11 Industrial Policy and Special Economic Zones

Engaging Transformation in a Globalised World

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Since the 1960s, some countries in East Asia have implemented an export-led industrialisation strategy that resulted in sustained growth over the decades, following a developmentalist institutional framework. In a nutshell, states like Japan (Johnson 1982), South Korea (Amsden 1989), Taiwan (Wade 1990), and even China (Gabusi 2017) intervened in their national markets with all sorts of industrial policies characterised by support to domestic companies combined to selected exposure to the international markets. In other words, the state acted as a filter between the national economy and the global market – allowing some market incentives to percolate from the outside but avoiding the disruption of the weak domestic industry. This mix of protection and encouragement of exports allowed these countries to enter a modernisation phase and become an industrialised economy. Why did not Myanmar – still a predominantly agrarian economy – follow the same path? Why were industrial policies clearly ineffective, if the final aim were to create a sustainable manufacturing industry, leading the country to poverty-reducing growth patterns? What are the available options for the future creation of a modern industrial sector? How will the 2021 coup impact on such options? This chapter interrogates industrial policy in Myanmar to provide answers to these questions.

Military Rule to 2011: From Autarchy to Cautious Liberalisation

Myanmar's military government approach to economic and industrial policies can be divided into two phases. In the first one – which ran from 1962 to 1988 – the state adopted a socialist and autarchic vision best summarised by three concepts: Burmanisation (following the expulsion of the relatively large Indian community and the ban on foreign investments), nationalisation (with large opposition to private property), and state-led industrialisation. The second one (1988–2011) saw the military junta cautiously liberalising and opening up the economy to the private sector and to foreign capital. However, also due to sanctions imposed by the United States and Europe, Myanmar's engagement with global economy was rather limited – with one exception, China.

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The Burmese Way to Socialism *and Import-Substitution Strategies (1962–1988)*

When General Ne Win seized power in March 1962, ending the brief period of civilian government, one of the first documents issued by the Revolutionary Council was *The Burmese Way to Socialism*. Clearly inspired by then-fashionable Marxist approaches, it laid out the economic strategy for Burma's development (Brown 2013: 133–135). Building on the three pillars of Burmanisation, nationalisation, and state-led industrialisation advocated by Aung San since independence (Brown 2013: 170), in 1963 the policy justified the state's seizure of Burmese branches of British companies and the wiping out of the private economy: by early 1964, the whole production, distribution, and trade became a state monopoly (Brown 2013: 135–138; Steinberg 1982: 77). The Indian community of merchants and traders was particularly hit, and nationalisation forced them to leave the country: the dismantling of the colonial economy was then complete. The Revolutionary Council pursued a strategy of state-led industrialisation, aimed at obtaining self-sufficiency in manufacturing: by the mid-1970s, a quarter of state investment was directed to this sector (Myat Thein 2004: 61). The efforts did not pay though: Brown (2013: 144) calculates[1] that in ten years (up to 1971–1972) 'the real value of processing and manufacturing output' had grown only by 7%, indicating a clear waste of public money. In general, industrial plants were obsolete and – with restricted access to imports of spare parts and new machinery – highly inefficient (Brown 2013: 144–145). Finally, with the ban of foreign private investment, Burma embraced autarky.

The failures of the modernisation push did not go unnoticed, and in September 1972 the ruling Burma Socialist Programme Party (BSPP) adopted a new policy. The import substitution strategy did not change, but the attention shifted to the need to give industrialisation a new start by processing Burma's abundant natural resources, also for exports. The policy advocated the introduction of material incentives, the admission of local (but no foreign) private capital, and the return of the country to foreign aid and borrowing (Brown 2013: 149–150). The state continued to invest in the sector, but the latter grew at a lower rate than the planned target, and actually shrank between 1986 and 1988 (Tin Maung Maung Than 2007: 258). Moreover, between 1974–1975 and 1987–1988 the private sector thrived only in the smallest segment of companies – those employing fewer than ten people, while the number of private medium- and large-scale companies diminished considerably, as at the same time the group of state-owned enterprises (SOEs) enlarged from 411 to 489 (Brown 2013: 153, drawing on Tin Maung Maung Than 2007: 260–261).[2] With no change or improvement in the administrative structure of the state, no further opening to imports, no financial discipline, and no motivation in the workforce, the structural problems of the industry remained in place and the final outcome was then consequential: "from the mid-1980s, Burma's economy fell apart" (Brown 2013: 154), and in 1987 the United Nations downgraded Burma to the status of 'least developed country'.

