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FOREIGN DIRECT INVESTMENT IN MYANMAR AND CAMBODIA

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ABSTRACT

The trend of Foreign Direct Investment has changed by the shift of FDI inflows from the developed world to the developing world that has been happening for decades. In the world of countries developing their potential, Myanmar and Cambodia emerged as newly open markets and among the most ideal FDI destinations in ASEAN region. Both countries share similarities in political situation, economic development and human capital.

This thesis aims at analyzing and comparing these countries to discover which country offers more competitive and efficient investment environment for efficiency-seekers in the manufacturing sector in terms of vertical FDI. The objective directs the formulation of the theoretical framework, including vertical FDI, efficiency-seeking FDI intention and the manufacturing sector, which helps build the list of criteria for analysis and comparison process. Empirical research and analysis is conducted using Pestle analysis tool and decision making matrix.

The research is conducted using primarily secondary data by means of archival research approach. Moreover, deductive and descriptive research methods are exploited in conjunction with qualitative research method to systematically set the framework, identify the criteria and analyze the markets to generate desired results.

The findings fulfil the research objective and provide reliable and valuable consultative sources for investment decision-making. The results and recommendations are beneficial study sources for further research such as product-based or industry-based research projects in the given countries.

Key words: vertical FDI, efficiency-seeking FDI, manufacturing sector, Myanmar, Cambodia, Pestle analysis, decision making matrix

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ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
CIA	Central Intelligence Agency
DICA	Directorate of Investment and Company Administration
EC	European Commission
EU	European Union
FDI	Foreign Direct Investment
FY	Fiscal Year
GATT	General Agreements on Tariffs and Trade
GDP	Gross Domestic Product
GSP	Generalized Scheme of Preferences
HFDI	Horizontal Foreign Direct Investment
LDC	Least Developed Country
MIGA	Multilateral Investments Guarantee Agency
MNE	Multinational Enterprise
NBC	National Bank of Cambodia
NGO	Non-governmental Organization
OECD	Organization for Economic Co-operation and Development
OLI	Ownership, Location and Internalization
SEZ	Special Economic Zone
UNCTAD	United Nations Conference on Trade and Development
US	United States
VFDI	Vertical Foreign Direct Investment
WTO	World Trade Organization

1 INTRODUCTION

1.1 Introduction background

The amount of Foreign Direct Investment (FDI) to developing countries has for the first time in 2012 surpassed that to developed countries (Zhan 2013, 2). FDI has evidently positive influences on local companies and the FDI recipient's economy at large by providing benefits of, for example, technological transfers, management capability, jobs creation and economic growth. Some developing countries have become attractive destinations for FDI whereas others receive marginal FDI. The reasons for such differences originate from the driving forces of FDI in the aspects of politics, economics and society.

FDI determinants are thoroughly conceptualized in the theory of Eclectic paradigm (Dunning 1980 and Dunning 1993). Eclectic paradigm analyzes the FDI determinants at micro and macro level to indicate the reasons and locations of Multinational Enterprises' foreign investments. The theory of Eclectic paradigm, also called OLI paradigm, is based on Ownership, Location and Internationalization advantages. Location advantage refers to the benefits gained by Multinational Enterprises based on location of the host country. Among the three types of Location advantages including the attraction from the availability of resources, Horizontal FDI (HFDI) and Vertical FDI (VFDI), the thesis focuses on Vertical FDI in which all or part of production process is delocalized in foreign countries in order to benefit from low costs. (Kinda 2009, 498.)

This thesis is dedicated to Foreign Direct Investment in two developing South-east Asian countries, namely Myanmar (also called Burma) and Cambodia. Both countries have been recently among strong transition into open market economies. Specifically, Cambodia is one of the most liberal and attractive destinations for FDI thanks to the Law of Investment that allows 100 percent foreign ownership with only limited number of industries that are closed to foreign companies (Cambodia: Investment Climate Statement 2012). Besides, the Burmese government's commitment to influential political and economic reforms since 2010 enabled Myanmar to become a new potential investment market in Asia (Myanmar starts to open up its economy to the world with energy, advertising and money trading 2012), which led to the abolishment of economic sanctions from

the United States, European Union and other Western countries and opened opportunities for companies to conduct investments in the country.

This thesis concentrates on the FDI inflows in the sector of manufacturing in the researched countries. Besides, among the four FDI intentions in Dunning's motivation theory, this thesis adopts the efficiency-seeking FDI to study. Thus, Myanmar and Cambodia are to be analyzed based on the framework of vertical FDI, efficiency-seeking FDI and manufacturing sector, which altogether contribute to the identification of inward FDI determinants. Those FDI determinants are used in Pestle analysis and set as criteria by which the comparison between the two countries is exercised to indicate the one that provides better investment climate.

1.2 Research objectives and questions

The thesis concentrates the research on the FDI climate in Myanmar and Cambodia based on the theoretical framework of Vertical FDI, efficiency-seeking FDI and manufacturing sector. The purpose of the research is to indicate which countries between Myanmar and Cambodia provides a more competitive and efficient FDI climate for industrial manufacturers, based on the determinants directed by the mentioned theoretical framework.

Contemplating the data collection methods, the analysis of data is conducted using PESTEL tool (Political, Economic, Social, Technological, Environmental and Legal) to study the countries' investment climate. In the thesis, the specified FDI determinants are categorized into political, economic and social groups, thus only political, economic and social aspects are to be studied.

The research objective is converted into an explicit question. The principle question leads the suitable directions in data collection process and guarantees the correct understanding of the analysis and comparison. The main question is formulated as follows.

Between Myanmar and Cambodia, which country provides a more competitive investment climate for efficiency-seekers in the manufacturing sector in terms of vertical FDI?

Contemplating the research, the author takes into consideration several issues in political, economic and social aspects, which are addressed in the following sub-questions. The nature of the objective pertains to comparison between two entities, which is also reflected in the sub-questions.

1. Which country has better political stability and improvement in the corruption issue to attract FDI inflows in manufacturing sector?
2. Which country has more favorable economic factors to attract FDI inflows in the manufacturing sector?
3. Which country provides more attractive human capital to foreign investors in the manufacturing sector?

1.3 Thesis structure

The research is divided in two main parts: the theoretical framework to identify the FDI determinants and the empirical analysis to analyze the investment environment.

Chapter 1 introduces generally the current global FDI trend and the eclectic paradigm, also called OLI paradigm, which is the most important pillar in the overall structure of FDI determinants selection. It, after that, mentions the two countries, i.e. Myanmar and Cambodia for analysis and the reasons for the selection and then includes the research questions.

Chapter 2 provides the overview of FDI, the theoretical framework of FDI and theory of OLI paradigm. It then concentrates on three important focal features that contribute to the identification of inward FDI, namely efficiency-seeking FDI, vertical FDI and manufacturing sector. Finally, the chapter gives an overview about FDI in the manufacturing sector in Cambodia and Myanmar.

Chapter 3 studies the list of inward FDI determinants which will be analyzed using Pestle analysis and decision making matrix tool in the subsequent chapter. Those determinants play the role of the criteria in decision matrix to build the comparison between the two countries. Next, chapter 4 mentions Pestle analysis tool and decision making matrix.

The empirical analysis is conducted in chapter 5, in which Pestle analysis tool and decision making matrix are utilized. Chapter 6 concludes the topic by stating the findings and answers all the proposed questions. Summary of the whole research is placed in the final chapter – chapter 7.

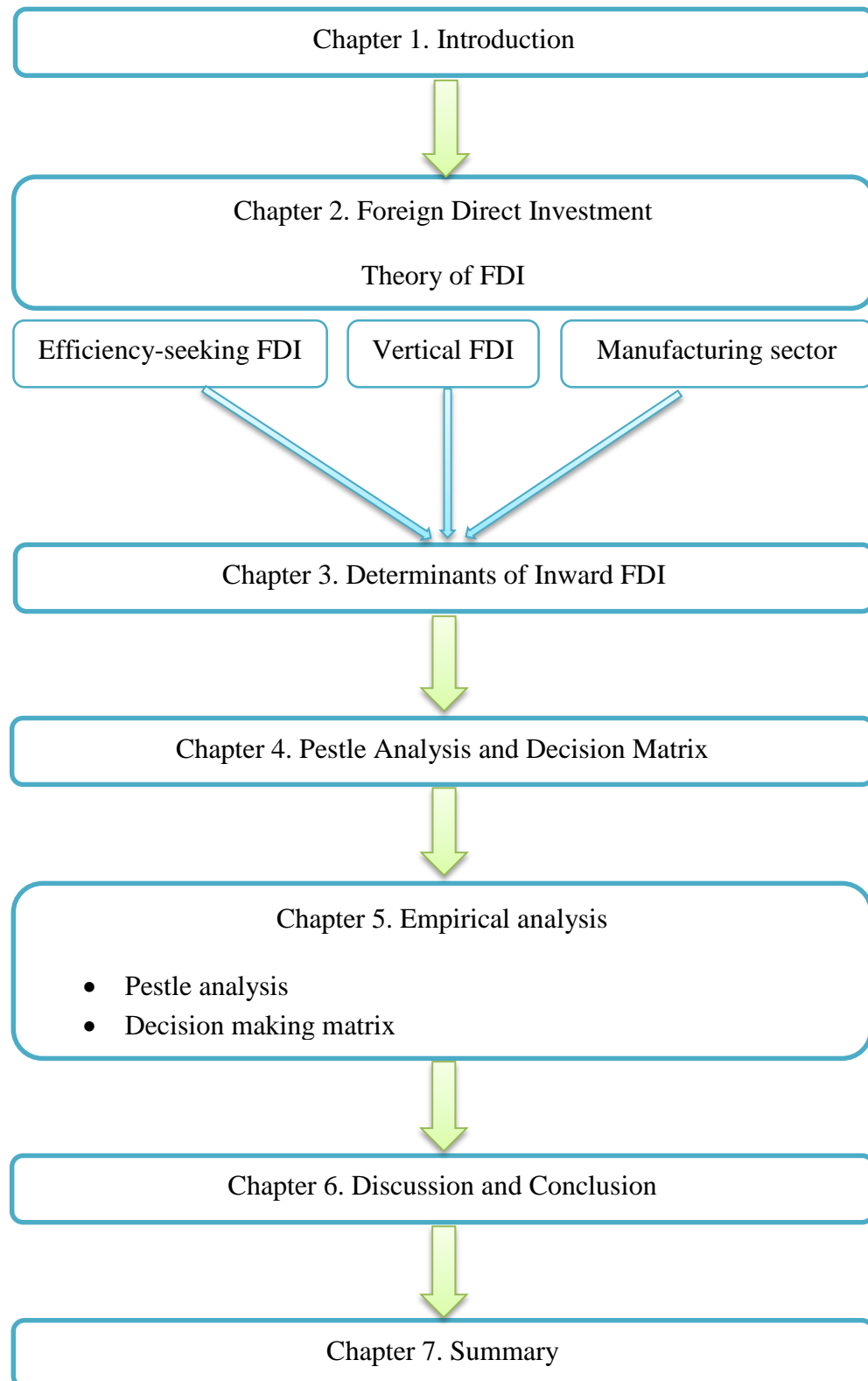


FIGURE 1. Thesis structure

1.4 Research methodology

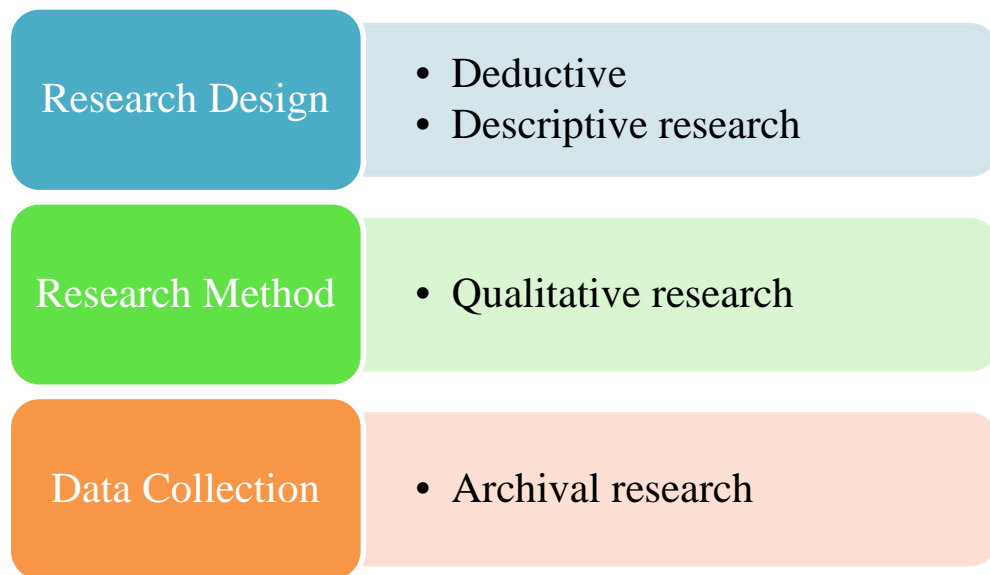


FIGURE 2. Research methodology

Research Design

The design of a research project is determined by the theory of the research. Appropriate research design supports the findings for the research questions. Research approaches are put into three groups: inductive, deductive and combination. In this thesis, deductive research is utilized because of the flow of information happening in the direction from general to specific. The theoretical framework of Vertical FDI, efficiency-seeking FDI and manufacturing sector direct the identification of important FDI determinants. Inductive approach is, however, different from deductive approach, in which a theory is developed based on the collection and analysis of data and empirical findings, then tested to prove their accuracy. (Saunders et al. 2009, 124-126.).

This thesis also adopts descriptive research, which means the finding of answers to the questions Who, When, Where and occasionally How (Blumberg 2005, 10). The research approach concentrates on the gathering and analysis of people,

events or situations in Myanmar and Cambodia in political, economic and social aspects to support the final decision making process.

Research methods

This thesis represents a type of market research. A market research can be executed with the use of both quantitative and qualitative research methods. Nevertheless, the research method adopted in this thesis is qualitative method, which the summarization, categorization and restructuring of non-standardized data concerning political situations, economic growth and development trends and social attributes to create the meaningful analysis. Quantitative method is, on the other hand, concerned with numerical, standardized data and analysis drawn from the statistics and diagrams. (Saunders et al. 2009, 482.).

Data collection

The thesis makes use of archival research method as a main data collection method throughout the thesis work. According to McBurney et al. (2007, 228), archival research pertains to the research involved the use of data which is collected without the researcher's participation. The researcher considers and selects the available data accumulated in existing records or archives for analysis.

The advantage of archival research is that it is not necessary for the collection of data by the researcher and that the research being conducted is not subject to experimentation. On the other hand, disadvantages are the researcher's dependence on the agency's types of questions and the biases existing in the data collection procedure. (McBurney et al. 2007, 238.).

In this thesis, the empirical research is conducted using secondary data. The collection of secondary data is implemented through archival research. Secondary data are accessed through both the public Internet and networks of research achieves that are available from international agencies producing them such as governmental institutions, private institutions, international organizations, Non-governmental Organizations (NGOs). Public international articles, national online newspapers and governmental websites about the events and situations are also exploited. The data is then categorized, interpreted and analyzed to compare the

investment markets in the two countries to indicate the better market for foreign investments.

1.5 Thesis scope and limitation

The main limitation of the research lies in the nature of archival research, meaning that secondary data is primarily used throughout the thesis and incapable of holistically and objectively presenting the accurate situations. Secondary data is dependent on the fixed types of available data and subject to biases by the researchers or agencies producing the data.

In addition, the research data is acquired completely from sources in English language because of language barriers. The author is a foreigner to the researched countries' native languages. English data originate principally from international agencies, which examine the countries based on their own standards and depend on the data from the countries' reports. Because the researched countries belong to the low-income group with weak infrastructure and poor information technology facilities, the information reliability is doubted. Hence, there is a likelihood that the data cannot thoroughly demonstrate precisely the events and situations, which require more practical studies in the countries themselves using the native sources to achieve the best results.

