer to invest in other ASEAN countries.

Freer flow of capital

- Financial integration within ASEAN
  - Liberalization of financial services
  - Capital account liberalization
  - Capital market development

- Liberalization of financial services and capital account liberalization would make it easier for financial flows to move across borders within ASEAN.
  - This would likely increase money coming into Myanmar, which could be in the form of investment, or banking/credit support for businesses.

- Capital market development would strengthen the individual capital markets of each member country, while creating an integrated capital market in ASEAN (which would increase the speed, efficiency and reliability of money flowing between countries).
  - Easier, faster, and cheaper for foreign businesses to do business in Myanmar.
  - Easier, faster, and cheaper for Myanmar businesses to do business in other ASEAN countries.
| **Asian Bond Market Initiative (ABMI)** | • Encourages and fosters the development of a bond market in Myanmar  
  • Will likely take several years before it becomes a viable option  
  • In the medium-term future, could help expand the financing options available to businesses, allowing them access to capital without ceding control/ownership of their business |
| **Free flow of skilled labour** | • Theoretically makes it easier for skilled workers in select sectors (medicine, dentistry, nursing, engineering, architecture, surveying, accounting, and the hotel and tourism industry) to work in other ASEAN countries  
  • Likely to have a limited impact, due to:  
    - Small number of sectors affected  
    - Requirement for the workers to demonstrate full proficiency in the local language of the country they intend to work in |
| **Competitive Economic Region** | • Improved IPR protection reduces perceived risk  
  • Can lead to increase in foreign companies contracting Myanmar businesses to provide parts, components, services, etc.  
  • Local businesses should be able to copyright their brands/innovations more easily and quickly  
  • Could encourage greater innovation by local enterprises |
<p>| <strong>Infrastructure development</strong> | • Businesses can move greater quantities of goods, and transport goods (or services) more quickly, efficiently, and cheaply, both within Myanmar, and to neighbouring countries |</p>
<table>
<thead>
<tr>
<th>Item</th>
<th>Details</th>
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<tbody>
<tr>
<td>Foreign businesses can move products</td>
<td>Foreign businesses can move products to Myanmar, and from Myanmar, more efficiently and cheaply</td>
</tr>
<tr>
<td></td>
<td>o Can increase competition in domestic market</td>
</tr>
<tr>
<td></td>
<td>o Offers greater opportunity for local companies to supply to foreign firms</td>
</tr>
</tbody>
</table>
| Information and communications technology (ICT) infrastructure development | Will improve access to ICT, improve quality of ICT available, and decrease costs of using ICT  
  o Can make businesses’ abilities to communicate with suppliers, transport companies, etc., cheaper and faster, which can allow greater responsiveness to the market (thus increasing sales)  
  o Greater access to ICT could improve businesses’ potential to innovate new products or processes  
  Improved ability for foreign companies to communicate with local businesses could increase the amount of partnerships with local businesses, or sub-contracting supply work for local businesses |
| Energy infrastructure development         | Would lead to cheaper, more widely-available, and more reliable energy supply  
  o Reduces costs and losses, and reduces disruptions to operations, for local businesses and foreign companies operating in Myanmar |
| E-commerce                                | E-commerce promotion and facilitation could encourage some Myanmar residents to buy from foreign companies, thus increasing competition domestically  
  Should also increase ability for Myanmar businesses to sell to consumers abroad, including households and other enterprises  
  o An especially useful tool for SMEs, who can sell abroad without having to pay for a store, workers, etc. in foreign countries |

**ASEAN Integration into the Global Economy**

<table>
<thead>
<tr>
<th>Item</th>
<th>Details</th>
</tr>
</thead>
</table>
| Economic agreements—free trade agreements (FTAs) and comprehensive economic partnerships (CEPs)— | Expanded access to external markets for local enterprises  
  Expanded access for companies from outside ASEAN to the |
<table>
<thead>
<tr>
<th>with external partners</th>
<th>Myanmar market</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>o Could increase competition domestically</td>
</tr>
<tr>
<td></td>
<td>o Could also provide opportunity for local businesses to sell parts, components, or services to foreign companies</td>
</tr>
</tbody>
</table>
References


CIMB ASEAN Research Institute. (2013). Is ASEAN losing out in the Myanmar investment race?