The opposition to any kind of involvement of foreign capital implied that Burma could not follow the same path of export-driven growth fuelled by foreign direct investment pursued by other East and Southeast Asian nations. As the government took to the extreme the anti-colonial, xenophobic policy of liberating the economy from British and Indian interests, no effort was put in place to nurture a nascent indigenous business class that could thrive outside the state sector of the economy. Although in the 1970s the BSPP realised that something had gone terribly wrong in the management of the economy, the three pillars of Burmanisation, nationalisation, and (state) industrialisation were never really put in question. Until a new phase was set in motion.

The SLORC/SPDC Years and Benign Neglect of Private Industry (1988–2011)

After the brutal suppression of protests in August 1988, the military formed a new government under the name of the State Law and Order Restoration Council (SLORC) (rebranded in 1997 with a much more friendly label of State and Peace Development Council – SDPC). As far as economic policies are concerned, one of its first initiatives was the promulgation of a new law, the November 1988 Foreign Investment Law, which reversed the long-time opposition to foreign capital, allowing foreign ownership of businesses operating in Myanmar, subject to approval by a Foreign Investments Commission (Kudo and Mieno 2009: 117). In March 1989, the SLORC embarked on a further series of market reforms, such as privatisation of some SOEs, the establishment of private commercial banks, the reopening of the Myanmar Chamber of Commerce and Industry, and the creation of the first industrial parks (for an exhaustive list of major economic reforms between 1987 and 1996 see Fujita et al. 2009: 5). Once again, though, while the number of registered private industrial enterprises skyrocketed,[3] the reform of SOEs was limited (Brown 2013: 180). Indeed, as in the early 2000s economic ministries created new industrial enterprises, the privatisation drive lost steam (Brown 2013: 187). Although gross domestic product (GDP) apparently – considering the low reliability of Myanmar's statistics – grew fast in this period, the industrial sector actually contracted: in 2000 it represented 9.1% of GDP, while in 1990 it accounted for 10.5% (Myat Thein 2004: 182–183). An exception was the explosion of the garment sector.

In the early 1990s, the obsolescence of the textile sector in their national economies brought many Hong Kong and Korean textile companies to establish joint ventures with military-related textile and garment factories. Domestic firms entered the business in the mid-1990s, but it was only at the end of the decade that local private interests were behind the industry boom in Yangon, when garments accounted for almost 40% of Myanmar's total exports, with a peak of USD 868 million in 2001 (Kudo 2009: 79). The garment sector operated under the rather basic 'Cutting, Making, and Packing' (CMP) system, whereby foreign firms would supply all raw materials and domestic factories would do the processing and be paid a fee when the product is finished and exported to the international market: for this very reason – the absence of meaningful links with the rest of the economy – CMP created industrial 'enclaves' (Kudo 2009: 81–83). The sector was indeed driven by export incentives, building on Myanmar's comparative advantage of a vast pool of low-cost labour, and it grew out of a benign neglect of the state, as "the success of this sector was neither intended nor promoted by the government" (Kudo 2009: 85).

However, rather than considering the private sector as a possible ally for the country's development and co-opt it – as was the case in developmental states in East Asia, including China (Gabusi 2017) – the government showed the willingness to kill it before it could seriously threaten the economic foundations of the military regime.[4] Just to make it clear who was to benefit from market reforms, the junta set up two huge military conglomerates, the Union of Myanmar Economic Holdings (UMEH) in 1990 and the Myanmar Economic Corporation (MEC) in 1997. Even the last round of privatisation before the 2010 elections benefited in the end a group of 12 to 15 cronies, individuals who maintained powerful connections with the military and owned the biggest conglomerates in banking, infrastructure, transport, tourism, and real estate (Lall 2016: 135–136).

