

# **Challenges for Investment Climate in Myanmar for the Agriculture Sector**

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Since the last political transformation period of Myanmar in 2010, despite the attempt of new government to economic improvement, the agricultural sector in which the largest part of population has been involving still has low and instable growth rate. According to the World Bank report released on January 15<sup>th</sup> of 2015, the major socioeconomic challenges which have lowered the country economy for rice, the country's major export, include low labor productivity, lack of land, Instable rainfall, weak rural infrastructure, religion and ethnic related conflicts and poor government policies. The report has also pinpointed that compared with other sectors of the country, agriculture has been receiving lower amount of foreign direct investment(FDI) and the actual farm production cannot meet the requirements of projected amount of exports due to lack of adequate support from the government. However, it was perceived that the government policies and supports are adequate for enhancing the exports of agricultural products. (Aung W.P., 2016)

Since 2012 the foreign direct investment (FDI) levels in Myanmar have been propelled. FDI has mainly focused on the energy, oil and gas sectors. Since 1988, the share of agriculture, livestock and fisheries in approved foreign investment has averaged 1.4% of total amount invested with foreign money. By January 2015, the total amount of FDI in these sectors reached US\$ 513 million. The government of Myanmar has been implementing comprehensive plan for improving the business climate and foreign investments. The foreign investors are expected to gain profits from these changes of Myanmar investment climate.

Going forward, Myanmar has several opportunities for the investors to take advantage of its extraordinary assets, which include an abundance of natural resources, favorable demographics, and a strategic location in the heart of Asia. (World Bank , 2015)

Agriculture has been contributing about 30 to 40 percent of the country's GDP in Myanmar and employing over 50 percent of the workforce. Yet, the main production is normally formed by subsistence smallholder farmers especially for rice. The characteristic of subsistence farming in Myanmar are low yield, due to low input use, lack of mechanization and poor quality inputs. Like all other firms in Myanmar, agriculture sector is also facing the challenges of credit access. Only microfinance institutions are allowed to enter this market and the commercial banks are still having no chance to do it.

However, there are some recent reform in the framework of laws for the agriculture which are the farmland law and the seed law. These reforms are moving forward to the liberalization. The Government has been playing an inadequate role in input sector despite its huge intervention in the rice value chain. Plus the fertilizer use in Myanmar is also one of the lowest around the globe and the major crops have been experiencing the yield gaps.

Rural infrastructure is also needed to be improved for the development of agriculture. To enhance the trading of agricultural products, developing the logistic along the trade corridors and increasing the smallholders' access to road are needed to be done and it will reduce the cost and time for the trade. Myanmar entrepreneurs are striving to achieve the larger share of international rice markets and also increasing the exports of beans, pulses and corn. If the above mentioned constraints are solved, the foreign investors will be expected to be able to contribute to the agricultural input supply and distribution, aggregation, storage, processing and export. (World Bank , 2015)

The current agricultural performance of Myanmar has been offering opportunities for investors from abroad which are expected to contribute to the agricultural development in the meanwhile. The average yield and labor productivity is still ranking one of the lowest among Asian countries. However there exist several competitive advantages such as lower labor cost. The investor can create rapid gain by better inputs, better seeds and logistical improvement and marketing arrangement.

The seed sector of Myanmar is far behind the other Asian countries. There are several challenges to develop a vibrant seed industry in Myanmar despite its climate and soil conditions for seed production in Myanmar are superior to others. In general, the farmers keep the seed for their next season farming and it is about what the farmers normally do by 80 percent. There are also public seed

system, including seed farms and out growers in the villages. The international and domestic companies are also producing the locally or imported seeds. A small number of international companies are involving in the seed production in Myanmar. (Factsheet of Agriculture in Myanmar, 2015).

To sum up, there are a range of challenges for the foreign investors who have been seeking opportunities to set up and extend their agricultural business in Myanmar. However, they can take the advantages of the resources of Myanmar in terms of abundant and cheap labor, strategic locations, and land. It can be concluded that there are several potentials sub-sector of Agriculture where the investors can set up their business. The access to finance has been one of the main challenges and the foreign commercial banking will be able to contribute to the provision of loans to the smallholder farmers in Myanmar. In addition, the crop insurance will also be considered as one of the most necessary system for the farmers who are facing losses due to the climate change. As the input supply sub-sector, the foreign firm can make huge investment by importing the seeds, fertilizers and several other inputs which are reliable and less cost effective for the farmers.

## References

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