Mission of Japan to ASEAN. (2015). Japan’s cooperation towards the AEC.


Annex 1
ASEAN’s Aims and Purposes (as established in the ASEAN Declaration)¹⁴⁶

1. To accelerate the economic growth, social progress and cultural development in the region through joint endeavours in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of Southeast Asian Nations;

2. To promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries of the region and adherence to the principles of the United Nations Charter;

3. To promote active collaboration and mutual assistance on matters of common interest in the economic, social, cultural, technical, scientific and administrative fields;

4. To provide assistance to each other in the form of training and research facilities in the educational, professional, technical and administrative spheres;

5. To collaborate more effectively for the greater utilisation of their agriculture and industries, the expansion of their trade, including the study of the problems of international commodity trade, the improvement of their transportation and communications facilities and the raising of the living standards of their peoples;

6. To promote Southeast Asian studies; and

7. To maintain close and beneficial cooperation with existing international and regional organisations with similar aims and purposes, and explore all avenues for even closer cooperation among themselves.

¹⁴⁶ ASEAN. (2014b).
Annex 2
The Fundamental Principles of ASEAN
(as set out in the Treaty of Amity and Cooperation in Southeast Asia, 1976)\textsuperscript{147}

1. Mutual respect for the independence, sovereignty, equality, territorial integrity, and national identity of all nations;

2. The right of every State to lead its national existence free from external interference, subversion or coercion;

3. Non-interference in the internal affairs of one another;

4. Settlement of differences or disputes by peaceful manner;

5. Renunciation of the threat or use of force; and

6. Effective cooperation among themselves.

\textsuperscript{147} Ibid.
## Annex 3
### A Side-by-side Comparison of the EU and the AEC

<table>
<thead>
<tr>
<th></th>
<th>EU</th>
<th>ASEAN</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Member states</strong></td>
<td>EU members - developed countries domination; far more symmetric</td>
<td>ASEAN members – both among the poorest and the richest economies; less symmetric(^{148})</td>
</tr>
<tr>
<td><strong>Focus of the integration process</strong></td>
<td>The pooling of sovereignty for common gains</td>
<td>The principle of non-interference, conflict avoidance and the respect of national sovereignties of each member state(^{149})</td>
</tr>
<tr>
<td></td>
<td>Rules-based economic integration backed by hard laws</td>
<td></td>
</tr>
<tr>
<td><strong>Type of regionalism</strong></td>
<td>Top-down – hard regionalism (supra national body mechanism)</td>
<td>Bottom-up—soft regionalism (inter-governmentalism mechanism)(^{150})</td>
</tr>
<tr>
<td><strong>Decision-making</strong></td>
<td>Institutional triangle (EC, EP, Council) – unanimity and consensus</td>
<td>As affirmed by the Charter, the basic principle of decision-making in ASEAN will be based on consultation and consensus (decision-making process that tends to be slow and at times could be counterproductive)</td>
</tr>
<tr>
<td></td>
<td>Less likely to avoid conflicts, but decisions are made and implemented surely in a timely and effective manner</td>
<td></td>
</tr>
<tr>
<td><strong>Trade in goods</strong></td>
<td>Internal tariff rate: reduced to zero per cent</td>
<td>Internal tariff rate: reduced to zero per cent</td>
</tr>
<tr>
<td></td>
<td>External tariff rate: all member states enforcing the same tariff</td>
<td>External tariff rate: no common external tariffs, each member state enforces its own rate</td>
</tr>
<tr>
<td><strong>Harmonization of economic policies</strong></td>
<td>Legal provisions binding all member states; Supremacy of the EU law; Sanction mechanisms</td>
<td>There are no legal provisions or regulations binding all member countries; No sanction mechanisms</td>
</tr>
<tr>
<td><strong>Financial integration</strong></td>
<td>After decades of customs union and a common market</td>
<td>More focused on FTAs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The direction of trade is heavily weighted outside the region for most countries(^{151})</td>
</tr>
</tbody>
</table>