The development of the rest of the industrial sector was hindered by serious shortcomings. For a start, the share of public investment devoted to industry decreased from 36% in 1980 to 18% in 1985 to 6% in 1999, with a record low investment in the 1990s. Secondly, even though a large share of investment went into infrastructure, the government invested less in the 1990s than in the second part of the 1980s. Thirdly, inefficient and resource-wasting SOEs monopolised the infrastructure sector (Kudo 2009: 87–91). The lack of deregulation in the SLORC/SPDC years has possible economic and political explanations. In fact, the system was so dysfunctional that any major reform would immediately send the economy into chaos, and powerful private interests were seen as a possible threat not only to the military's wealth but also to their political dominance (Brown 2013: 192). It did not help either that the West refused to collaborate with the military regime: even before the approval of American sanctions in 1997 and in 2003, all major US and European multinationals had abandoned their projects, even though investments from Malaysia, Singapore, Thailand, Indonesia, Japan, and China (especially in the 2000s) kept flowing to the country (Brown 2013: 195–196). However, the bulk of investment was in the oil and gas sector, another enclave with few connections to the rest of the economy. The physical and institutional infrastructure needed *for* the benefit (also) of investors was poor: electricity cuts and shortages were the norm, telecommunication services were expensive, regulations were unclear and unstable, and corruption was widespread. In conclusion, if, on the one hand, the introduction of outside market incentives allowed the setup of a private and export-oriented garment sector, on the other hand – due to the military's reluctance to discuss the privileges of the state sector – it failed to generate spillover effects that could benefit the rest of the economy and ignite a take-off of the whole industrial sector.

The creation of industrial zones (IZs) in the mid-1990s also failed to reach this goal. The idea for creating the zones was to generate employment, expedite the process of industrialisation, and increase the efficiency and competitiveness with which the industrial sector operates (Lubeigt 2007). Unfortunately, inadequate government investment and the inward-looking, isolationist policies of the Ne Win era greatly impeded the development of businesses in the IZs as well as the private sector in general. Moreover, the zones were created with a top-down approach. The army decided the location and forced the entrepreneurs to run their business inside the IZs, exactly the opposite of what is considered critical for a zone success – a leading role and early involvement of future users of the park (Saleman and Jordan 2014) – so as to avoid knowledge and incentive problems (Moberg 2017).

The majority of IZs in Myanmar failed to provide an optimal business operating environment. This is reflected in the decreasing percentage of active businesses operating within these zones. Even in the promising days of Thein Sein's and NLD's administrations, the IZs high rates of inactivity showed few, if any, signs of new investment, since new businesses did not find it advantageous to initially locate and operate within these zones (Robertson and Taung 2015). Infrastructure was still poor, both skilled labour and credit were scarce, and new technologies proved difficult to import. Corruption continued to keep the cost of operations high, and the dearth of skilled labour also limited the use of more sophisticated industrial processes. Anecdotal evidence collected by United Nations Industrial Development Organization (UNIDO) in 2015 showed that many businesses owners in the IZs did believe that they would be more competitive if they operated outside due to more lax regulation, closer proximity to consumers, and a cheaper supply of electricity.

In theory, the IZs have the potential to contribute to the industrialisation of the country (World Bank 2018), but if the challenges mentioned earlier are not dealt with in the future, domestic firms cannot hope to evolve and be competitive against foreign competitors. A new Industrial Zone Law – approved in May 2020 – promised to address some of the most critical issues, while providing a clearer governance structure for the development of the industrial sector, as well as further encouragement to local and foreign investments. It should be stressed that IZs were not able to attract significant foreign investments when they were created in the mid-1990s. It was only when Aung San Suu Kyi was released from house arrest and a semi-civilian government took up the reins of the country that the Western world embraced Myanmar as the new 'El Dorado' (Gabusi 2015: 53) or 'the newest Asian mecca' (Steinberg 2013: 205) for global capital.