2 FOREIGN DIRECT INVESTMENT

In this chapter, the literature review flows from general to specific to set the fundamental theoretical framework that supports the latter empirical analysis. In the first section, the core theory of Eclectic paradigm, also called OLI paradigm and Dunning's motivation theory are presented after the introduction of market entry modes and FDI overview. The second section includes the three pillars in constructing the collection of inward FDI determinants for analysis, namely vertical FDI from OLI paradigm, efficiency-seeking FDI strategy from Dunning's motivation theory and manufacturing sector. The situation of inward FDI flows in manufacturing sector in Myanmar and Cambodia is also studied with the purpose of giving insights into the respective investment markets.

2.1 The theory of Foreign Direct Investment

The first section of the chapter consists of the introduction of international entry modes and the general theory of Foreign Direct Investment, which includes early FDI concepts, the Eclectic paradigm and Dunning's motivation theory.

2.1.1 International market entry modes

Hollensen (2007) defined "market entry mode" as the means by which companies are capable of transferring products, technology and human capital to foreign markets. There are three categories of market entry modes that are grouped based on the control capability, associated risks and flexibility of the strategy: export mode, contractual mode and investment mode (Hollensen 2007, 310-329).

Export is the international entry mode with low rate of risks and costs of entering new markets is export. Export is divided into direct export and indirect export. Direct export is characterized by the full responsibility of the exporting firms for the distribution and availability of goods in foreign markets through its agents. Indirect export takes place when firms do not own adequate facility to operate the distribution of products but alternatively sell the products to the end consumers through intermediaries. (Hollensen 2007, 310-329.).

Contractual mode is the second way to establish business in foreign markets, which is highly popular in case of intangible products such as technology, patents,

etc. There are four different forms of contractual entry modes, namely licensing, franchising, management contract and Turnkey projects. (Hollensen 2007, 310-329.).

Companies gain complete control over production in foreign location by means of investment entry mode. Investment mode requires substantial initial input of time and money, long-term strategy, thus poses risks in case of withdrawal. Investment mode, however, enables the efficient use of production facility and exploitation of the host country's opportunities. (Hollensen 2007, 356-372.). Investment mode is studied in this thesis in the type of foreign direct investment.

2.1.2 Foreign Direct Investment overview

Increasing economic liberalization has created a globally integrated financial market. The harsh competition amongst market participants is the foundation for the generation of new financial instruments with broad market access and lower transactions costs, which holds the interest for investors of many nationalities. The trend is accelerated by the advancements in technological innovations in communications and data processing. (OECD 2008, 14.).

Foreign Direct Investment presents the objective of a "lasting interest" of an enterprise (direct investor) in one economy in an enterprise (direct investment enterprise) that resides in an economy rather than that of the direct investor. The "lasting interest" is built on the long-term bilateral relationship between the direct investor and the direct investment enterprise with the direct investor's significant influence on the administration of the enterprise, which is specified by the direct or indirect ownership of 10 percent or more of voting power of the direct investor in the enterprise. (OECD 2008, 48-49.).

FDI is a crucial point of the increasingly rapid pace of globalization. FDI is one of the most successful ways of creating and guaranteeing the straightforwardness, stability and long-lasting duration of the relationship between countries. FDI plays as a driving force in the sustainable development of local enterprise and upgrades the competitiveness of both the recipient and investing economies. Another important role of FDI is to facilitate the transfer of know-how and technology from advanced world to developing world and provide the opportunity for the

“host” economy to promote its products more broadly in international market. (OECD 2008, 14.).

The magnificent growth of FDI in international financial market in the last decades presents the growth in either the size or the number of individual FDI and rising diversification in different economies and industries. The current development of FDI entails not only large multinational enterprises but also the small and medium-size enterprises. (OECD 2008, 14.).

2.1.3 Early FDI concepts

Hymer’s theory of FDI

In his theory, Hymer argued that FDI involved the transfers of not only finance capital but also know-how, technology, management skills, entrepreneurship, et cetera. The stimulation for a company’s abroad production is the expectation of gaining profitability based on their own resources and organizational ways of operation. Besides, perhaps the most remarkably important characteristic of FDI is the constancy in the ownership of resources and the transfer of rights whereas it is inevitable for such a change to exist in indirect investments. Firms are capable of controlling the use the property rights that are transferred to foreign subsidiaries. (Dunning and Lundan, 2008, 83-84.).

The product cycle

Vernon has stated that the inclination of an enterprise to involve in trade depended on not only immobile endowments and human resources but also its ability to upgrade these assets or create new ones, notably technological capacity (Dunning and Lundan, 2008, 83-84).

Vernon also pointed out that an enterprise’s competitiveness and ownership advantages, in other words, their innovation capabilities in products and processes, was determined by their home country factor endowments, institutions and markets. Initially, the products were produced for domestic consumption, however, on a latter state, thanks to the innovative and production advantages in the home country, the products were exported to other countries. Gradually, the standardization of products decreases the uniqueness and competitive advantages

of the supplying firms, which eventually force those firms to offer more competitive prices. Simultaneously, customers become more price-sensitive, labor cost is crucial to cost-effective production and market expands, which altogether leads to an investment in manufacturing in foreign rather than domestic location (Dunning and Lundan, 2008, 83-84.). Thus, the motivation for foreign investments in developing countries such as Myanmar and Cambodia stems from the needs for the increase in competitiveness and the adaption to customer's expectations.

2.1.4 Eclectic paradigm

The eclectic paradigm represents a comprehensive framework developed by Dunning to reflect the substantial influences of factors on either the business expansion of MNEs by foreign production or the future growth of their investments (Stoian C. et al., 2007, 351, according to Dunning & Robson, 1987). From Dunning's theory, the concept of FDI originates from the aspect of investor's decision-making rather than a financial or portfolio flow (Blaine H. 2009, 60). The eclectic paradigm is likely to vary across companies, industries, countries and regions. The motives for foreign investments determine the applicability of eclectic paradigm. (Stoian C. et al. 2007, 351.). In this thesis, the eclectic paradigm is used as the most important theory to build the theoretical framework and accordingly the structure of the empirical research.

Companies conducting FDI by international production take into account three conditions, namely ownership advantages (O), location advantage (L) and internalization advantage (I), hence the abbreviation of OLI appears (Blaine H. 2009, 60). Among them, location advantage, which contains vertical FDI, is the focal point in this thesis.

Ownership advantage refers to the competitiveness or "monopolistic" advantage from tangible or intangible assets that a company investing abroad possesses in order to compete with host country's domestic competitors in foreign location. Tangible assets are capabilities of economies of scale, supply chain and access to international markets. Intangible assets are related mainly to management skills and human resource. (Blaine H. 2009, 60, according to Cooke & Noble 1998.).

The second condition of the OLI paradigm is associated with the location of production. Foreign production takes place when companies plan to combine the production of intermediate products in home country with the production of intermediate products in a foreign location that provides benefits of low cost factors (Stoian C., et al. 2007). Production costs and market attractiveness are the determinants on the selection of the location of international production.

Moreover, according to this model, the main two incentives for FDI are, firstly, the trade barriers, which means low profitability when production happens in one place and the important markets are situated elsewhere and secondly, low factor costs. (Blaine H. 2009, 60.). Given the research on Vertical FDI, low cost factor rather than attractiveness of market is the focus of this thesis.

Internalization advantage is the third condition of OLI paradigm. Dunning's theory regarding I advantage through Blaine's interpretation (2009) is concerned with a firm's decision to prefer undertaking FDI, in other words, internalizing the ownership advantage across borders to depending on external suppliers in international markets. Stoian (2007) mentioned internalization advantage as a choice to make direct investments abroad instead of licensing the use of O advantage to external firms.

2.1.5 Dunning's motivation theories

According to John H. Dunning, there are four types of motivations for MNEs to conduct FDI, namely market-seeking FDI, efficiency-seeking FDI, resource-seeking FDI and strategic asset-seeking FDI.

Market-seeking FDI is concerned with not only nurturing and protecting existing markets but also penetrating and promoting new markets. There remain other several stimulations rather than traditional consideration of market size and growth prospects such as enhancing competitive advantage and matching customers' needs and tastes. The seeking of new market is the motivation for horizontal FDI. (Dunning and Lundan, 2008, 70.).

The motivation of efficiency seeking is associated with the efficiency of the governance of business operations in different geographic parts. The efficiency is achieved by proper cost management, taking advantage of different supply

capabilities and foundation of economies of scale. (Dunning and Lundan, 2008, 72.). The fragmentation of production process in foreign locations to optimize the cost efficiency happens in the form of vertical FDI, which is considered suitable for industrial manufacturers' investments in Cambodia or Myanmar and officially used in the theoretical framework formulation in this thesis. This type of FDI will be studied further in the following chapter.

Resource-seeking FDI is related to the acquisition of foreign resources of high quality but at a beneficially lower cost than those in domestic market. The resources that can be obtained are divided into three types, including physical resources, cheap and abundant supplies of dedicated unskilled or semi-skilled labor force and finally technology and management capabilities. (Dunning and Lundan, 2008, 72.)

Strategic asset-seeking investors conduct the acquisition of assets of foreign corporations to strengthen their competitiveness in global market. Those investors are of two types: companies which seek the way to build a global and regional strategy and FDI new players who plan to access to unfamiliar markets by acquiring some kind of competitive strength. (Dunning and Luncan, 2008, 72.).

2.2 Foreign Direct Investment in Cambodia and Myanmar

The second section of Foreign Direct Investment chapter covers the specific theoretical framework used in the formulation of the list of inward FDI determinants. Next, FDI in the manufacturing sector in Myanmar and Cambodia is studied with more details.

2.2.1 Efficiency-seeking FDI

The motivation of efficiency-seeking FDI is to capture the benefits from the governance of international production activities in diverse locations globally, the economies of scale and the scope and risk diversification. MNEs conduct efficiency-seeking FDI in a small number of locations to export to various markets in order to capitalize on the cost and price differentials, institutional arrangement, investment incentives and market demands. Efficiency-seeking foreign investors are usually experienced, large and multi-industry companies executing internationally accepted production process. Undertaking efficiency-

seeking foreign production requires the openness and development of cross-border markets, which is why foreign production is often effective in integrated regions. (Dunning and Lundan 2008, 72.).

There are two main types of efficiency-seeking FDI. The first type refers to the investment designed to take advantage of traditional factor endowments in different countries. MNEs concentrate knowledge-intensive and value-added resources and business activities in subsidiaries in developed countries whereas the production process involving the use of labor and natural resources in developing countries. The second type pertains to the investment that takes place in those countries that have the similarly developed economic structure as well as income levels to exploit the economies of scale and productivity. In this situation, competences, supporting institutions, customer demands, local competition and government policies rather than the traditional factor endowments are critical influences on FDI. (Dunning and Lundan 2008, 72.).

In this research, given the FDI inflows into Cambodia and Myanmar as developing countries with relatively low income levels, the focus is put on the first type of efficiency-seeking FDI, which is implemented by MNEs to gain the benefits from cost differentials and optimize the production efficiency. Efficiency-seeking FDI intention, together with vertical FDI and manufacturing sector, contribute to directing the research work to fulfil the research objective.

2.2.2 Vertical FDI

Location advantage

Among the three sorts of advantages proposed in eclectic paradigm, this research puts emphasis on location advantage as the motive for FDI. There are three types of location advantages: the availability of resources, horizontal FDI and vertical FDI. Firstly, the abundance of resource in host countries creates the motivation for resource-based investments for those companies which set the strategy of seeking, exploitation and exports of natural resources or resource-based products (Kinda 2009). Secondly, horizontal FDI is market-oriented, which is executed when the transportation costs of exports surpass the fixed costs of establishing a local production plant. The motives for horizontal FDI are not determined by cost factor

and the relative skill abundance of labor force in the host country. (Tanaka 2010.). Lastly, vertical FDI, which is discussed in the following paragraph, refers to the investments in foreign countries where operation costs and wages are low to optimize profitability.

Vertical FDI

Vertical FDI is the main focus of this research. In the model of vertical FDI, the decision of international production is motivated by the low factor costs and relative skill abundance. According to Tanaka (2010), when one country is more abundant than another country in terms of skillful labor force, “factor-cost differentials in the relative skilled-labor cost are not equalized through foreign trade”. Consequently, the company from skillful-labor-abundant country, mostly a developed country, is stimulated to establish production facilities in those countries where the skills labor force are weaker. Companies are likely to allocate both headquarter and production activities abroad with the aim of minimizing costs and maximizing profits. Particularly, production operations that employs unskilled labor are stationed in those countries where the wages are comparatively low. Headquarter activities are moved to countries where skilled labor is comparatively cheap. Overall, MNEs serve the market in home country or exports to third countries the products that are produced in offshore plants due to the differences in relative skill endowments. (Tanaka 2010.). The availability of unskilled labor with comparatively low wages in Cambodia and Myanmar as least developed countries worldwide plays a vital role in attracting vertical FDI from MNEs in advanced economies.

It is a challenge to distinguish horizontal FDI from vertical FDI as one investment can serve both functions (Tsen 2005, 97, according to Shatz and Venables 2000). Besides, the purpose of foreign production is subject to change over time (Tsen 2005). The common location-related determinants of FDI are cost factor, human capital, infrastructure, exchange rate and market size. Some determinants work for all forms of FDI. However, a number of factors suit one type of FDI than the other (Tsen 2005, according to Ewe Ghee 2001). For example, the factor of production cost is of high importance for both horizontal and vertical FDI but market size is

indifferent to vertical FDI while it is attractive to horizontal FDI, due to specific features of each type.

Therefore, in accordance with the theory of vertical FDI and empirical findings from preceding research, the factor of production cost is the main influential factor in the context of vertical FDI in Myanmar and Cambodia.

2.2.3 Manufacturing industry

In accordance with DICA's data and statistics (2014), foreign investments in Myanmar flow into various sectors, namely Power, Oil and Gas, Manufacturing, Mining, Hotel and Tourism, Real Estate, et cetera. (See appendix 2). This thesis concentrates on the FDI inflows in Cambodia and Myanmar in manufacturing sector.

The manufacturing industry is defined as the industry that is involved in the manufacturing and processing of products and the creation of new products or the value addition. The products can serve either final consumption or as intermediaries in other production processes. (Manufacturing Industry 2010.). Standard Industrial Classification (1996) indicates that manufacturing industry is engaged in the fabrication, processing, or preparation of raw materials and commodities to make products.

Manufacturing industries are the important pillars in an economy. Various techniques and methods are adopted in manufacturing sector to monitor and manage manufacturing process. Manufacturing industries are grouped into different categories such as engineering industries, construction industries, electronics industries, chemical industries, energy industries, textile industries, food and beverage industries, metalworking industries, plastic industries, transport and telecommunication industries. (Manufacturing Industry 2010.).

Manufacturing industries employ a substantial proportion of labor force (Manufacturing Industry 2010). In the type of vertical FDI, most investments inflows into Cambodia and Myanmar in the manufacturing sector are concentrated in labor-intensive industries.

2.2.4 FDI in manufacturing sector in Cambodia

Manufacturing sector in Cambodia

The garment and textile industry dominates in the manufacturing sector in Cambodia. Garment production contributes 16% to Cambodia's total gross domestic product (GDP). The proportion of 45% of manufacturing workers is employed in garment and textile industry. Other manufacturing industries are light and low-tech industries such as food processing and rubber production.