\(^{151}\) Plummer. (2006).
| Regional Trade and Investment | Extensive Intra-regional trade EU maintained high level of trade protection. Beginning: Discrimination in favour of intra-EU imports | Inter-regional trade (towards other regions) Intra-ASEAN trade – market-driven, rather than being a result of policy-driven discrimination in favour of intraregional economic integration ASEAN countries’ most important partners for trade and investment would continue to lie outside the region\(^\text{152}\) |
| Public Awareness | Informed EU citizens well; translation in 24 languages; electing the members of the European Parliament (democratic nature of the EU); important role of EU governance | Not informed about ASEAN; Two thirds of the citizens lack even basic understanding of ASEAN; - 10 languages - Official working language is English. However, very low level of English proficiency in the region |
| External Free Trade Agreements | All new free trade agreements affect trade for the whole bloc equally and all members share the benefits | No such prohibitions against individual bilateral trade agreements, can lead to the “noodle bowl effect” |

\(^\text{152}\) Ibid.
### Annex 4

**The Initiatives and Deliverables of the ASEAN Intellectual Property Rights Action Plan 2011-2015**

<table>
<thead>
<tr>
<th>Initiatives</th>
<th>Deliverables</th>
</tr>
</thead>
</table>
| 1. Reduction of average turnaround time (from filing to registration) for the registration of trademarks without objections/opposition to six months by 2015 *Leads: Cambodia and Philippines* | 1.1 Best practices aimed at eliminating backlog applications in the member states are shared among and implemented by ASEAN IP offices.  
1.2 A manual of substantive examination is used by ASEAN trademark examiners.  
1.3 Simplified trademark workflow is implemented across ASEAN IP offices.  
1.4 An enhanced IT-system is deployed in each of the national offices.  
1.5 Trained trademark examiners and attorneys/agents. |
2.2 ASPEC is utilized by at least 5% of patent applicants by 2015.  
2.3 Patent directors and experts meetings are held regularly.  
2.4 Regular information awareness activities (including the development of information materials) to encourage the use of ASPEC are conducted in the region. |
| 3. Implementation of the Regional Classification of Ethnic Goods and Services *Lead: Singapore* | 3.1 List of ethnic goods and services is finalized and used by the member states to supplement the Nice Classification.  
3.2 Symposia and discussion meetings with the member states and stakeholders on the use of the regional classification of ethnic goods and services are undertaken in the region. |
| 4. Capacity building for patent professionals/attorneys *Lead: Singapore* | 4.1 The needs of patent professionals and areas for capacity building are identified.  
4.2 Trainings, workshops, and other similar activities are conducted in response to identified training needs.  
4.3 ASEAN patent professionals are trained in the patent laws, regulations, and procedures of the member states and high achieving IP offices in other regions.  
4.4 Periodic assessments of training programmes are undertaken to evaluate the results of capacity building activities, with areas of possible improvement identified. |
| 5. Capacity building for industrial design and trademark professionals/attorneys *Leads: Philippines and Viet Nam* | 5.5 The needs of industrial design and trademark professionals and areas for capacity building are identified.  
5.6 Trainings, workshops, and other similar activities are conducted in response to identified training needs.  
5.7 ASEAN industrial design and trademark professionals are trained in the laws, regulations, and procedures of AMSs and high achieving IP offices in other regions.  
5.8 Periodic assessments of training programmes are undertaken to evaluate the results of capacity building activities, with areas of possible improvement identified. |

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153 The Nice Classification, which is supervised by WIPO, is an international classification of goods and services applied for the registration of trademarks. Visit: [http://www.wipo.int/classifications/nice/en/](http://www.wipo.int/classifications/nice/en/).
### 6. Development and implementation of a Regional Action Plan on IPR Enforcement
*Lead: Philippines*

6.1 National internal guidelines for enforcement consistent with the civil, criminal, and administrative structures of AMSs are drawn up based on best practices identified through information sharing among national agencies in the member states that are tasked with IP enforcement.

6.2 Publicly available statistical information relating to IP enforcement, including the status of IP cases in the judiciary, is collated through a centralized coordinating unit and is accessible online in the region.

6.3 Reduced movements of pirated and counterfeit goods into and Between the member states are documented.

6.4 Private sector involvement in anti-piracy and information awareness campaigns at the regional level is intensified.

6.5 Workshops and symposia on enforcement issues and developments in IPR protection are held, and stronger linkages between the national IP offices and the judiciary in each member state to expedite the disposition of IP cases and other government agencies tasked with enforcement of IP rights are established.