Thein Sein and the USDP: Engaging Foreign Capital

When President Thein Sein started his mandate in 2011, it became clear that the country was embarking on a transformative project that would create a more democratic and transparent political system and a more open and efficient economy. The interaction between the United States and China is arguably the most important external factor in explaining the inception of Myanmar reforms. The decision of the Obama administration to re-engage with Southeast Asia and Myanmar – if the generals were showing progress in the democratic transformation – provided the political space to President Thein Sein to unlock the country from the exclusive Chinese influence and start the reform process (Dossi and Gabusi 2022). Internally, democratisation and human rights improvement were also the result of a strong request from the civil society organisations and the Myanmar people (Boario 2017).

The Framework for Economic and Social Reforms (FESR) – adopted in 2012 – set out the goal of becoming a modern, developed, and globally integrated country in the medium term (MNPED 2012), outlining four policy priorities for the new government: "sustained industrial development to catch up with global economies . . . equitable shares of resources . . . effective implementation of people-centered development . . . and reliable and accurate gathering of statistical data" (MNPED 2012: 23). The idea of catching up industrialisation was in line with the developmental experience of other East Asian nations, and its implementation needed the help of foreign capital. Therefore, in November 2012, the government enacted the new Foreign Investment Law and the Foreign Exchange and Management Law.

In January 2014 an SEZ Law was promulgated, with relevant regulations published in 2015. Companies operating in the Special Economic Zones (SEZs) were allocated up to 75 years' land-use rights, they were exempted from income tax for the first seven years, and they were also granted tax relief for a few more years. As free zones are treated as areas 'outside the country', companies are exempted from commercial or value-added tax and from customs duties on imports of raw and construction materials and machinery (DICA 2019). Following the enactment of the law, planning started for the development of two SEZs: Thilawa, some 20 km from Yangon, and Kyaukpyu (on Ramree Island in Rakhine State). A third one, Dawei, in Tanintharyi Region, had actually been already established in 2008 (Lall 2016: 141). Matching the characteristics of these SEZs with the World Bank Classification, they can be classified as Export-Trading Zones (ETZs) (FIAS 2008) with a clear division of labour: light manufacturing activities in Thilawa, heavy industries and manufacturing in Dawei, and petrochemical industry and manufacturing in Kyaukpyu. It is also interesting to note that the three SEZs are effectively a joint venture with a foreign country: Japan for Thilawa, Thailand for Dawei, and China for Kyaukpyu. Since 2015, Japan has also shown interest in Dawei, committing US$ 800 million through the Japan International Cooperation Agency (JICA).

In all cases, the establishment of the SEZs required extensive land-grabbing, causing local (Pyae Phyo Maung and Wells 2018) and international (ICJ 2017) concerns. Moreover, in the case of Daiwei, local protests against an industrial site that would spoil the coastal natural landscape, infrastructural problems, and the lack of financial support convinced the Italian Thai Development Company working on the development of the zone to abandon the project in 2012. A new bid on a scaled-down project was made in 2013, and the same company (though deprived of the Italian partner) won it. The plan was now to create a 27-square-km zone, to be developed in four phases (three phases of 7 sq km each and one of 6) (personal communication). Another issue was also the proximity to Thailand, where local workers could find a job at a much higher wage (Lall 2016: 141). The Kyaukpyu SEZ includes a deep-sea port, a power plant, and petrochemical factories. In this case, the main concern is the lack of spillover effects for the rest of the economy, as the SEZ seems to be serving the interest of China only – in fact, the port is connected to pipelines transferring oil and gas eastwards to China's Yunnan province (Lall 2016: 142). Thilawa is a 2,400-hectare SEZ developed by a consortium among Japanese companies (including Mitsubishi, Sumitomo, and Marubeni) and

JICA. Japanese companies and aid agencies have invested a lot in the country, in continuity with the 1977 Fukuda doctrine aimed at projecting Japan as a civilian power and economic partner in Southeast Asia (Lall 2016: 156). The SEZ of Thilawa includes a port and a power plant, and for its proximity to the commercial hub of Yangon, the relatively good quality of infrastructures around the area, and the undoubtedly great interest of Japanese multinationals, is the most advanced and promising of the three.