FDI in manufacturing sector

In 1989, massive international and domestic efforts were practiced to promote peace throughout the nation, followed by the general election in 1993 and the introduction of "Law and Regulation of Investments in the Kingdom of Cambodia" in 1994, which makes Cambodia an attractive destination for foreign investments. The amount of FDI inflows into Cambodia has been on a steady rise since the Paris Peace Agreement. (Carteret and Kunmakara 2013.). The rise was dramatic with 77% increase in FDI in 2012 to \$1.447 billion compared to \$815 million in 2011. In 2013, the amount of inward FDI decreased slightly to \$1.396 billion. (Country Fact Sheets 2014.) (See appendix 1).

Private investments accounted for three quarters of all investments. Private investments take place in several dominant sectors, namely services (tourism), manufacturing (textiles, garments and footwear) and agriculture (paddy rice). In the manufacturing sector, foreign investments contribute a substantial proportion in garments industry. The country is an attractive location for international production, especially in garments due to low labor cost, quota free access to US and EU markets, proximity to the large ASEAN market and source countries of FDI in garments such as Hong Kong, Taiwan, Indonesia, Malaysia and Singapore. (Cambodia: Sector-specific investment strategy and action plan 2013.). After the global crisis in 2009, FDI inflows in the manufacturing sector increased steadily and reached \$500 million in 2012. The majority of investments is concentrated in light manufacturing, which is defined as the sub-sector of food, garment, shoes and wood. (Homma 2014.).

The Cambodian authorities made various attempts to improve the industry's competitiveness and make the country a favorable investment destination. Nowadays, the country is in the top list of liberal investment markets in developing Asia with the permission of 100% foreign ownership and only marginal number of industries closed to foreign investments. (Cambodia: Sector-specific investment strategy and action plan 2013.). Another research from NagaCorp (2013) also indicates that Cambodia offers one of the most liberal investment environments in Southeast Asia.

Special Economic Zones (SEZs) are established by the Cambodian government to facilitate exports. SEZs are monitored by the Cambodia Special Economic Zones Board through the rules created by the Sub-Decree on SEZs. There are 9 out of 25 approved SEZs operating near the borders of Thailand and Vietnam, and in Phnom Penh, Kampot and Sihanoukville. SEZs attract investments in several dominant sectors, embracing garments, shoes, bicycles, food processing, car and motorcycle assembly and electrical equipment industries. (US Bureau of Economic and Business Affairs 2013).

Investment risks in Cambodia

Although Cambodia has become an increasingly attractive investment environment, there are still major risks and drawbacks in the market that are worth considering. The labor cost is low, however, it is important that companies are prepared to manage the rising labor cost and labor militancy. Inadequacy in the supply of energy for production makes the energy costs comparatively high at the regional and international level. Physical infrastructure is weak. Complicated domestic political situations discourage business confidence. (NagaCorp 2013.).

2.2.5 FDI in manufacturing sector in Myanmar

Manufacturing sector in Myanmar

Myanmar remains to be an agrarian country despite dramatic increase in the proportion of value added from the manufacturing sector over the last decade. The share of the manufacturing sector increased from around 10% in 2002 to nearly 25% in 2012, however, remained a small proportion compared to other ASEAN

countries, namely, Cambodia, Lao PDR, Thailand and Vietnam. (Abe 2014.). (See appendix 4).

Before the political reform, the majority of FDI is poured into extractive industries such as power (45%), oil and gas (34%) and mining sector (7%) (See Figure 3). Manufacturing sector ranked fourth (5%), followed by hotels and tourism and real estate. However, during the pre-reform period, domestic enterprises invest strongly in the manufacturing sector with 24%. (See appendix 5).

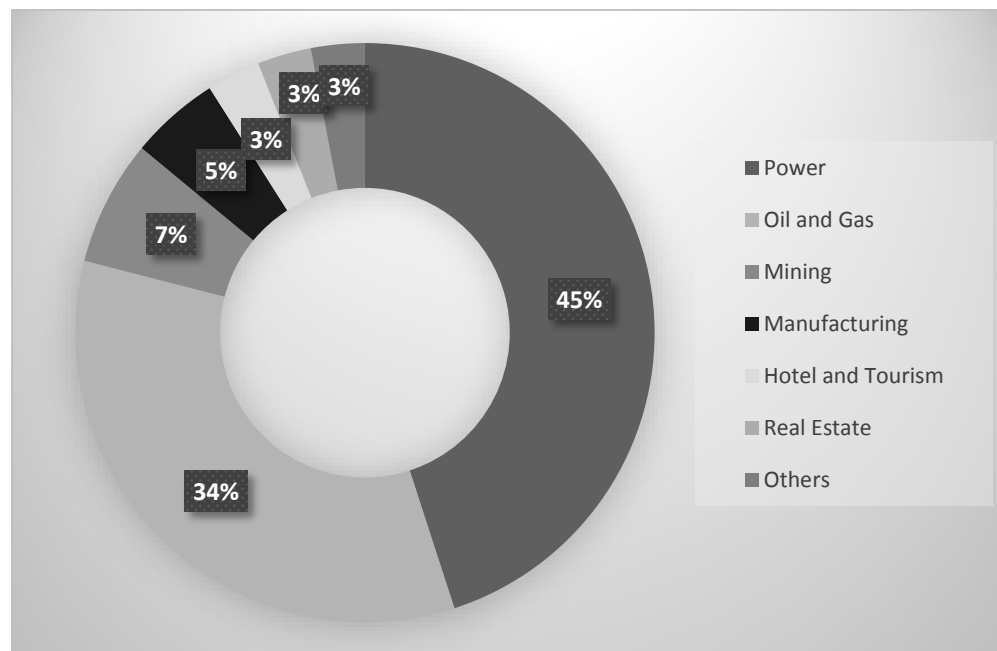


FIGURE 3. Sectoral Distribution of approved FDI in Myanmar until January 2013 (Abe 2014)

FDI in the manufacturing sector

The openness of the national economy has a strongly positive effect on the volume of FDI inflows in Myanmar in recent years. In the fiscal year 2010-2011 (end at April 2011), the country received the amount of FDI that is larger than the previous two decades combined, with the quantity of \$20 billion (Bissinger 2012). In the first 8 months of the fiscal year 2014-2015, FDI in Myanmar reached \$3.8 billion by 108 companies from 19 countries (DICA 2014).

The distribution of FDI inflows is not equal in different sectors at different periods of time. Since 1988, the manufacturing sector has attracted 362 investment projects, which accounts for 8.84% of all investments and the average size of each investment has been around \$11.4 million. (See appendix 2). In the FY 2010-2011, the majority of FDI is poured into extractive (mining, oil and gas) and power sectors, with approximately 99%, whereas the manufacturing and other sectors received limited amount. Until January 2013, extractive industries continue to dominate FDI inflows in Myanmar. (Abe 2014.).

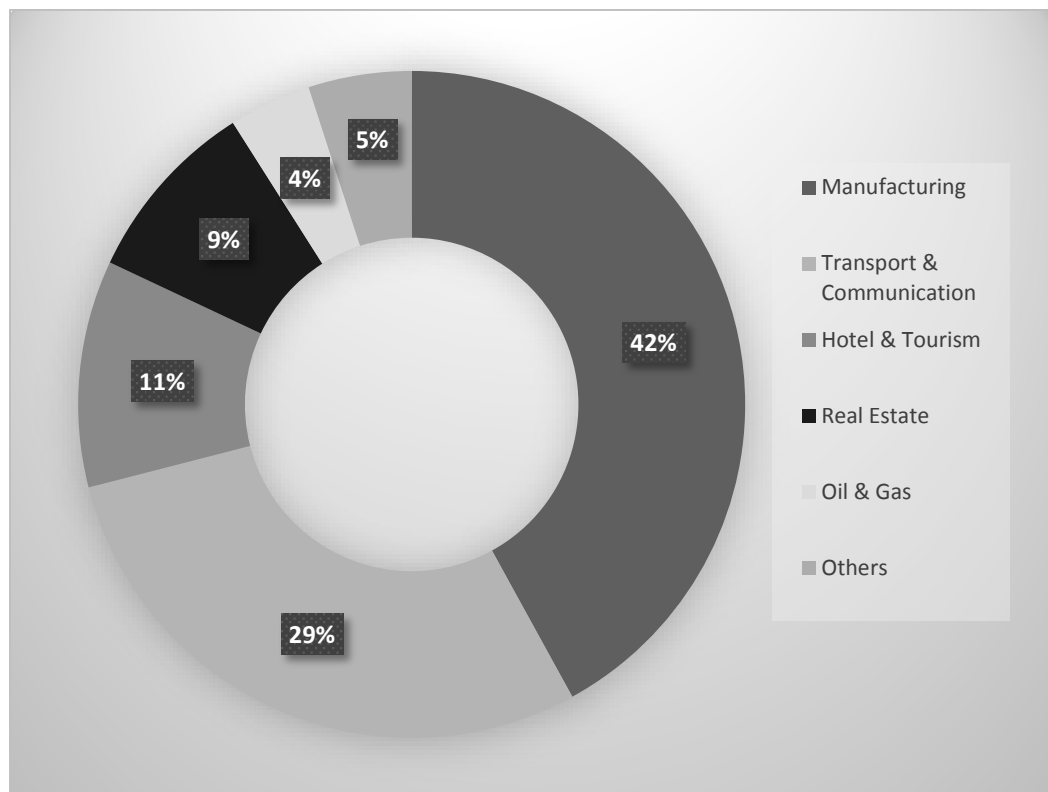


FIGURE 4. Sectoral Distribution of approved domestic investments and FDI in Myanmar from February 2013 to April 2014 (Abe 2014)

Nevertheless, drastic changes happen when both domestic investments and FDI are shifted to manufacturing sector from February 2013 to April 2014 (Abe 2014). Subsequently, during the first 8 months of FY 2014-2015, the sector of manufacturing topped the list with more than \$1.1 billion from 94 manufacturing

firms (Aung 2014). From this point, it can be seen that there have been changes in the sectoral distribution of FDI inflows with an increase in manufacturing sector.

The strategic location, growing consumption and low labor costs open massive opportunities for MNEs' investments in manufacturing sector in different areas such as auto manufacturing, beer, cigarette, home appliances, medicine, etc. Evidently, the market has become increasingly and convincingly attractive with the presence of global enterprises such as Unilever, Coca Cola, Nissan Motors, Suzuki Motors, Heineken, etc. (Yagon 2014).

Infrastructure is strongly invested to support international production. Major special economic zones (SEZ) such as Dawei, Kyaukphyu and Thilawa are built to provide basic infrastructure and facilities for investments in manufacturing sector (see Appendix 10). Located near Yagon, Thilawa SEZ, which is collaboratively founded between Burmese and Japanese government, will be completed in 2015 (Yagon 2014). Besides, Hong Kong enterprises proposed building Hong Kong Industrial Zone for 50 to 80 manufacturers (Kent 2012).

Investment risks in Myanmar

Myanmar has experienced its economic reform and trade liberalization for a short period of time. Hence, there remain a number of risks when international companies invest in the country. The following paragraphs are the brief discussion regarding risks that should be taken into consideration from the initial stage of investment strategy. (Invest in Myanmar 2015.).

- The Parliament supports protectionist policies to protect domestic businesses from foreign dominance in certain industries, which is likely to put foreign investors at a disadvantage.
- Rule of law and law enforcement pose some uncertainties to the right protection of foreign firms under some circumstances despite remarkable improvements in the legislative system.
- Nationalizing small businesses hardly happens nowadays in the light of economic freedom and political reforms, but it is never wrong to consider this possibility if political winds change.

- Investors may have great optimism about the potentiality and profitability prospects of investments in dynamically developing economy of Myanmar. However, it is useful to understand deeply the economic structure as well as infrastructure of the country for suitable strategy and expectations.

For a late comer like Myanmar, foreign companies may face cultural differences and unpredictable risks related to government officials. The understanding of the local and adaptability skills are helpful for foreign investors.

3 DETERMINANTS OF INWARD FDI

This chapter presents the list of inward FDI determinants that affect the investment decision of MNEs in Cambodia and Myanmar. The selection and analysis of the determinants are based on the theoretical framework of vertical FDI, manufacturing sector and efficiency seeking FDI intention. Contemplating with the main objective of this research, the determinants are used as a criteria in decision matrix for the analysis of the efficiency and competitiveness between the investment markets in the two countries, namely Cambodia and Myanmar in political, economic and social aspects using PESTLE analysis tool.

3.1 Political: Political stability; Corruption

Political stability

According to Biglaiser et al. (2012), the democratization has been widespread throughout the developing world with the collapse of authoritarian rule and the appearance of democratic institutions in various regions such as Africa, South and Southeast Asia and Latin America. The movement toward democracy is one of the driving forces of the flows of FDI to developing economies. Importantly, political stability is one of the critical factors that have influences on the decisions of foreign investors in overseas developing markets.

In addition, Cyuvers et al. (2008) claims that the host country will be decreasingly less attractive destination of inward FDI when the degree of host-country risks is high. Foreign investors are sensitive with the impacts of political stability on their projects. Thus, political risks are negatively related to FDI inflows.

Even though the theory supports the negative effect of political risks on FDI, a number of empirical studies give the mixed results. The relationship between political events and manufacturing FDI is not similar in developed and less developed countries (Nigh 1985). In Taiwan, it is indicated that political stability, despite being a prerequisite for FDI, is an indifferent factor to FDI (Tu and Schive 1995). Nonetheless, Jun and Singh (1996) find that political situations are influential factors on the flows of FDI to those developing countries that receive comparatively large amount of inward FDI. In general, the political instability

does have negative impacts on inward FDI in developing country, which means that the more instable the political situation is, the less likelihood the inward FDI will flow into the host country. (Cuyvers 2008.).

Corruption

According to Tanzi (1998), corruption is defined as the negative exploitation of public authority over private benefit, which presents the transfer from private companies or individuals to authorized entities for favorable and biased treatment despite regulations. Various preceding research has common indications that corruption has negative influences on inward FDI in emerging markets (Habib and Zurawicki 2002; Wei 2000). (Mudambi et al. 2012, 493.).

The illegal acts of corruption increase the direct costs and uncertainty of operating business, thus discourage foreign investments (Mudambi et al. 2012, 493). Sinha (2007) also argues that corruption results in the increase in transaction costs in business. The host country's competitiveness and fair trade can be distorted. Moreover, the level of productivity is decreased due to high public investment. The level of corruption can impact the decision on the mode of entry and structure of company. There is likelihood that MNEs incorporate with local companies to deal with such corruption or form a joint-venture rather than direct investment in high-corruption countries. (Sinha 2007, 33.).

In general, the higher the level of corruption in the host country is, the lower level of inward FDI that that country receive.

3.2 Economic: Exchange rate; Inflation rate; Trade liberalization; Labor costs

Exchange rate

Exchange rate between host and home country is found to be an important factor affecting the decision on inward FDI undertakings. The relationship of exchange rate and FDI can be either positive or negative. It is positive when the rise in exchange rate or the depreciation of the host country's currency against that of the home country increases inward FDI and it is negative the rise in exchange rate decreases inward FDI. The former correlation originates from the fact that the depreciation of the host country's currency against that of the home country

represents the increase in investment value and higher profits from foreign subsidiary. The latter relationship shows the decrease in FDI in the host country as a result of its currency depreciation against the home country because exports from the home country is less competitive. (Cuyvers 2008, according to Dewenter 1995 and Pan 2003.).

Firstly, the negative relationship is reflected in the scenario that the profit repatriation is directly affected due to the devalued of the host currency (Chakrabarti 2001, 89). Plus, the depreciation of the host currency can prevent FDI inflows because it represents the negative indication in a long run. The loss of the host currency's value also reflects instability and higher risks of doing business, thus decrease FDI inflows in the host country (Crowley and Lee 2003, 251.).