6.6 Information awareness activities (including development of information materials) on enforcement are undertaken in the region.

### 7. Copyright exceptions and limitations for the visually impaired and persons with disabilities
*Lead: Singapore*

7.1 Information sharing on copyright exceptions and limitations for the visually impaired and persons with disabilities, including exploring best practices, and consultations with concerned interest groups in each member state to discuss the necessity of implementing the initiative on a regional or on a per country basis are undertaken.

7.2 ASEAN collective stand on copyright exceptions and limitations for the visually impaired and persons with disabilities is discussed and determined.

7.3 Agreed initiatives on the copyright exceptions for the visually impaired and persons with disabilities are implemented by 2013.

### 8. Effective use of copyright system by 2015
*Leads: Brunei Darussalam and Thailand*

8.1 National studies (for the member states that have not completed or commenced the study) on the contribution of copyright-based/creative industries to economic development are completed by 2012 and a forum to share the results is held thereafter.

8.2 Exchange of information and best practices relating to notification and recordation of copyright is undertaken by the member states in 2012.

### 9. Establishment of collective management societies in the member states by 2015
*Lead: Thailand*

9.1 Experiences and best practices relating to the member states’ respective collective management societies and/or copyright tribunal through regional policy dialogues are shared among them.

9.2 Studies on collective management societies/organizations, with special focus on their administrative/regulatory framework and the challenges and issues in their operations in the ASEAN region are completed.

9.3 Additional collecting societies in each member state are formed and linkages among these collecting societies to determine the feasibility of regional cooperation are established.

### 10. Creative ASEAN
*Lead: Thailand*

10.1 Survey on areas of interest among the member states on Creative ASEAN is conducted and assessment of the survey results is presented.