Aung San Suu Kyi and the NLD: Implementing the 'Right' Industrial Policy? Special Economic Zones as a Tool for Industrialisation

Under the NLD government, economic and industrial policy goals did not change significantly. While emphasising more responsible business and economic sustainability, the new government remained committed to the process of economic liberalisation, private-sector development, social inclusion, and sustainable industrialisation. The approval of new investment, corporate, and financial laws by NLD in the period 2016–2018 was clearly in the path of the reform process triggered by Thein Sein's government. Economic reform continuity could be seen in terms of contents but also policy makers. The Myanmar Sustainable Development Plan (MSDP) approved in 2018 had been formulated under the supervision of the deputy minister of Planning and Finance, Set Aung, who served in the same role also under the previous government led by the Union Solidarity and Development Party (USDP).

While the economic goals and strategies did not change, the reform pace suffered a significant slowdown and loss of impetus and sharpness under the National League for Democracy (NLD) government. Before the approval of the MSDP, NLD economic policies were criticised for the lack of detailed targets, clear priorities, and action plans. The government weaknesses in implementing the new policies undermined the reform process. The business community both at local and international levels turned increasingly critical towards the NLD leadership in policy implementation (Vakulchuk et al. 2017), and approved foreign direct investment (FDI) declined from US$9.48 billion in 2015–2016 to US$4.4 billion in 2018–2019 (DICA 2019).

The continuity between Thein Sein's economic policies and the approach to the economy adopted by the NLD government was evident also in the case of SEZs. However, the picture was mixed.[5] As far as Dawei SEZ is concerned, in August 2015 the consortium led by the Italian Thai Development Company was joined by other companies, but progress was very slow on the ground, even though the project was upgraded to a long-term objective to expand the area to 196.5 sq km. Due to environmental concerns, and the absence of clear environmental plans, any plan to construct a small port stopped, and all the other components (liquid gas terminal, industrial zone, power plant,[6] residential area, telecommunication system, water reservoir[7]) were stalled. The management singled out the port, the power, and the Kachanbur road upgrade as priorities. On the financial side, the SEZ got a USD130 million loan from the National Science and Technology Development

Agency (NSTD), the Thai national development agency, with the idea of devoting the initial phase to light manufacturing.

After the deadly crackdown by Myanmar's army on the Rohingya Muslim ethnic minority group in August 2017 and the consequent cooling of relations with the West, the pendulum of Myanmar international affairs swung once again towards China. Relevant consequences on Myanmar industrial strategies did not wait long to materialize. State Counsellor Aung San Suu Kyi announced the proposal to build a China-Myanmar Economic Corridor (CMEC), as part of Beijing's Belt and Road Initiative (BRI), in November 2017 (Nan Lwin 2018). A memorandum of understanding between the two countries was signed in September 2018, and the Kachin state authorities agreed to implement a new industrial zone in partnership with the Yunnan Tengchong Heng Yong Investment Company. A new Economic Development Zone was created in Myitkyina, in the Kachin State, after the signature of an agreement with China in early 2020. The project was worth US$400 million and would host more than 500 enterprises, active in agro-processing, manufacturing, and logistics, over an area of approximately 4,700 acres in Namjim village (Nan Lwin 2019).

The visit of President Xi Jinping to Myanmar in January 2020 and the signature of a deal for the deep port of Kyaukpyu, worth US$1.3 billion, was another important step in the creation of the CMEC (Reed 2020). The large injection of capital envisaged represented a strong push to the SEZs strategy. Nonetheless, the real benefit for the country of these Chinese investments remained to be proved, considering existing issues of land grabbing and of social and environmental sustainability.