Secondly, in the context of inward FDI into developing countries, certain studies support the positive relationship between exchange rate and FDI, which refers to the rise in FDI amount as a consequence of the rise in exchange rate or the depreciation of the host country's currency against that of the home country. In accordance with research by Aristotelous and Foundas (1996), the decrease in the host currency value creates foreign companies' relative wealth and raise the volume of foreign purchase of domestic production inputs, which will subsequently increases inward FDI flows. Furthermore, capital inflows from foreign investments escalate because MNEs are likely to capitalize on the cheaper domestic labor costs. Hence, the rise of the real exchange rate has positive effect on FDI in the host country.

In addition, Japanese MNEs' foreign investments flow into countries with depreciation of currency (Kiyota and Urata 2004). Another study concerning Japan's FDI in manufacturing in China and ASEAN 4 (Indonesia, Malaysia, the Philippines and Thailand) by Xing and Wan (2006) also shows the positive influence of exchange rate on FDI decision of Japanese firms. The rise in exchange rate or the depreciation of Chinese yuan during the 1980s and the early 1990s is found attributable to the redirection of Japan's FDI from ASEAN 4 to China. On the other hand, several studies indicate that the long-run relationship is not obvious (Cuyvers et al. 2008, 10).

Accordingly, a host country with higher exchange rate relative to the home country is a more favorable inward FDI destinations.

Inflation rate

Inflation rate is among the important factors that have direct effects on FDI inflows since international production and exporting are vulnerable to the fluctuations in pricing and exchange rate. According to Sinha (2007), lower inflation rate makes the host country more advantageous in attracting FDI. The relationship between inflation and FDI is found to be negative as high inflation rate boosts pricing level and interest rate, causes currency depreciation, which reduces the motivation for investment and productivity from investments. The cost of doing business is therefore comparatively high in case of high inflation (Sinha 2007, 35). Trevino et al. (2002) also demonstrates the adverse effect that high inflation has on investments. Rodrik (1996) claims that investor's confidence is negatively impacted by high inflation.

Other empirical studies also show the similar results regarding the relationship between inflation and FDI. In the research of inflation uncertainty and FDI in Nigeria in the period 1970 to 2005, Udoh and Egwaikhide (2008) point out the negative relationship between inflation and FDI and the effect of inflation is statistically noticeable. In the investigation of effect of investment promotion on FDI inflows in Ghana from 1970 to 2009, inflation is negatively related to FDI (Djokoto 2012). Besides, Sayek (1999) shows in his study that an increase of 7% in inflation rate in Turkey reduce FDI from United States by 1.9%.

A number of preceding studies indicate the negative relationship of inflation and inward FDI in developing countries. A host country will gain more competitiveness in absorbing FDI inflows if its government adopts effective inflation stabilization policies to keep inflation rate stable. Therefore, the country with lower inflation rate is more attractive to foreign investors.

Trade liberalization

It is common knowledge that FDI is involved with exports of raw materials, semi-final products or finished products from the host country to the home country or vice versa or from the international production point in the host country to the third nations. Thus, economic freedom and trade liberalization are imperative indications for the inflows of FDI, exceptionally for export-oriented inward FDI in developing countries.

Sinha (2007) (according to Lee 2005) concludes that the behavior of MNEs in the host country is affected by trade barriers such as tariffs and quotas. The relationship between trade barrier and FDI inflows is positive, which means that when the transportation costs and tariff are high, MNEs would prefer establishing production plants in the host country to exporting finished products to avoid tariffs. Lunn (1980) also proposes the same results about the relationship between trade barriers and FDI (Sinha 2007). Nevertheless, some studies indicate the negative relationship between trade barrier and FDI inflows (Culem 1988 and Blonigen and Fenestrata 1996). The rate of trade freedom reflects the government policy. Favorable government policy increases the attractiveness of investment environment (Sinha 2007, 38). Trevino (2002) in the study of government's impact in CEE found that Bilateral Investment Treaties (BIT) and Double Taxation Treaties (DTT) between countries facilitate the inflows of FDI. Additionally, in the research of determinants of FDI in East Asian countries, Chantasawat (2004) points out that economic freedom created by government policy initiatives has effect on inflows of FDI. MNEs reduce exports and increase international production in the host countries to avoid import duties. The type of vertical FDI is efficiency-seeking and focused on those countries where exports are cheap and semi-final products can be produced and exported to other global affiliates for assembly (Sinha 2007, 38).

Vertical FDI is an export-oriented investment. MNEs tend to take advantage of international differences in factor cost by shifting production to low-cost developing countries, then intermediate products or finished products are exported back to the home country for next stage in production or final consumption. The exports of products from the host country and the home country inevitably create

the bilateral trade between two countries. Hence, the trade liberalization between the host country and the home country makes contribution to MNEs' decision on FDI globally. The higher the trade freedom of the host country is, the more likelihood that the host country will receive FDI. (Cuyvers 2012.).

In a nutshell, in terms of vertical FDI in developing countries, those countries with higher rate of economic freedom and trade liberalization are more competitive inward FDI recipients in the global market.

Labor costs

Labor costs are among the key factors of production that affect the production cost. Labor cost play a crucial role in the cost function in labor-intensive manufacturing and efficiency-seeking FDI undertakings. There is a substantial gap between the wage in developed and developing countries, which leads to the MNEs' shift of production from developed world to developing world for higher returns and benefits from labor arbitrage. (Sinha 2007.)

Several studies point out that those countries with abundance of cheap skilled or unskilled labor force are more attractive to foreign investors in terms of efficient-seeking FDI inflows (Jun and Singh 1996). Lower wages in the host country relative to the home country stimulate international production from MNEs (Dunning and Lundan 2008). Besides, some studies indicate that there is a negative relationship between labor costs and FDI activities in the host country (Baek and Okawa 2001, Wei and Liu 2001, Bevan and Estrin 2004), meaning that low wage results in high volume of investments. For evidence, Wei and Liu (2001) figured out the negative relation between wage and FDI inflows in China that lower wages leads to more inward FDI in China. Moore (1993) and Lall et al (2003) also argue that the low wage is the prerequisite for FDI inflows in labor-intensive manufacturing. In the study of FDI determinants in ASEAN, Changwatchai (2010) also demonstrates that wage is one of the critical determinants of inward FDI and the relationship is expected to be negative, which means lower wage attracts more inward FDI.

Therefore, the lower the labor costs in the host country relative to that of the home country are, the more attractive to the inward FDI flows the host country is.

3.3 Social: Human capital

Human capital

Human capital represents the accumulation of knowledge or characteristics that a worker possesses or acquires to enhance his or her productivity (Becker 1993). Although the definition of human capital is broad, this research concentrates on the correlation between inward FDI and education.

A quantity of preceding studies gives different results regarding the role of human capital in the attraction of inward FDI in manufacturing sector in developing countries in general and LDCs in particular. The attractiveness of a host country for FDI is determined by the sufficiency in the supply of labor with relevant skills, in which the issue of relevancy of skills pertains to the needs of investors rather than education. The pricing relative to labor with certain qualifications is an important determinant in human-resource seeking FDI, not in efficiency-seeking FDI. (OECD 2002, 110.).

Besides, in the study of significant factors that impact US outward FDI, it is indicated that the relationship between education and FDI is negative in terms of the investments in low-skill and low-wage countries whereas the figure is opposite in high-skill and high-wage countries (Blaine 2009, 62, according to Cooke and Noble 1998). Conversely, Zhang-Markusen (1999) claims that foreign investments will not be undertaken in the host countries that provide very low wages of unskilled-labor owing to insufficient human capital.

Other studies show that education is not relevant to the flows of FDI. Blomstrom et al (1992) demonstrates that by no means does education have any impact on FDI flows. Hanson (1996) underestimates the role of adult literacy in determining FDI undertakings. Narula (1996) shows that the influence of tertiary education on FDI flows is marginal.

On the other hand, Noorbakhsh et al. (2001) argues that measures of human capital variable shows statistically substantial effects and positive relations with FDI inflows. An improvement in labor force is expected to be a crucial criterion in attracting FDI of efficiency-seeking types. Also, Nunnen and Spatz (2003) finds

that education become increasingly important in the attraction of FDI in the mid-1980s to the late 1990s when MNEs tended to execute efficiency-seeking foreign investments. For instance, African region witnesses the stagnant growth in human capital when the majority of FDI takes place mostly in natural resources and market seeking (Miyamoto 2003 and Asiedu 2002, 107-119). Meanwhile, some countries in Southeast Asian region began to invest in institutions to upgrade industrial skills development when the influx of efficiency-seeking FDI materialized in the region (Miyamoto 2003). Therefore, in the context of efficiency-seeking FDI, the role of education is highly important in raising the competitiveness of investment markets in developing countries.

From the above discussion, though several studies show mixed results about the importance of education in the attraction of inward FDI in developing countries, the improvement of education and industrial skills raise the likelihood of being an inward efficiency-seeking FDI recipient. A country gains more competitiveness if it has a higher level of education.

4 PESTLE ANALYSIS AND DECISION MATRIX

This chapter introduces the two main market analysis tools used in the empirical research in this thesis, i.e. Pestle analysis and decision making matrix. The first section of the chapter includes the definition of Pestle analysis tool and the selection of PES from Pestle to suit the determined FDI inward FDI determinants. The second part covers decision making matrix method and its application in the thesis.

4.1 Pestle analysis

Pestle analysis is a technique used for the detailed analysis of a market based on reliable published sources from government publications, surveys, statistics and some primary analysis. The Pestle analysis considers political, economic, social, technological, environmental and legal factors that affect businesses (Dransfield et al. 2004, 444-445). As all other analysis methods, PESTLE technique should be used in conjunction with other environmental analysis tools for effective decision making. Pestle analysis aims at identifying the important and related factors from the complex set of changes in the overwhelming macro environment to consider how they affect the industry (Allen, 2001, 54).

Political factor

Analysis of political factors presents the extent to which political changes in a country can impact business operations in that country (Dransfield et al. 2004, 446). Working on political issues is not a precise science because unexpected situations can happen (Allen, 2001, 55). Politics-related important issues are future taxation policy, political stability, economic freedom and unemployment policy (Jeffs 2008, 29). Organizations are influenced by political changes in four major areas, namely corporate strategy, cooperation with other parties, operational decision-making and internal administration (Allen, 2001, 55).

Economic factor

The economy frequently undergoes a booming period and recession period at different times. Thus, it is important for firms to consider several economic factors to get the knowledge about the economic situation worldwide or in certain

regions. Besides, changes in interest rates and exchange rates are worth considering. A rise in interest rates hinders the growth of businesses that export because of the decline in price competitiveness compared to rival firms while a reduction in interest rates stimulates the sales volume. In addition to interest rates, inflation and various production-related costs such as transport, energy, communication and raw material costs are key economic elements. (Dransfield et al. 2004, 446). FDI investors also take into account unemployment rate to analyze the possibilities to open a manufacturing plant (Jeffs 2008, 29).

Social factor

Social factors are elements that build the society. People's choices and attitudes are influenced by various sociocultural factors. There are certain areas that require thorough understanding from businesses such as changes in demographics, people's viewpoints on product or an industry needs, lifestyle changes and attitudes to health, birth rates, leisure time, the number of skilled graduates and well-motivated unskilled labor force. (Allen, 2001, 63.).

Technological factor

Technology plays a crucial role in business activities, particularly in internationalizing business operations and concentrating on Research and Development. Technological advancements have accelerated strongly the transfer of information throughout the world and innovations of new technologies based on technological foundations. Technological changes also improve business to business as well as business to customer communications and service delivery. Enterprise's proper use of information technology creates advantages against rivals: creation of barriers to entry, revenue generation, database storage and analysis and productivity improvement. (Allen, 2001, 67.).

Legal factor

Enterprises in a wide range of industries, from financial services, manufacturing, energy provision, operate under the control of not only international, regional, national and local regulations but also internal legislative systems that companies use to maintain their operations. Legal analysis takes into account these legal

changes to set up strategies based on the legislations (Pestle analysis 2015). To enterprises, anticipation and preparation for possible changes in the laws is a necessity (Dransfield et al. 2004, 446).

Environmental factor

Over the last decades, there has been a dramatic growth in people's environmental awareness (Allen 2001, 73). MNEs are obliged to make changes to environmental strategies in accordance with international standards for environmental quality procedures. Enterprises need to act in a proactive position rather than be reactive to the results. Besides, businesses are responsible for responding to "green issues" proposed by customers and community (Dransfield et al. 2004, 446). It is indeed important for MNEs to pay attention to environmental standards when establishing and operating the manufacturing plants in the host country.

The selection of PES from PESTLE

PESTLE is a comprehensive analysis tool for detailed study of investment markets of Cambodia and Myanmar. However, in the research, not all of six aspects are studied. Based on the inward FDI determinants, three aspects of PESTLE are concentrated, namely Political, Economic and Social.

- Political aspects are political stability and corruption.
- Economic aspects are inflation rate, exchange rate, trade liberalization, labor costs.
- The social issue analyzed is human capital.

Cambodian and Myanmar's investment markets are analyzed based on these inward FDI determinants. Following the PESTLE analysis, decision making matrix is adopted to systematically compare the results of the two countries to indicate the better investment market.

4.2 Decision matrix

According to Tague (2004, 219-223), decision making matrix is used for the evaluation of a number of options and selection of the best option among the list of options. Decision matrix tool involves a list of weighted criteria, against which each option is evaluated in order that the best option is selected.

Decision matrix is used in certain circumstances, including:

- Only one option is selected from a list of options
- The selection of the best option must be based on a number of criteria
- After the number of options is minimized to a manageable level.

Decision matrix can be conducted through the following steps.

1. Select the appropriate criteria for the evaluation of the list of options
2. Refine the list of criteria to choose the most related and important ones
3. Assign weight to each criterion that reflect comparatively its importance to the situation
4. Place the list of options and criteria in an L-shaped matrix
5. Evaluate each option against the criteria
6. Multiply the options' rating with the weight.

There are three methods of evaluation.

The first method is to create a rating scale for each criterion. The rating scale can range from 1 to 3 or 1 to 5 to reflect the level of influence of each criterion. The rating scale must be unchanged throughout the evaluation. The high end of the scale (3 or 5) always presents the most likelihood of an option to be chosen.

The second method is to rank the options according to their qualification against the criterion. The least desirable option is numbered 1.

The third method is the Pugh matrix. A baseline which can be an alternative is created to compare each criterion to that alternative using a five point scale: 2, 1, 0, -1, -2 or a seven point scale: 3, 2, 1, 0, -1, -2, -3. Positive number shows the desirable rating.

Application

In this research, decision making matrix is used to compare Cambodia's and Myanmar's investment markets based on the selected and analyzed criteria to indicate the more competitive and efficient one. Therefore, the options that need to be evaluated are Cambodia and Myanmar while the criteria are inward FDI determinants. The selection of the determinants is based on the theoretical framework of vertical FDI, efficiency-seeking FDI and the manufacturing sector. This research adopts the method of creating a rating scale for each determinant.

The 1-2 scale is applied in the evaluation of the options. Based on the characteristics of the criteria, 1 means either low or high. Similarly, 2 also means either low or high. For example, regarding the criterion of political stability, 1 means low and 2 means high whereas in the case of corruption, 1 means high while 2 means low. The flexibility of the 1-2 scale helps lead the analysis and comparison of the options in the correct direction. Meanwhile, the weight can be Low (1), Medium (2) or High (3).

5 EMPIRICAL RESEARCH AND ANALYSIS

From the identification of important inward FDI determinants in Myanmar and Cambodia in chapter 3 and the introduction of Pestle analysis and decision making matrix in chapter 4, the empirical analysis is conducted in this chapter. The first part pertains to the analysis political aspect, including political stability and corruption situation in the researched countries. The second section covers the analysis of given economy-related inward FDI determinants while the third section studies human capital as a social inward FDI determinant. Decision matrix is utilized to compare Myanmar's and Cambodia's investment markets based on the findings from Pestle analysis.

5.1 Political

Political aspects studied in the thesis are political stability and the corruption issue.