10.2 Possible areas of cooperation among the member states in relation to an ASEAN creative economy is identified and the implementation of activities under the Creative ASEAN programme determined by 2012.
<table>
<thead>
<tr>
<th>11. Protection of geographical indications (GIs)</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Leads: Thailand and Viet Nam</em></td>
</tr>
<tr>
<td>11.1 The systems of protection of GIs in each member state are compiled.</td>
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<tr>
<td>11.2 Review and analysis of the positions of the member states on GIs in the WTO is conducted and areas of convergence or a consolidated position on GI extension and registry is determined by 2012.</td>
</tr>
<tr>
<td>11.3 Information and best practices on enhancing the value of local products in the member states and in branding and protecting these products under any system of protection (sui generis GI or under the trademark system) are shared among the member states.</td>
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<tr>
<th>12. Protection of traditional knowledge (TK), genetic resources (GR) and traditional cultural expressions (TCE)</th>
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<tbody>
<tr>
<td><em>Leads: Indonesia, Cambodia and Lao PDR</em></td>
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<tr>
<td>12.1 the member states actively participate as a region in the World Intellectual Property Organization (WIPO) Intergovernmental Committee on IP, TK, GR, and Folklore meetings.</td>
</tr>
<tr>
<td>12.2 Developments in TKs, GRs, and TCE in the member states are shared among the member states.</td>
</tr>
<tr>
<td>12.3 Information on the experiences of China and India concerning the protection of TK, GR, TCE and establishment of national and regional database on TK, GR, and TCE (TK, GR, TCE Digital Library system) are identified by the member states and shared among them.</td>
</tr>
<tr>
<td>12.4 Interface with the ASEAN Working Group in charge of TK, GR, TCE for the formulation of better policies on their protection.</td>
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<tr>
<th>13. Plant Variety Protection</th>
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<tr>
<td><em>Lead: Viet Nam</em></td>
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<tr>
<td>13.1 Information and experience on UPOV implementation by Singapore and Viet Nam and on the respective national laws of other the member states on plant variety protection and their implementation are shared among the member states.</td>
</tr>
<tr>
<td>13.2 International discussions are monitored and emerging concerns on plant variety protection addressed.</td>
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<tr>
<th>14. Accession to Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks by the member states by 2015</th>
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<tbody>
<tr>
<td><em>Lead: Philippines</em></td>
</tr>
<tr>
<td>14.1 Backlogs are cleared, turnaround times are reduced, and infrastructures are in place for Madrid accession.</td>
</tr>
<tr>
<td>14.2 Studies on the issues and implications (legal and technical) of accession to the Protocol and results are shared among the member states.</td>
</tr>
<tr>
<td>14.3 Road map for accession is prepared by each member state.</td>
</tr>
<tr>
<td>14.4 Support for Madrid accession is secured from major business groups.</td>
</tr>
<tr>
<td>14.5 Law is amended, if required, and/or regulations governing the filing of Madrid applications in the member states are drafted.</td>
</tr>
<tr>
<td>14.6 IP Officers are trained in Madrid operations.</td>
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<tr>
<td>14.7 Information dissemination campaigns are held to encourage stakeholders to use the Madrid system.</td>
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<tr>
<th>15. Accession to the Hague Agreement Concerning the International Registration of Industrial Designs by at least seven member states by 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Lead: Philippines</em></td>
</tr>
<tr>
<td>15.1 Studies on the issues and implications (legal and technical) of accession to the Hague Agreement and results are shared among the member states.</td>
</tr>
<tr>
<td>15.2 Road map for accession is prepared by each member state.</td>
</tr>
<tr>
<td>15.3 Consultations prior to accession are held.</td>
</tr>
<tr>
<td>15.4 Law is amended, if required, and/or regulations governing the filing of Hague applications are drafted.</td>
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<tr>
<td>15.5 Guidelines operationalizing Hague are drafted.</td>
</tr>
<tr>
<td>15.6 IP Officers are trained in Hague operations.</td>
</tr>
<tr>
<td>15.7 Information dissemination campaigns are held to encourage stakeholders to use the Hague Agreement.</td>
</tr>
</tbody>
</table>
16.2 Studies on the issues and implications (legal and technical) of accession to the PCT are completed.  
16.3 Consultations prior to accession are held.  
16.4 Law is amended, if required, and/or regulations governing the filing of PCT applications are drafted.  
16.5 Guidelines operationalizing PCT are drafted.  
16.6 IP officers are trained in PCT operations.  
16.7 Information dissemination campaigns are held to encourage stakeholders to use the PCT. |
| Lead: ASEAN Secretariat | | |
| 17. Establishment of a regional network of patent libraries within schools and universities in the member states to increase access to global scientific and technology information for research and development | 17.1 Developed concept and mechanics of establishing a regional network of patent libraries.  
17.2 Technical assistance is provided to schools and universities that agree to establish patent libraries in the region.  
17.3 At least 20 regional patent libraries/patent information search facilities are established in ASEAN by 2015. |
| Lead: Philippines | | |
| 18. Development of a region-wide IP promotional campaign to raise awareness at all levels | 18.1 A series of high profile IP fora as part of the IP promotion campaign of ASEAN to engage high level officers of government and leaders of society are conducted.  