On the basis of Thilawa success in attracting foreign companies (113 companies as of January 2020), SEZs might be an effective tool to facilitate industrialisation in Myanmar. The country badly needs infrastructure and capital. Integration in global value chains is another critical need for the Myanmar economy. Supported by a strong incentive package, one-stop shops, and dedicated services, SEZs have the potential to meet critical industrial needs of the country. However, the three aforementioned SEZs can host only a limited number of companies and should be considered a pilot to drive lessons for the creation of several others around the country. In this respect the top-down approach that has characterised their creation should be reconsidered. Unfortunately, there has been little debate about a new model to be followed in Myanmar. Evidence from the literature (Saleman and Jordan, 2014) clearly shows that a majority of successful SEZs around the world were created with a strong involvement of the private sector and early involvement of final users. Also, the most successful SEZs are more spaces of experimental reform rather than simple ETZs (Moberg 2017). The role of the government should be limited to provide a robust implementation and funding framework, while delegating the actual implementation to the private sector. The government should play a pivotal role only in monitoring the implementation and measuring the expected impact.

After the 2021 Coup: Rewind Ten Years

With the military coup in February 2021, the hands of Myanmar's economy and socio-political life went back to the time of the Than Swe dictatorship. The country has been projected into a future that we thought dystopian enough when the political elections of November 2020 had confirmed the great popular support for the NLD and its leader. The economy praised once by the International Monetary Fund (IMF) as one of the world's fastest, with an average annual growth of 7% in the decade 2010–2020, under the pressure of the coup, COVID-19, and higher international prices has collapsed to –18% in the fiscal year ended on the 31 March 2022. Horrible violence and violation of basic human rights perpetrated by the Tatmadaw compounded with the spread of communal riots, ethnic clashes, and unclear bomb attacks, in addition to throwing the population into a state of despair and disillusionment, have created a volatile and difficult business environment. Indeed, one fifth of all firms surveyed by the World Bank in May 2022 have declared domestic conflicts to be their 'most important challenge to their operations' (World Bank 2022: 7). Key international businesses have already left the country, and many others will reconsider their investments. Investors have been invited 'to take a stand against human rights violations', as the reputational risk of doing business with Myanmar increases (United Nations Human Rights 2021). The disobedience movement with the legitimate goal to put pressure on the generals has inevitably weakened the economy. Development and infrastructure project funding from donor partners have been frozen or cancelled. The European Union, the United Kingdom, and the United States have reestablished economic sanctions to target the military conglomerates. The unwritten pact of no return to a military dictatorship between the Tatmadaw's elites and the people, as well as Western international actors, has been broken. Myanmar is back to its status of international pariah.

In such a grim context, State Administration Council (SAC) economic interventions are all in the wrong direction and further deteriorate the economic prospects of the country. The World Bank has entitled its last Myanmar Economic Monitor 'reforms reversed' (World Bank 2022). Indeed, the SAC has embraced an import substitution and self-sufficiency policy, abandoned the managed floating exchange rate regime fixing the official exchange rate at an overvalued level, adopted foreign exchange restrictions leading to shortages of US dollars and a growing spread between official and parallel market rates, and imposed onerous import and export license requirements, thereby discouraging trade. These measures are all oriented to gain control over the allocation of resources in the economy in favour of the armed forces and its cronies. The consequence is a resources diversion from their most efficient use, further weakening the investment climate, and ultimately constraining Myanmar's growth potential.

In fact, FDI has been contracting by about two thirds between 2021 and 2022, and substantial outflows of foreign currency deposits have combined to put pressure on the financial account (World Bank 2022: 7). Kyat depreciation has increased import prices, disrupting global value chains: for instance, Japanese and Korean automotive companies Suzuki and Hyundai have suspended their operation due to higher import costs and shortage of spare parts (World Bank 2022: 20). However, GDP growth is projected to be 3% in 2022, driven overall by manufacturing and construction. In particular, manufacturing exports have increased by 54% between the first half of 2021 and the first half of 2022, with garment exports significantly improving, as workers are going back to their job places after the large strikes that took place across the country in 2022 (World Bank 2022: 28). It does help that the sector has been exempted by trade license restrictions, which are not applied to CMP imported inputs (World Bank 2022: 21). Large garment multinational companies – grouped under the umbrella ‘Action Collaboration Transformation’ – have left the country, though, as the human rights situation worsened (The Irrawaddy 2021a).