5.1.1 Political stability

Myanmar

The union of Myanmar has been under the military rule led by State Peace and Development Council (SPDC) during the period of four decades from the general Ne Win's coup in 1962 to the collapse of SPDC as a consequence of the 2010 general elections. Now the country is making attempt to transform into a democratic state. The political and economic reforms have encouraged Western countries to abolish the bans on trade and investments, which enables the foreign investments to grow. (Chene 2012.). A new political architecture has been established by the momentous elections in 2010 and the appearance of the parliamentary government in 2011, which presents the strong transition from a dictatorial state under the control of military to a democratic state with political public participation. (Wilson et al. 2012, 1-5.).

Despite the strong political reforms, it seems that the foundations for a modern era of democracy in Myanmar remain weak. Government's operations are circumscribed by secrecy and lack of transparency. The society shows signs of authoritarian and hierarchical features plus public policy discussion is not fully

supported. The inherent attributes of a modern democratic society are mistrusted by the rulers of Myanmar and there remain lack of transparency and integrity, unaccountability and non-responsiveness, which altogether poses a hindrance on the process of improving the governance of constitutional and parliamentary government. (Wilson et al. 2012, 10-11.). Moreover, the instability in politics comes from the imbalance of power caused by the remained significant influence of the military regime (Myanmar: Risk overview 2012).

The political stability in the country stems from not only the challenges in the political reforms within the government but also the chaos of ethnic problems, particularly the conflicts between the government and minor military arm forces led by ethnic and sectarian divisions in different regions nationwide (Myanmar politics: Ethnic conflicts intensify 2014). In spite of the attempts by the government to end the fighting through negotiations with the ethnic leaders, the civil war continued to happen and possibly led to further escalation of the conflict, especially in Kachin and Shan states, which is likely to slow the progress of maintaining political stability (Myanmar: Key developments 2014).

Cambodia

Cambodia has step by step developed its economy and social structure from the bottom after three decades of devastation and societal fragmentation from civil conflicts, colonization, genocidal Khmer Rouge and foreign sanctions, with the help of United Nations and foreign countries. Paris Peace Agreements were signed in 1991, followed by the election and the generation of a new constitution, two of which are practiced with the support and assistance from United Nations. Cambodia is a constitutional monarchy with Parliamentary representatives. In the election in 2013, there are two main political parties in Cambodia, namely Cambodian People's Party (CPP) and Cambodian National Rescue Party (CNRP), both of which account for the majority of parliamentary election. (Ojendal et al. 2009.).

However, the political stability in the country remains uncertain. A year after the general election which took place in 2013, the opposition party CNRP states that the election has been arranged and conducted with lack of transparency, thus it

denied the victory of CPP and boycotted the Parliament. However, under the UN and international pressure, the CNRP ended the boycott and retained its participation in the Parliament. (The Economist 2014 and Barua 2014.).

In addition to the political turmoil at the governmental level, the country encounters the strike by thousands of workers in the textile industry who suffer from the extremely low minimum monthly wage. The protests of workers are also associated with the competition between the government and the opposition party. While the government shows no concern about the wage of workers in the textile industry, CNRP promises to increase the minimum wage if the Party wins the election to obtain support from the public. (Duerr 2015.).

Discussion

Myanmar has been making remarkable political reforms to turn itself from a dictatorial military rule into a democracy. However, the transition is slow and confronted with various challenges such as authoritarian control, lack of transparency in the government and civil conflicts with minor military arm forces within the territory. These unstable political situations directly pose threats to the continuation of current production or sudden suspension of potential investments. On the other hand, Cambodia has made progress to be a constitutional monarchy since the early 1990s although lack of transparency and political competition causes certain political instability. Generally, the political situation in Cambodia shows better signs than that of Myanmar, whose government is supposed to make more attempts to maintain peace and stability nationwide to nurture the manufacturing industry and export-oriented investments.

5.1.2 Corruption

Myanmar

Myanmar's politics is still dominated by the military despite strong transition into a democratic state (Fund for Peace 2012). Decades of being an authoritarian state make the country suffer from severe corruption situation despite current efforts to improve it. The closed nature of the former military dictatorship limits the number of independent sources of data on the governance and corruption in Myanmar.

(Chene 2012.). According to Transparency International (2014), the country is currently one of the most corrupt countries in the world. Serious corruption results in additional business costs due to spending for bribes and bureaucratic procedures.

The Myanmar's government is making attempts to fight against corruption and minimize its effect on the business operations in all sectors, including manufacturing. The country established anti-corruption law since 1948 which states that corruption is a crime that may result in imprisonment (Burma Lawyer's Council 2005). In 2013, the newly anti-corruption law was enforced (Miller et al. 2014). An anti-corruption commission is appointed by the Myanmar parliament to crack down on corruption (Radio Free Asia 2014). Although plenty of anti-corruption efforts are exercised, there remain doubts regarding the performance and the effectiveness of anti-corruption acts (U4 Expert Answer 2014, Aung 2014 and Nyein 2014).

Cambodia

Corruption is considered a norm in Cambodia and undoubtedly among the biggest challenges that tamper the social and economic development as well as the investment environment of the country (Cambodia politics: Cautious optimism on Cambodia's corruption problem 2014; Keo 2013 and Ray 2012, 49). Corruption exists at all levels of government and society, affects business efficiency and raises the business operation costs of private companies by the bribes paid to obtain favorable business deals (Ray et al. 2012, 49). Transparency International (TI) ranks Cambodia in the 156th place in the corruption perception index in 2014.

Nonetheless, like Myanmar and other developing countries that thrive on improving the domestic business environment, Cambodia's government makes efforts to reduce corruption nationwide. In March 2010, the Cambodia's government passed the draft of the Anti-corruption Law, which states that any entity participating in the facilitation of corruption will face harsh penalties. Besides, in 2010, the country's first alternative dispute resolution mechanism called the National Arbitration Centre is established to alleviate the process of

resolving commercial disputes for companies. (Business Corruption in Cambodia 2015.).

Discussion

Both Myanmar and Cambodia are the most corrupt countries worldwide. A line chart about the corruption index of Myanmar and Cambodia from 2009 to 2014 is provided to give insights about the recent corruption situation. The time frame 2009-2014 aims at presenting the corruption problem of Myanmar before and after the general election in 2010 – the momentous point of time when the country became a democratic state.

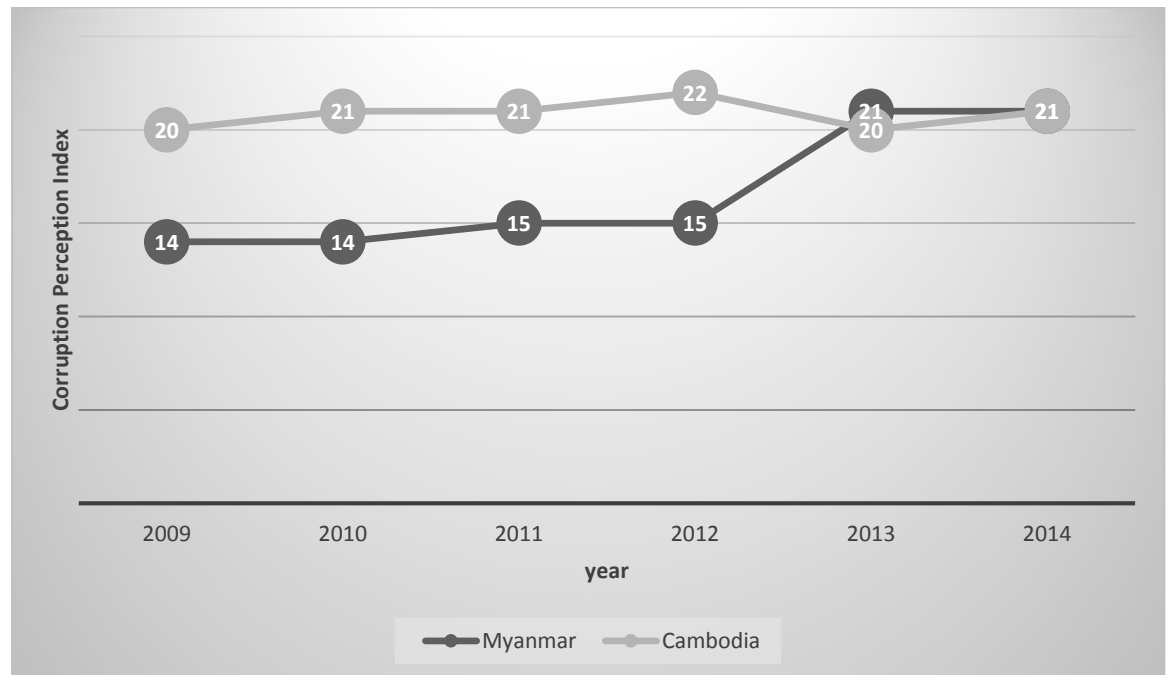


FIGURE 5. Corruption perception index of Myanmar and Cambodia in the period 2009-2014 (CPI 2014)

The line chart illustrates the Corruption Perception Index of Myanmar and Cambodia from 2009 to 2014. The score for the Corruption Perception Index by TI ranges from 0 (highly corrupt) to 100 (very clean). The higher the score is, the more transparent the country is. As can be seen from the line chart, the scores of

both countries in the given period are comparatively low in the scale from 0 to 100, which evidently indicates the seriousness of corruption issue in the studied countries.

Before the general election 2010 took effect, Myanmar earned very low transparency score. The rankings of Myanmar are also at the bottom of the world, i.e. 178th out of 180 surveyed countries in 2009 or 180th out of 182 surveyed countries in 2011 (see Appendix 6). However, when the authoritarian state vanished and was replaced by a democratic and parliamentary state, the country witnessed an improvement in the transparency rate and the rankings (156th out of 175 surveyed countries) (see Appendix 6). On the other hand, the position of Cambodia in the world has experienced some marginal fluctuations in the rankings despite the government's attempts and strong acts. In 2014, both countries earned the same score and ranked in the same position, which is, however, at the bottom of the world (see Appendix 6).

Generally, although Myanmar and Cambodia are well-known for their political and economic reforms, young and cheap labor force and dynamic economic growth prospects, both countries face severe corruption issues as big challenges that can deter foreign investments. The situation in Myanmar has been slightly improved thanks to the collapse of the dictatorship and nowadays the both Myanmar and Cambodia are in the same position in 2014. Nevertheless, the data from TI is not able to reflect 100% truth of the situation, plus the political instability in both countries, therefore it is difficult to obviously indicate which country can solve the corruption problem more effectively. Therefore, there is a high likelihood foreign investors in the manufacturing sector are subject to difficulties from severe corruption in both countries.

5.2 Economic

The economic indicators that are taken into account in this section are exchange rate, inflation rate, trade liberalization and labor costs.

5.2.1 Exchange rate

Myanmar

During the period of the former military rule, the authoritarian government conducted various administrative controls over the foreign exchange and foreign trade, which led to the peculiar dual exchange rate system, namely an official exchange rate in the public sector and a parallel market exchange rate in the private sector. The official exchange rate was fixed by the government at 5.5 Kyat per US dollar in 2012 while the parallel exchange rate continuously depreciated and reached 1,369 Kyat per US dollar in 2007. (Kubo 2013, 3.).

Before the 2012 reforms, the government practiced different controls on the public and private sectors through multiple methods, particularly that 100% of SEEs' (State Economic Enterprise) export revenues is surrendered to the state budget; imports are controlled by the foreign exchange budget of the central government; exporters in private sectors are imposed export tax, private importers are not able to apply the official exchange rate, etc. After April 2012, the fixed exchange rate regime was transformed into a floating exchange rate regime. (Kubo 2013, 460.), which increases dramatically the exchange rate from 6.41 kyat per US dollar to 822 kyat per US dollar (see Figure 6).

Since the new government took power in 2011, a series of reforms on foreign exchange policy have been implemented. From October 2011, private commercial banks are authorized to run foreign exchange counters, which enables customers to sell and buy foreign currencies. However, the private foreign exchange counters are constrained by certain caveats. (Kubo 2013, 9.).

In order to study the effectiveness of the policy reforms, several features of what has been changed and what has not been changed after the exchange rate policy reforms are briefly discussed.

With respect to what has been changed, firstly, the official exchange rate in the public sector is devalued to the Central Bank reference rate, which helps reveal the real viability of individual SEEs. Secondly, exporters and importers have more choices for trading foreign exchange. This facilitates the foreign trade of manufactured foods and transactions of foreign currency. Nevertheless, there remain certain limitations on the amount of foreign exchange due to the

availability of cash at the counters and the limit on the amount of foreign exchange that can be bought or sold. (Kubo 2013, 11.).

What remains unchanged after the policy reforms is that foreign exchange transactions in private businesses are negotiated transactions between buyers and sellers, which is to be replaced by bank intermediation (Kubo 2013, 11.). The current process causes waste of time and reduction in efficiency.

The Myanmar currency is officially called Burmese Kyat (MMK). The symbol of the currency is K. (XE 2015). Before the exchange rate policy reforms in April 2012, the official exchange rate was fixed at 6.41 kyat per US dollar but when it became a floating exchange rate, it was set as 822 kyat per US dollar. The Burmese kyat continued to depreciate and reached 1,034 Kyat per US dollar in March 2015.

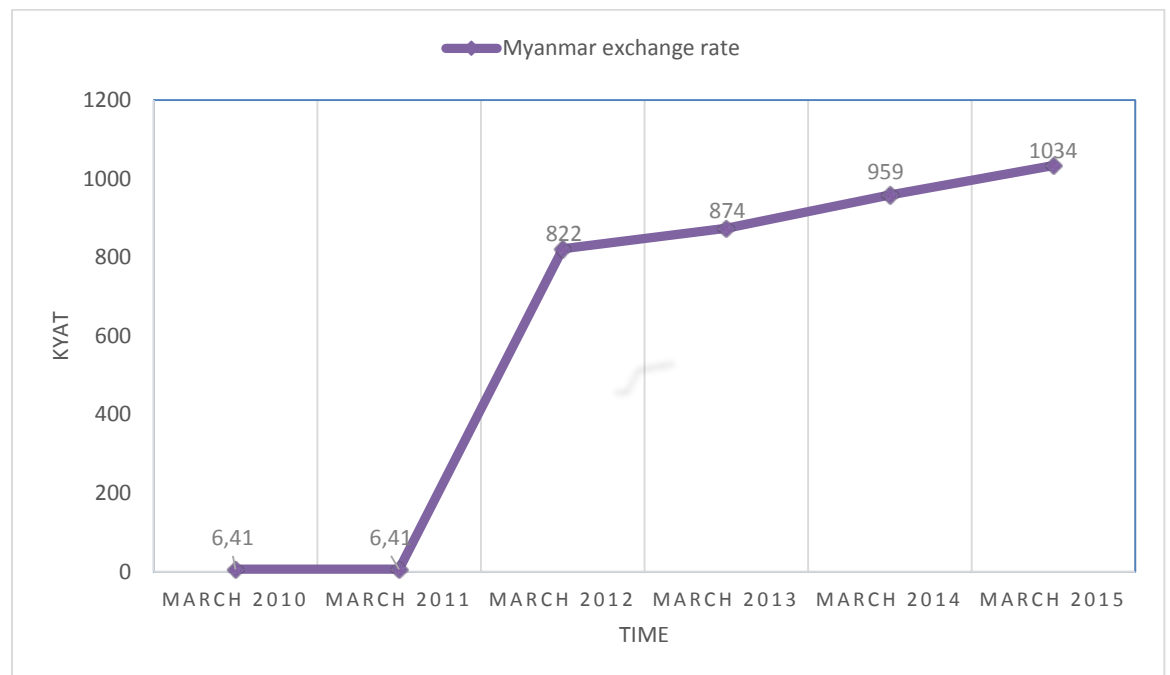


FIGURE 6. Myanmar's exchange rate from March 2010 to March 2015 (USD/MMK) (XE 2015)

Cambodia

Cambodia marked a turning of a central planning economy to a market economy in the early 1990s. The inflation rate in Cambodia is comparatively stable and higher than that in the US, which is attributable to the sound monetary policies of the National Bank of Cambodia with a high level of dollarization. Since 1990s, the Cambodian currency (Riel) stably depreciated in nominal terms despite the chronic inflation in 2007 and 2008. (Kakinaka et al. 2010, 6). The name of the currency is Cambodian Riel (KHR).