18.2 An IP Promotion Strategy (which will include toolkits) that takes into account various IP stakeholder groups is developed and implemented.  
18.3 A pool of IP resource persons from the member states who will conduct presentations, workshops, and lectures on IP in the region is formed by 2012.  
18.4 Regular updates of the progress of promotional campaigns are provided by each member state. |
| Leads: Lao PDR, Indonesia, Thailand, ASEAN Secretariat | | |
| 19. Improved awareness in ASEAN on technology transfer and commercialization | 19.1 Regional symposia and capacity building activities on technology transfer and commercialization are conducted in region.  
19.2 Dissemination of data and information on ASEAN IP Direct, including regular consultations by the member states with all ASEAN stakeholders, is conducted in the region.  
19.3 The extent of usefulness of ASEAN IP Direct and enhancement of the platform to improve its usability and continued collection of data/information for uploading on the website is assessed and necessary modifications made based on the results of the evaluation. |
| Leads: Thailand and ASEAN Secretariat | | |
| 20. Enhancing the capability of SMEs in the member states to generate and fully utilize IP | 20.1 Strategic plans for the promotion of innovation among SMEs in the member states are drafted.  
20.2 Training modules are designed for SMEs on identification and acquisition of IPRs, exploitation and enforcement of IPRs, cost-effective search for IP-related information, and IPR registration.  
20.3 Comprehensive collaborative programmes between the IP offices and science and technology, research and development institutions, and universities to improve their capacity to identify, protect, and manage their IPs are developed. |
| Lead: Malaysia | | |
| 21. Development of ASEAN IP Portal  
*Leads: Thailand and Singapore* | 21.1 An ASEAN IP Portal that allows the stakeholders of the member states to easily obtain IP information in the region is deployed.  
21.2 The ASEAN IP Portal is regularly updated, with one AMS tasked with its management for a specific period. |
|---|---|
| 22. Implementation of a structured cooperation with WIPO on a regional level  
*Lead: ASEAN Secretariat* | 22.1 Regional work plan with WIPO following a two-year cycle is adopted.  
22.2 Annual consultation to monitor the implementation of activities under the work plan is held and regular assessment is undertaken. |
| 23. Enhancement of Cooperation with Dialogue Partners  
*Lead: ASEAN Secretariat* | 23.1 ASEAN-Australia-New Zealand Free Trade Agreement is fully implemented through a work programme in response to priorities identified by ASEAN and Australia-New Zealand.  
23.2 The ASEAN Secretariat-United States Patent and Trademark Office Arrangement on the Field of Intellectual Property Rights Cooperation is implemented according to the needs of the region.  
23.3 The Financing Agreement of the EC-ASEAN Intellectual Property Rights Cooperation Programme is implemented according to the needs of the region.  
23.4 The ASEAN-China Memorandum of Understanding on Cooperation in the Field of Intellectual Property is implemented.  
23.5 Structured cooperation with the European Patent Office is established.  
23.6 Structured cooperation with the Japan Patent Office is established.  
23.7 Regular consultations between the member states and dialogue partners on the implementation of joint projects/activities are held.  
23.8 Periodic reviews/assessments of the results of the engagements are undertaken. |
| 24. Active participation by the member states in international fora and more open relationships with private stakeholders in the region  
*Lead: ASEAN Secretariat* | 24.1 The member states regularly participate in international fora (such as the WIPO and WTO meetings) and are updated on issues relating to IP.  
24.2 The member states interface with stakeholder groups, including international, regional, and national associations dealing with IP.  
24.3 Regional fora for private stakeholders as a feedback mechanism on the performance of ASEAN IP offices and as basis for continuous improvement are held regularly. |
| 25. Development of a strong negotiating position  
*Lead: ASEAN Secretariat* | 25.1 A minimum negotiating framework on IP is formulated and adopted by ASEAN and regular discussions on issues affecting the member states are conducted. |
| 26. Capacity building for patent examiners  
*Leads: Malaysia and Singapore* | 26.1 Training needs analysis of patent examiners in each member state and consolidation of results for all the member states are conducted.  
26.2 Structured training programmes for patent examiners based on training needs analysis are formulated.  
26.3 Trainings and seminars for ASEAN patent examiners to increase their capacity are regularly undertaken.  
26.4 Patent examiners’ exchange programme (within the region and with the national IP office of a dialogue partner) to improve their capacity is institutionalized. |
| 27. Capacity building for industrial design and trademark examiners  
*Lead: Philippines* | 27.1 Training needs analysis of industrial design and trademark examiners in each member state and consolidation of results for all the member states are conducted.  
27.2 Structured training programmes for industrial design and trademark examiners based on results of training needs analysis are formulated.  
27.3 Trainings and seminars for ASEAN industrial design and trademark examiners to increase their capacity are regularly undertaken.  
27.4 Industrial design and trademark examiners’ exchange programme (within the region and with the national IP office of a dialogue partner) to improve their capacity is institutionalized. |
|---|---|
| 28. Infrastructure Modernization of ASEAN IP Offices  
*Leads: Philippines and Viet Nam* | 28.1 Databases are cleaned up, updated, and accurate by 2015.  
28.2 Patent and trademark documents are digitized by 2015.  
28.3 Roadmap for enhancement of existing IT systems of IP offices is prepared.  
28.4 Recommendation on feasibility of implementing a common electronic data management system and linked search systems that will facilitate access to information among ASEAN stakeholders is prepared.  
28.5 An IT platform to facilitate ASPEC operations is identified and implemented. |