Even though the NLD-enforced laws and incentives governing FDI in Myanmar – the 2016 Myanmar Investment Law and the 2018 Companies Law – are still in force, their administrative implementation depends on bureaucratic agencies, which are now headed by loyal cronies of the regime and lack capacity, as their staff has been boycotting activities or has been fired. Institutions like the Directorate for Investment and Company Administration (DICA) of the Ministry of Investment and Foreign Economic Relations and the Myanmar Investment Commission have always had some discretion, but now it seems that they are often bypassed by the military regime. All legislative and regulatory powers are in the hand of the SAC, and they are exercised without any transparent oversight or consultation whatsoever. The SAC also controls the judiciary, and it has threatened private companies with nationalisation. Finally, if in theory, foreign companies still have the right to remit foreign exchange, in practice, remittance has become increasingly challenging, due to the difficulties encountered by the banking sector (U.S. Department of State 2022).

As far as SEZ development is concerned, the number of operational companies in Thilawa did not change significantly after the coup (85). However, all construction sites of new companies have been stopped, and no new investment requests have been addressed to the consortium (personal information). The investors in operational companies did not withdraw, betting on a possible normalisation of the country context. In the case of Japanese companies in Thilawa, this attitude seems confirmed by a Japan External Trade Organization (JETRO) survey showing that about 70% of Japanese companies investing in Myanmar will either maintain or expand their operations in the short term (JETRO 2021). Nevertheless, such an attitude may change quickly. The Mitsubishi Corporation, one of the Japanese investors in Thilawa, has stated that they will decide whether to keep on supporting the project on the basis of future development of the context in the country. They already have suspended two other projects that, according to them, differently from Thilawa, are considered at risk of supporting the military regime, i.e. the Yetagun Gas Field Project and the Landmark Project (Mitsubishi Corporation 2022).

Dawei SEZ was already in trouble before the coup, and now, under the SAC, it is completely stuck. The contract with the developer Italian Thai Development was already cancelled in 2020 (ASEAN Today 2021). In the new IZ outside Myitkyina, existing projects have been paused and there are no new investments (personal information). It is totally a different story in Kyaukpyu, where the SEZ development has been slowed down after the coup but has not been halted. As previously mentioned, in this case, the country of reference is China, one of the few friends the SAC can still count on, and the project is part of China’s BRI plans in Myanmar. Indeed, maybe in an attempt to lessen Myanmar’s perception of a ‘dependent asymmetry' (Dossi and Gabusi 2022), China is trying to involve Thailand, Vietnam, Cambodia, and Laos in a "China-Myanmar Economic Corridor 'Plus' Initiative" (Vaghji 2022). Therefore, it is not surprising that an agreement to conduct preliminary field investigation work for the Deep-Sea Port Project was signed in September 2021 in Beijing (The Irrawaddy 2021).

Conclusion

A mix of protection and encouragement of exports in the second half of the 20th century allowed a number of Asian countries to enter a modernisation phase and become industrialised economies. Myanmar did not follow this path. The military regime of General Ne Win tried to reach manufacturing self-sufficiency and after banning all foreign investments embraced autarky, leading the country to an economic catastrophe and widespread poverty. Despite a number of timid attempts to change such ill-conceived policies in the 1980s and 1990s, it was only after the political election in 2011 that the country seriously embarked a reform process to open up the economy and build on market forces. In a country with an overall weak investment climate, the creation of IZs and SEZs could have proved to be a successful strategy to support the industrial development. Unfortunately, the approach followed for the creation of Myanmar IZs was excessively top-down and, in most cases, failed to support the expansion of the industrial production. Particularly in the IZs outside the two main economic poles, Yangon and Mandalay, no specific infrastructure was provided to the tenant companies. A zone-internal road grid often only consisted of dirty roads in order to receive access to electricity, and many companies needed to install substations or transformers of their own or to rely on generators. The size and location of IZs were not based on profound feasibility studies. An active process of attracting specific investments or sectors (clustering) was not included in the process of developing an IZ – industrial entrepreneurs rather randomly decided to establish factories. Land speculation was and still is a frequent issue, leaving plots for industrial investors blocked and vacant (UNIDO 2017).