Nowadays, Cambodia is one of the highly dollarized economies with the large proportion of money circulation denominated in US dollar, which, however, by no means implies that the economy is not influenced by the exchange rate. The high level of dollarization results in the depreciation of the exchange rate and increases the volatility of exchange rate. The National Bank of Cambodia (NBC) has adopted floating, although managed, exchange rate regime since 1993. (Lay et al. 2012, 65).

It is useful to indicate the benefits and costs of dollarization in the Cambodian economy, from which the effect on foreign investments can be deducted. To begin with the benefits, firstly, dollarization virtually eliminates the exchange rate related risks as the prospects of future devaluations can be avoided, accordingly helping guarantee the safety for export-oriented investments. Secondly, dollarization enables the decrease in costs associated with trade and investment flows from the removal of the needs of transactions in two different currencies. Thirdly, dollarization of a strong currency from a country with satisfactory monetary policy management provides the maximum benefits related to exchange rate stability. (Yeyati et al. 2003, 136.). Fourthly, dollarization significantly increases the volume of trade (Alesina et al. 2001, 382), exports of manufactured products are stimulated. Regarding the costs of dollarization, the independent monetary management is limited, especially in case of deflationary adjustments. (Yeyati et al. 2003, 136). Dollarization eliminates the independent monetary policy that stabilizes the business cycle. (Alesina et al. 2001, 383). Therefore, foreign investments gain benefits from dollarization by the stability in exchange rate, reduction in transaction costs and the credible currency.

Discussion

A discussion is made to compare the exchange rate situation in Cambodia and Myanmar. In Myanmar, after the 2012 reforms, fixed exchange rate regime was transformed into a floating exchange rate regime. The unification of exchange rate for public and private sector creates benefits for exporters. The currency continues to depreciate after 2012 (from 822 Kyat per US dollar in March 2012 to 1032 Kyat per US dollar in March 2015 (see FIGURE 4). In Cambodia, the economy is highly dollarized. With respect to the national currency Cambodian Riel, the currency is relatively stable with slight fluctuations within the period March 2010 – March 2015 (XE 2015) (see Appendix 7). In accordance with the conclusion regarding the relationship between exchange rate and inward FDI in the previous chapter, which states that a host country with higher exchange rate relative to the home country is a more favorable inward FDI destination, Myanmar can be considered a more competitive place for inward FDI than Cambodia.

5.2.2 Inflation rate

Myanmar

Inflation rate in Myanmar is relatively high. In 2014, International Monetary Fund (IMF) warned the country of the escalating inflation rate which is likely to exceed 6% by the end of 2015 (Mahtani 2014; IMF 2015). According to the Ministry of National Planning and Economic Development (MNPED), the inflation rate reached 6% year on year in February 2014. That was an increase from 5.5% in 2013 and 1.5% in 2012 (Myanmar economy: Quick View – Inflation rate picks up 2014). Additionally, in accordance with the VPBank Securities (VPBS) report (2015), the inflation rate reached 6.26 percent for the Fiscal year ended in March 2014. The inflation is expected to rise in the coming year as a consequence of the increase in salaries of millions of civil servants (VPBS 2015). Moreover, generally, the inflation rate in Myanmar is apparently instable in comparison to the inflation rate of the world in the period 2005 – 2013. Therefore, it can be seen that the inflation rate fluctuates quite intensively and stays at a relatively high rate (see Appendix 8). High and unstable inflation rate has negative impacts on the production costs and labor wages as well as profitability as a whole.

Cambodia

After the global financial crisis in 2009, the inflation rate in Cambodia after 2010 has been relatively stable and low. The inflation rate fluctuated around 3% from 2010 to 2013 (World Bank 2015). In 2013, the inflation rate was within the manageable level of 4% (Annual Report 2013). At the end of 2014, the rate was around 1.1%, which is the lowest in the ASEAN region (Annual Report 2014). Generally, the inflation rate in Cambodia is apparently stable and low, meaning a quite ideal environment for production and exports.

Discussion

From the above findings, it can be seen that the inflation rate in Myanmar fluctuated more widely than that of Cambodia in the period 2010 – 2014 (see Figure 7). The inflation rate in Myanmar is also generally higher than that of Cambodia. Contemplating with the determinant of inflation rate on FDI inflows in the preceding chapter which concludes that the country with lower inflation rate is more attractive to foreign investors, Cambodia is a better place for foreign investments than Myanmar in terms of inflation.

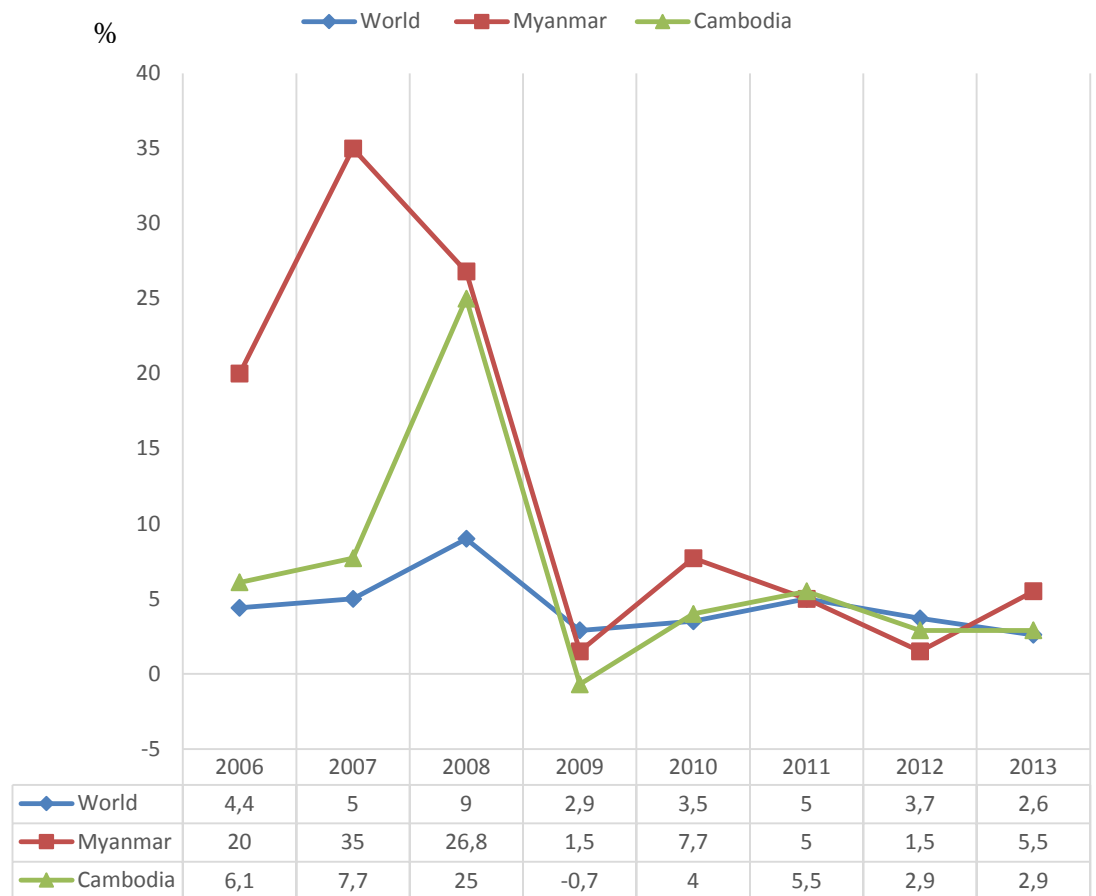


FIGURE 7. Inflation rate in the World, Myanmar and Cambodia from 2006 to 2013 (World Bank 2015)

5.2.3 Trade liberalization

Myanmar

Improvement in foreign relations and trade liberalization

Since the general election in 2010, Myanmar has been in the transition from military dictatorship to a democratic state. Following the political reform, the economic reform has been gradually conducted, which opens opportunities for free trade and investments from international companies. One of the first most noticeable achievements of the economic reform is the abolishment of sanctions from Western influential economies and economic regions: European Union,

United States and other Western advanced economies. Several Cambodia-EU and Cambodia-U.S. agreements that have been made to facilitate the trade liberalization are shown below.

- Since July 2013, Myanmar's access to the Generalized System of Preferences (GSP) has enabled the duty-free and quota-free access of the country's products to the European market (Myanmar (Burma) 2015).
- At the end of 2013, the joint EU-Myanmar Task Force was agreed by both sides and marked the long lasting partnership between the EU and Myanmar in strengthening political and economic reforms to support development aid, parliamentary cooperation, peace and investment (Myanmar (Burma) 2015).
- In July 2012, U.S eased economic and investment sanctions against Myanmar by authorizing the exportation of U.S financial services to Myanmar and give permission for investments of U.S firms in the country (U.S. Relations with Burma 2014).
- In November in 2012, U.S government has abolished the ban on the importation of Burmese-origin goods into the U.S. market (U.S. Relations with Burma 2014).
- In 2013, four Myanmar's major financial institutions are able to conduct transactions with U.S citizens, embracing opening and maintaining financial accounts, conducting financial transactions (U.S. Relations with Burma 2014).

Myanmar has been a WTO member since 1 January 1995 and a member of GATT since July 29, 1948 (Myanmar and the WTO 2015). In December 2013, Myanmar has officially become the 180th member of MIGA (Multilateral Investment Guarantee Agency – the political risk insurance and credit enhancement arm of the World Bank Group). The country's membership in MIGA offers advantages to foreign direct investments by protecting foreign investors against the risks of transfer restriction, breach of contract, expropriation, inappropriate government's financial obligations and civil disturbance. (MIGA Welcomes Myanmar As A New Member Country 2013.).

During the period 2009 – 2013, foreign trade performance of Myanmar was positive with the steady rise in exports (see Figure 5). The main markets of the country’s exported products are Asia, particularly China, Thailand, India and Japan and OECD countries as well as EU and U.S (see Appendix 12). (ITC by country Report – Myanmar 2014.).

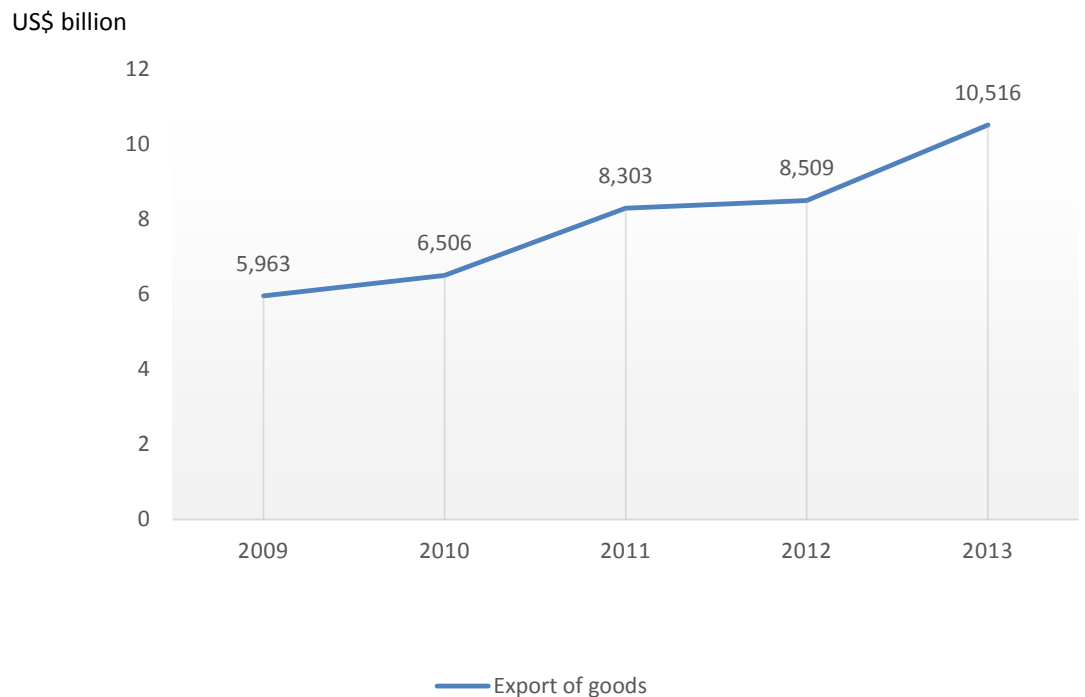


FIGURE 8. The total exports of goods of Myanmar from 2009 to 2013 (ITC by country Report – Myanmar 2014)

Economic freedom index

Although the country receives significant aids and implements strong political and economic reforms, the economy remains “repressed” owing to the long period of political constrains, underdeveloped institutional structure and controlled investment and financial regimes (Burma – Economic Freedom Score 2015). According to Index of Economic Freedom (2015), Myanmar earns 46.9 points in economic freedom score in 2015, translating into the position of 161st freest in the

index, despite the improvement of 9 points – the second best improvement in the list of scored countries.

Among the ten economic freedoms (see Appendix 11), trade freedom, investment freedom and financial freedom are mentioned to display the openness of markets.

- Trade freedom: 74.2/100, below the world average because some imports face additional restrictions (Burma – Economic Freedom Score 2015).
- Investment freedom: 15/100, well below the world average and ranks 168th among the graded countries. SOEs dominate some sectors of the economy (Burma – Economic Freedom Score 2015).
- Financial freedom: 10/100, well below the world average, significantly limited and underdeveloped. Loans are mostly directed to government-controlled projects. Moreover, access to credit is highly poor (Burma – Economic Freedom Score 2015).

Cambodia

Cambodia has maintained positive relations with European Union since the Paris Peace Accords in 1991 under the EU-ASEAN Cooperation Agreement. Cambodia gains benefits from the EU's Generalized Scheme of Preferences (GPS) as a Least Developed Country (LDC), which enables the duty-free exports of all products except arms and ammunition. (Countries and Regions – Cambodia 2014.).

With respect to Cambodia-U.S. relations, the economic relations were normalized in 1992 and nowadays U.S. is the single largest country that purchases Cambodia's exports (U.S. Relations with Cambodia 2014).

Cambodia became an official member of the United Nations in 1955 (Member States of the UN 2015). The country established diplomatic relations with most countries worldwide. After the end of civil wars in 1990s, Cambodia joined various major international and regional economic organizations such as UNCTAD (Membership of UNCTAD and of the Trade and Development Board 2013), WTO (Cambodia and the WTO 2015). The country is a member of ASEAN in 1999 and will be part of the ASEAN Economic Community in 2015 (ASEAN Member States 2014). The integration with ASEAN is one of the key

drivers for national economic development because of the tight relations and cooperation among member countries. Cambodia is in the top list of liberal investment markets in developing Asia with the permission of 100% foreign ownership and only marginal number of industries closed to foreign investments (UNCTAD 2013). Another research from NagaCorp (2013) also indicates that Cambodia offers one of the most liberal investment environments in Southeast Asia.

The economic development of Cambodia is dynamic. The country's economic growth is attributable to exports, which has been on a significant rise since 2009. The main markets of Cambodia's exports are North America and the EU (see Appendix 14). (ITC by Country Report 2014.).

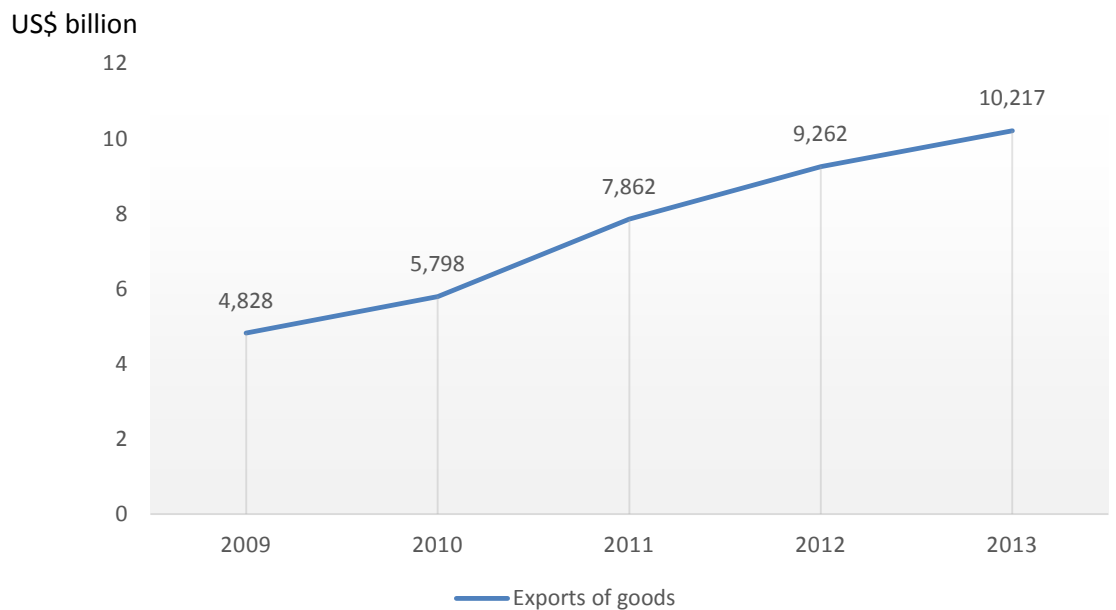


FIGURE 9. The total exports of goods of Cambodia from 2009 to 2013 (ITC by country Report – Cambodia 2014)

Economic freedom index

The economic freedom in Cambodia generally has made no progress over the past five years. Labor market is liberalized and the country is slightly opener to the international markets. Corruption continues to be a serious issue affecting economic freedom improvement, which represents a huge hindrance to investment flows. Cambodia gains the unchanged score from last year: 57.5 out of 100 points and ranks 110th freest economy in the world and 23rd out of 42 graded countries in the Asia pacific region. (Cambodia – Economic Freedom Score 2015.).

The openness of market of Cambodia is reflected by the three economic freedoms, namely trade freedom, investment freedom and financial freedom (see Appendix 12).

- Trade freedom: 72.2/100, below the world average. Non-tariff barriers are trade restrictions. (Cambodia – Economic Freedom Score 2015.).
- Investment freedom: 60/100, above the world average. Stagnation in improvement of bureaucracy and court system discourage foreign investors. (Cambodia – Economic Freedom Score 2015.).
- Financial freedom: 50/100 and slightly above the world average. The country makes gradual progress in financial sector despite the development and domination of large state banks. (Cambodia – Economic Freedom Score 2015.).

Discussion

Myanmar's strong transition into a democratic state and remarkable political and economic reforms have awarded the country various opportunities for economic growth and potential inflows of foreign investments. However, the reforms are consider to be slow and unstable, which results in the country's low ranking in the index of economic reforms, especially in trade freedom, investment freedom and financial freedom. Although the steady rise in volume of exports indicates the bright side of economic reforms and international competitiveness, there are several serious issues regarding corruption, complicated bureaucracy and underdeveloped banking systems.

On the other hand, Cambodia witnessed a progress in political economic reforms since the early 1990s after decades of civil wars and conflicts. Cambodia maintains positive relations with foreign countries. The country is the official member of various international organization to facilitate foreign trade, gain development aids and attract foreign investments. Even though the country ranks relatively low in terms of economic freedoms, it is increasingly open to the international market and improves financial systems.

Myanmar has been in a determined but struggling transition into a market economy while Cambodia has been open to the international market and in normal relations with most countries. Both countries share certain similarities such as membership of UN, WTO, ASEAN and ASEAN economic community in 2015 as well as duty-free and quota-free access to U.S. and EU market. Concerning the economic freedoms, Cambodia outweighs Myanmar in investment freedom and financial freedom. Therefore, given trade liberalization and economic freedom, Cambodia is apparently more competitive than Myanmar.

5.2.4 Labor costs

Myanmar

According to CIA World Factbook (2015), GDP (Gross domestic product) of Myanmar in 2013 is estimated as \$59.42 billion. GDP per capita per capita in Myanmar in 2012 is \$1,125.9 (Myanmar – World Statistics Pocketbook 2015), which somewhat reflects the wage level of the workers.

In Myanmar, minimum wage has been a controversial topic between employers and employees, especially in the manufacturing sector. In 2009, the minimum wage is set by the ministry of Finance and Revenue to be at 1000 kyat (approximately \$1.17) per day or \$51.3 for a 30-day month. The monthly wage for an average worker in Myanmar is 1500 kyat (approximately \$1.76) per day or \$52.8 for a 30-day month. (Investment Climate Statement - Myanmar 2014.). Myanmar's government announced to conduct a survey on household living costs of Burmese people and families nationwide to determine the minimum level of wage that is able to sustain daily life, based on which the minimum wage will be then officially set (Myanmar (Burma) – After Long Delays, Govt Begins Moving

on Minimum Wage 2015). In 2013, the Government of Myanmar's Minimum Wage Law was introduced, but it did not specify the minimum wage (Investment Climate Statement - Myanmar 2014). Asian Development Bank (ADB) estimates the average monthly wage to be \$100 in Myanmar in 2014 (Myanmar /Thailand Economy: A limited impact on the labor market 2014).

A table depicting the average monthly payment from the American Chamber of Commerce in Thailand (2013) is given to further illustrate the wage rate based on position in private sector in Myanmar.

TABLE 1. Average monthly payment according to position, Myanmar (Sai Tip 2013)

POSITION	AVERAGE MONTHLY PAYMENT
Unskilled Laborer (no experience)	US\$79-US\$120
Unskilled Laborer (experienced)	US\$120-US\$320
Office staff (no experience)	US\$120-US\$320
Unskilled Laborer (experienced)	US\$200-US\$500
Junior professionals (e.g. Accountant)	US\$250-US\$500
Middle Management	US\$300-US\$500
Senior professionals (e.g. Chief Accountant)	US\$600-US\$1200

Cambodia

GDP of Cambodia in 2013 is estimated to be \$15.64 billion (Cambodia - CIA World Factbook 2015). GDP per capita is estimated to be \$944.4 in 2012 (Cambodia – World Statistics Pocketbook 2015) and 1,006.8 in 2013 (GDP per capita (current US\$) – World Bank 2015), from which the wage level in Cambodia can be estimated at around \$1000 annually.

The wage in Cambodia is among the lowest in the world. However, the amount has risen steadily due to protests from labor unions for an increase of minimum wage. From October 2010, garment workers earned the minimum wage of \$61 per month while there is no minimum wage for other industries. From the beginning of 2012, \$5 increase was added to the monthly wage. From the beginning of 2014, the tripartite Labor Advisory Committee approved to raise the minimum wage to \$100. (Investment Climate Statement - Cambodia 2014.). Moreover, according to ASEAN Community 2015 report (2014), the average monthly wage in 2012 in Cambodia is estimated at \$121 (see Appendix 9).

Discussion

TABLE 2. GDP per capita and legally bound monthly minimum wage of Myanmar and Cambodia in certain years/ period

	Year	Myanmar	Cambodia
GDP per capita	2012	\$1,125.9	\$944.4
	2013	-	\$1,006.8
Monthly minimum wage (Bound by Law)	2009	\$51.3	-
	2010 - 2013	-	\$61
	2014	-	\$100

Both Cambodia and Myanmar have among the lowest wages in the world, which translates into one of the most attractive labor markets for labor intensive manufacturing. It can be seen from the table that the sources of reliable data regarding the minimum wage in both countries are limited, which poses challenges for objective comparison and appropriate analysis. However, the minimum wage in both countries is on the rise although the governments are cautious in raising the minimum wage to maintain the competitiveness of the investment markets and avoid the situation that MNEs may relocate production plants. In a nut shell, the wage in both countries is at a similar level and on the rise.

5.3 Social

Human capital

Myanmar

Population

The population of Myanmar in 2014 is estimated at more than 55.7 million. It is the 25th most populous country in the world in 2014. Myanmar has a relatively young population with 68.4% of the population belonging to the working age group, which ranges from 15 to 64 years. (The World Factbook – Burma 2015.). Labor force in Myanmar is estimated at nearly 31.5 million in 2013 (Labor force, total 2015). This provides an abundant human resource for labor market in the manufacturing sector, making the country attractive to foreign enterprises for not only its dynamic economic growth and recent praiseworthy political and economic reforms but also its huge and young population.

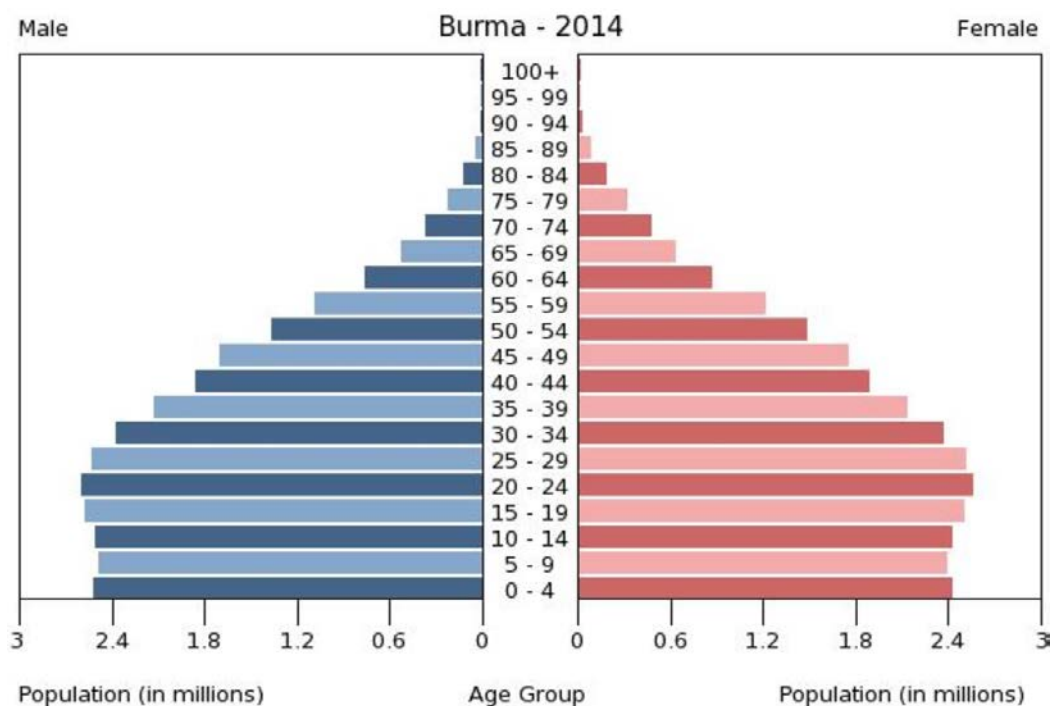


FIGURE 10. Myanmar age structure 2014. (The World Factbook – Myanmar 2014)

According to the State of the World's children report by UNICEF (2015), the literacy rate of young people aged from 15 to 24 years in Myanmar is comparatively high, at 96% for both male and female in the period 2009-2013. This puts Myanmar in the group of the countries with the highest literacy rate in Asia (Rockett 2013). The participation in primary school is estimated at over 90% for both male and female from 2008-2013. However, when it comes to secondary school participation, the rate drops significantly with the net attendance ratio less than 60% in the same period. (The State of the World's children report by UNICEF 2015.).

The FDI inflows into the manufacturing sector in Myanmar is growing dynamically since the lift of sanctions from United States and European Union. However, the shortage of skilled labor is a hindrance to the efforts to attract foreign investments. (Mahtani 2015.). According to Myanmar Business Survey

report (2014), nearly 60% of interviewed companies in the manufacturing sector consider skill shortage a significant problem to the business operations.

Furthermore, the skill shortage issue may become more serious when ASEAN economic community materializes in 2015, which facilitates free flows of workers within the community. Skilled workers in Myanmar are likely to flee into other countries that offer higher wages. (Burma: AEC implementation may cause shortage of skilled labor in Myanmar 2013.).

Cambodia

Population

The population of Cambodia is estimated at approximately 15.5 million in 2014, ranking 69th in the world. The country enjoys a relatively young population structure with roughly 64.5% of the population belonging to the working age group, which creates the abundance of labor force for manufacturing industry. People below 15-year-old level account for 31.6%, providing huge human resource in the future.

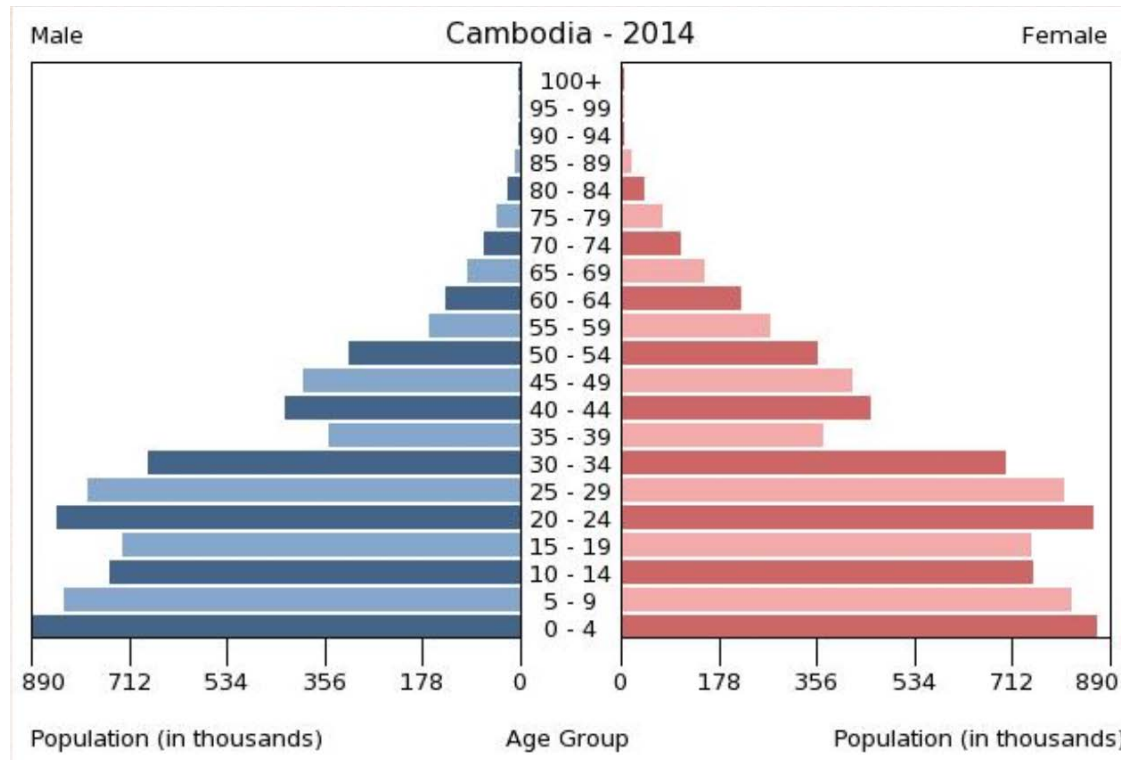


FIGURE 11. Cambodia age structure 2014 (The World Factbook – Cambodia 2014)

The literacy rate of young Cambodian people aged from 15 to 24 years old during the period 2009-2013 is estimated at averagely 87%. The participation in primary school of young people from 2008 to 2013 is 86% for both male and female, which is below Myanmar. The situation of secondary school net attendance is similar to that of Myanmar during 2008-2013 with a dramatic decline to less than 50%. (The State of the World's children report by UNICEF 2015.).