Nevertheless, there were also successful industrial parks in the country. Thilawa SEZ, based on a public-private partnership sponsored by Myanmar and Japan, was attracting a growing number of foreign companies. But to use effectively IZs and SEZs as a policy tool to support industrialisation, the country should have addressed a number of issues and revised its policies. The starting point for a new, more successful policy direction for both IZs and SEZs should have been a revision of the respective role of the public and private sector in the creation and management of the parks. As in other areas of economic reform, the Myanmar government should have encouraged the private sector taking the lead in identifying the location, the size, the management model, funding, and other features of industrial parks that ultimately determine the investment choices of the potential users. This approach minimizes the risk that IZs and SEZs become 'white elephants' without operational enterprises inside. In terms of the overall model, Myanmar should also have encouraged two other critical features – clustering and process integration. Myanmar high transaction costs necessitate the development of a large number of firms in industries where economies of scale, intraindustry knowledge spillovers, forward and backward linkages, good supply chain and logistics, and other agglomeration effects can be achieved. By clustering together, similar firms reduce each other's costs, improve productivity, and reach new markets. IZs and SEZs should provide specialised facilities and services customised to the unique needs of the target enterprises, including access to finance and non-financial services. The development of cluster-based industrial parks, combining the positive agglomeration effects produced by the cluster development, from one side, with the infrastructure and the opportunities for economic diversification associated to the industrial zones, from the other, can yield significant economic and social payoffs to the country (Monga 2011).

Unfortunately, with the return to autarchic policies pursued by a fully fledged military regime, the NLD's age in power looks like a political economy missed opportunity, as IZs and SEZs alone could not be appropriate substitutes for improving infrastructure and the general investment climate. When the Tatmadaw staged a coup in February 2021, a number of challenges were still affecting the investment climate in Myanmar. Access to finance, weak infrastructure (including power shortage), and lack of skilled labour were the more relevant (UNIDO 2017). The legal/institutional framework and policy mechanisms needed to accelerate industrial development were still lacking or badly implemented. Industrial policies neither met the demands from the industry nor regional or global standards and best practices. The governance structure within the government was complex and highly fragmented, showing a lack of efficient and effective inter-ministerial coordination. If there has ever been a momentum for reforms, that chance is now gone.

The SAC is planning to hold new elections in 2023. If ever the armed forces succeed in their plan, it might be the case then that the intensity of domestic conflicts will decrease and global investors will look again at Myanmar as a profitable destination, but the lesson from the NLD's 'lost years' is that future Myanmar governments will still have to revise and improve dramatically the policy making cycle. First, in a complex country like Myanmar, policy formulation and policy implementation cannot be left only to ministers and a few international consultants: they have to involve all stakeholders (Andrews et al. 2015). Second, governments should acknowledge that a top-down approach in creating IZs and SEZs was not successful and try a different model. Third, while it is easy to find best practices that worked well in other countries, a copy/paste process would inevitably fail in addressing the specific problems of the highly fragmented Myanmar context. Similarly, it is important to avoid the temptation to create institutions that just mimic the form of performing ones without developing the actual operational functions (Pritchett 2013). This is often the case in Myanmar and other developing countries. No matter if and when the political system becomes more democratic, Myanmar might one day look at neighbouring Vietnam and Malaysia – not for coping – but to be inspired and kick-start a serious discussion on policy reforms based on the principles herein proposed.

Notes

1 Calculations are actually made from Tin Maung Maung Than (2007: 127, Table 5.3).
2 Specifically, Brown draws on Tables 7.4, 7.5, and 7.6.
3 Drawing on data from Ministry of Industry (1), Kudo (2009: 70) finds that this number went from 27 in 1990 to 41,875 in 2005.
4 For a brief summary of the military's involvement in the economy see Bünte (2017).
5 This information on the zones was acquired through interviews with SEZ officials (Yangon and Thilawa, October 2018).
6 In the project, Western companies (Total, Siemens, and ADB) were involved.
7 The dam is finished, but the reservoir is not enough for industrial use.

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