Cambodia is encountering a severe problem of shortage of skilled labor. According to the survey by Bruni et al. (2013), three-quarters of surveyed companies state that it is difficult to find qualified workers to fill vacancies. More than half of interviewees report that the employees' performance does not meet the required level. Generally, the level of skills of employees is relatively low as more than half of workers are associated with elementary occupations. The share

of employees at the managerial level and technical-skills requirement level is modestly less than 3%.

Discussion

Both Myanmar and Cambodia have young populations with more than 60% of population belonging to the working age group. The age structure of the population in both countries is similarly ideal in provision of labor force in the manufacturing industry.

TABLE 3. Literacy rate, primary and secondary attendance ratio in Myanmar and Cambodia for male and female (The State of the World's children report by UNICEF 2015)

	Myanmar		Cambodia	
	Male	Female	Male	Female
<i>Literacy rate (%)</i>	96	96	88	86
<i>2009 – 2013</i>				
<i>Primary school net attendance (%)</i>	90	91	86	86
<i>2008 – 2013</i>				
<i>Secondary school net attendance (%)</i>	58	59	46	45
<i>2008 – 2013</i>				

The labor market in both countries is generally unattractive in terms of skill abundance. International companies find the recruitment of qualified and skilled workers difficult because of the severe skilled labor shortage. With regards to educational level, Myanmar apparently outweighs Cambodia quite significantly in literacy rate and secondary school net attendance (see Table 3), both of which partially indicate the quality of laborers and the foundation for the improvement

and development of skills when the training programs are implemented. Thus, labor force in Myanmar is slightly of higher quality than that of Cambodia.

5.4 Decision matrix

Decision matrix

Weights of the criteria

Decision matrix is adopted to rate the attractiveness of Cambodia's and Myanmar's investment market for industrial manufacturers in terms of vertical FDI and efficiency-seeking orientation. Following the procedure of decision making method, weights of criteria, in other words, inward FDI determinants are assigned to reflect the level of importance and influence on the quality of the given investment markets.

The research take into consideration the following determinants: political stability, corruption, exchange rate, inflation rate, trade liberalization, labor cost and human resource. Using the scale from 1 to 3 to demonstrate the weight of each determinant, in which 1 means Low weight, 2 means Medium and 3 means High, weights are assigned to all the determinants as follows. Weights of criteria are illustrated in the table below.

TABLE 4. Weights of the criteria

	Criteria	Weight	Reasons
Political	Political Stability	3	<ul style="list-style-type: none"> • High risks • LDCs: high likelihood of instable politics • Great uncertainty and threats to business operations
	Corruption	2	<ul style="list-style-type: none"> • Directly increase costs and reduce profits • Loss of confidence in investment • Partially compensated by cheap production costs
Economic	Exchange Rate	3	<ul style="list-style-type: none"> • High impacts on export-oriented investments • Direct impacts on profitability
	Inflation Rate	3	
	Trade Liberalization	3	
	Labor Costs	2	<ul style="list-style-type: none"> • Direct impact on cost issue • Moderately important in export-oriented and efficiency-seeking FDI
Social	Human Capital	3	High importance of quality of workers towards efficiency-seeking FDI

Evaluation

TABLE 5. Comparison of Cambodia's and Myanmar's investment markets based on given criteria

	Criteria	Weight	Myanmar	Cambodia
Political	Political Stability <i>(1: Low; 5: High)</i>	3	1	2
	Corruption <i>(1: High; 5: Low)</i>	2	1	1
Total			5	8
Economic	Exchange Rate <i>(1: Low; 5: High)</i>	3	2	1
	Inflation Rate <i>(1: High; 5: Low)</i>	3	1	2
	Trade Liberalization <i>(1: Low; 5: High)</i>	3	1	2
	Labor Costs <i>(1: High; 5: Low)</i>	2	2	2
Total			16	19
Social	Human Capital <i>(1: Low; 5: High)</i>	3	1	1
	Total		3	3
TOTAL			24	30

The grade is assigned to each criterion to evaluate the two investment markets based on the PES analysis. The grade “1” indicate the bad performance while the grade “2” represents the good performance. Although the grades only relatively reflect the political, economic and social situations, given the context of two countries in the comparison, they fulfill the needs for evaluation and selection.

From the above table, it is evident that Cambodia outweighs Myanmar in providing a better investment environment. A summary is made below in order to discussion more specifically the attributes that contribute to the grading of each criterion.

Firstly, the political and economic reforms in Myanmar offer the country normal relations with Western countries and economic regions. Economic sanctions are abolished. However, the democracy is not fully achieved throughout the nation due to the remaining influence of military regime. Moreover, political situations are unstable due to the conflicts and fights with ethnic minor military forces despite efforts in negotiations on ceasefire. Regarding Cambodia, the country has made progress in political reforms and maintained normal foreign relations. The political scene is generally stable although the issues of ineffectiveness and lack of transparency in government’s administration still exists, which creates a big hindrance in attracting foreign investments. It can be then seen that the political situation in Cambodia is more stable than that of Myanmar.

Secondly, corruption is commonly a serious issue for developing countries. Both Cambodia and Myanmar are considered among the most corrupt countries in the world. Myanmar has made improvement from the roughly lowest ranking worldwide to a better position recently. Meanwhile, Cambodia is stagnant in the progress of improving corruption issues. Both countries earned the same rate and ranked at the same level in 2014, which is still virtually at the bottom of the list.

Thirdly, with respect to exchange rate, Myanmar made a transition from a fixed official exchange rate into a floating exchange rate since the 2012 reforms. Different exchange rates for public and private sector are unified. Moreover, the exchange rate has recently depreciated against US dollar at a steady rate. Concerning Cambodia, the economy is highly dollarized, which offer certain

benefits to enterprises. The exchange rate of Cambodia Riel is stable and occasionally appreciates against US dollar. Based on the negative relationship between exchange rate and FDI flows, Cambodian currency is slightly less attractive than that of Myanmar.

Fourthly, inflation rate is highly important to vertical FDI which is export-oriented. Inflation rate in Myanmar is likely to fluctuate. The country also experienced rather high inflation rate recently. Meanwhile, inflation rate in Cambodia is moderately stable and within manageable scope. Therefore, Cambodia apparently outweighs Myanmar in terms of inflation rate.

Fifthly, trade liberalization has been improved in Myanmar since the lift of economic sanctions from the West. Foreign trade is normalized and exports have been on the rise. However, the country's performance in economic freedom index is poor. The ranking is still remarkably low. On the other hand, Cambodia has maintained positive foreign trade relations since the early 1990s. The domestic market is increasingly open to the international market. Despite the low ranking, the country is making progress in economic freedom. In a nutshell, Cambodia's economy is opener than Myanmar's economy.

Sixthly, both countries provide the most attractive labor costs worldwide because of average low income and abundant labor force. Myanmar has not yet set the official minimum wage although the Government Myanmar's Minimum Wage Law was introduced. The average monthly wage of Burmese workers is estimated at \$100 in 2014. Regarding Cambodia's labor costs, the minimum wage was officially set at \$100 from 2014. Average monthly payment for manual workers is estimated at \$121 in 2012.

Last, but by no means least, human capital reflects the attractiveness of a host country. Education is one of the main determinants of the quality of a country's human capital. In the context of Myanmar and Cambodia, both countries suffer from severe shortage of high-quality skilled workers despite the dynamic young population. Literacy rate in Myanmar is higher than that of Cambodia. However, the majority of companies consider serious skill shortage as a major problem in

both countries. Generally, the quality of human capital in both countries is significantly low.

The grade of each determinant is multiplied with the criteria weight. The result is evident that Cambodia prevails in terms of political and economic aspect. In social side, both countries gain the similar result. Finally, the total grade of Cambodia surpasses that of Myanmar, which obviously demonstrates that Cambodia is more competitive than Myanmar in vertical FDI for efficiency-seekers in the manufacturing sector.

A look into the future

The thesis has managed to answer the research question by concluding that Cambodia does provide a more competitive investment environment than Myanmar does. The markets analysis and comparison are conducted in three aspects: political, economic and social to generate the final result. The findings are based on the data and statistics about events and situations that happened in the past. However, these findings also reflect the outlook of the researched investment markets, which is to be discussed in the following paragraphs.

The first important aspect to be considered is politics. Cambodia has experienced a stable political situation within the country and maintained positive foreign relations. There is a high likelihood that the government will make all the attempts to keep the internal and external political stability. The scenario of stable politics in Cambodia will last long in the future. On the other hand, domestic political turmoil in Myanmar showed no signs of ending. The failure of government's efforts in maintaining peace with ethnic minority groups is likely to result in more severe political turmoil in the future. Therefore, Cambodia can be still a better FDI destination for foreign investors in the near future.

The second aspect is the economic one. Both countries have enjoyed rapid economic growth after remarkable political and economic reforms. The exchange rate and inflation rate have been stabilized in both countries. The advantage of labor costs will continue to dominate in the future while trade liberalization trend will be maintained in both countries. Economic indicators are subject to change in the future, therefore, prediction of changes in economic indicators in each

countries is a challenge. Nevertheless, both countries will be attractive investment markets in the near future thanks to dynamic economic development and increasingly open markets.

Lastly, the social issue of weak human capital will somewhat discourage foreign investors in Myanmar and Cambodia. However, with the increases in government's expenditure on education and labor training programs, the shortage of skilled labor will be partially solved in the near future. The rise in FDI inflows leads to the inevitable improvement trend in labor skills and stronger human capital in general in both countries.

To sum up, Myanmar and Cambodia will receive the increasing FDI inflows thanks to rapid economic development and young population in the future. The political outlook in Cambodia is likely to prevail due to the political stability nationwide and positive foreign relations. However, foreign investors are supposed to take into consideration the issue of skilled labor shortage and corruption when setting a strategy of business expansion in Myanmar and Cambodia.

6 DISCUSSION AND CONCLUSION

The conclusion chapter will answer all the given questions, thanks to the findings from the analysis in chapter 6. The discussion of the findings is followed by the evaluation of reliability and validity of the thesis. Moreover, a recommendation for further research is introduced in order to support the future studies.

6.1 Findings

1. Which country has better political stability and improvement in corruption issue to attract FDI inflows in the manufacturing sector?

The analysis of political aspect in Cambodia and Myanmar reveals that the political situations and corruption issues in both countries pose risks to foreign investors in the manufacturing sector. However, given the comparison of the two countries, the political and corruption in Cambodia has made better progress than Myanmar. Political stability in Cambodia has been stable and positively maintained since the early 1990s while the power of former military power and political turmoil still exist in Myanmar. Therefore, Cambodia outweighs Myanmar in terms of political aspect.

2. Which country has more favorable economic factors attract FDI inflows in the manufacturing sector?

Cambodia apparently offers more attractive business environment than Myanmar based on the results of the analysis of 4 economic factors. Among the proposed and analyzed economic factors, Cambodia has more stable and manageable inflation rate recently and higher ranking in market openness from the better grade and ranking of specified economic freedoms than that of Myanmar. Besides, Myanmar modestly outweighs Cambodia in terms of exchange rate. Also, both countries similarly provide one of the most attractive labor costs worldwide thanks to low income and abundant young population.

3. Which country provides more attractive human capital to foreign investors in the manufacturing sector?

There is no major difference between the quality of human capital in Myanmar and Cambodia. Both countries are equal when it comes to human capital.

Although Myanmar has higher literacy rate than Cambodia, it only partially reflects the quality and productivity of labor force. Besides, shortage of skilled workers in both countries poses a serious challenge to the national economic development in general and attraction of foreign investments in particular.

Answer to the main question

Between Myanmar and Cambodia, which country provides a more competitive investment climate for efficiency-seekers in the manufacturing sector in terms of vertical FDI?

From the results of decision making matrix, which is based on the Pestle analysis, Cambodia provides a more competitive investment climate than Myanmar does for efficiency-seekers in the manufacturing sector in terms of vertical FDI. This conclusion is drawn from the results from the comparison of the investment three aspects: political, economic and social aspects. Cambodia prevails in political condition because of its stability and in economic conditions due to its market openness and the stability recent inflation rate. Also, both countries encounter the same problem of severe weakness of human capital.

6.2 Evaluation

With regards to validity, the research relies on the well-known Eclectic paradigm and Dunning's motivation theory to set the foundations for the analysis and comparison of the two investment markets. All the sub-questions are answered systematically, which contributes to the convincing answer for the main question. Archival research is strongly capitalized with all possible efforts to fulfil the main objective. Thus, it is believed that the validity requirements are met.

The research produces the findings for any interested industrial manufacturers that pursue vertical FDI in the given countries. Those findings are considered somewhat beneficial to other forms of investment in other sectors because they are drawn from the analysis of relatively common determinants when it comes to FDI in developing countries. In addition, this research is partially subject to changes due to the nature of instability of certain indicators in those countries. However, the results are generally reliable as research data are up-to-date to the

most capability and are collected from reliable sources. Overall, the research reliability is fulfilled.

6.3 Further research suggestion

The further research suggestion is that those companies being interested in Cambodia and Myanmar should conduct more research on the investment markets based on particular industries or products that companies plan to establish production plants to produce. Lack of research for specific industries is the biggest limitation of this thesis work. This research provides efficiency-seeking investors only the findings regarding the manufacturing sector based on the framework of vertical FDI and does not consist of industry-based findings for certain conditions such as regulations, material costs, taxations, land lease costs, et cetera. Therefore, detailed research for the interested industry are essential to investment decisions.

7 SUMMARY

This research aims at comparing the two newly open investment markets in ASEAN region: Myanmar and Cambodia to support interested foreign investors' investment decisions in the manufacturing sector. The research results fulfil the research objective and become a constructive resource for further studies of similar kind. The research consists of four main parts: the theoretical framework of FDI, the list of inward FDI determinants, the introduction of two analysis tools and the empirical analysis.

Chapter 2 introduces the theoretical framework of FDI. The theory of Eclectic paradigm is adopted, in which the thesis concentrates on vertical FDI in the Location advantage branch of Eclectic paradigm. Efficiency-seeking FDI in Dunning's motivation theory is also used as a framework for the empirical research. The research aims at FDI in the manufacturing sector, which together with vertical FDI and efficiency-seeking intention form a foundation for selection of FDI determinants.

Chapter 3 mentions the Pestle analysis tool and decision making matrix as critical parts that contribute to the analysis process to generate the findings. Only PES in Pestle are exploited to analyze the issues in the given countries. Decision making matrix is then used to compare the two entities based on analysis in Pestle.

Chapter 4 is comprised of the inward FDI determinants in the manufacturing sector in terms of vertical FDI in Myanmar and Cambodia. The selection of determinants is built on the preceding research findings of FDI determinants in developing countries and the theoretical framework developed for this research. The seven FDI determinants pertain to political, economic and social group.

The whole chapter 5 presents Pestle analysis and decision making matrix. The empirical research of two investment markets is completed using Pestle analysis to analyze FDI criteria. Subsequently, decision making matrix is adopted to compare the findings from Pestle analysis to generate the final result.

Chapter 6 is comprised of the answers to the questions given in the first chapter and the evaluation of validity and reliability. Besides, the recommendation for

further studies is also included, which states that more detailed industry-based studies need to be conducted to ensure the success of investments in Cambodia and Myanmar.

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APPENDICES

APPENDIX 1. Foreign Direct Investment Flows in selected years (Country Fact Sheets 2014)

Foreign direct investment (FDI) overview, selected years

(Millions of dollars and percentages)

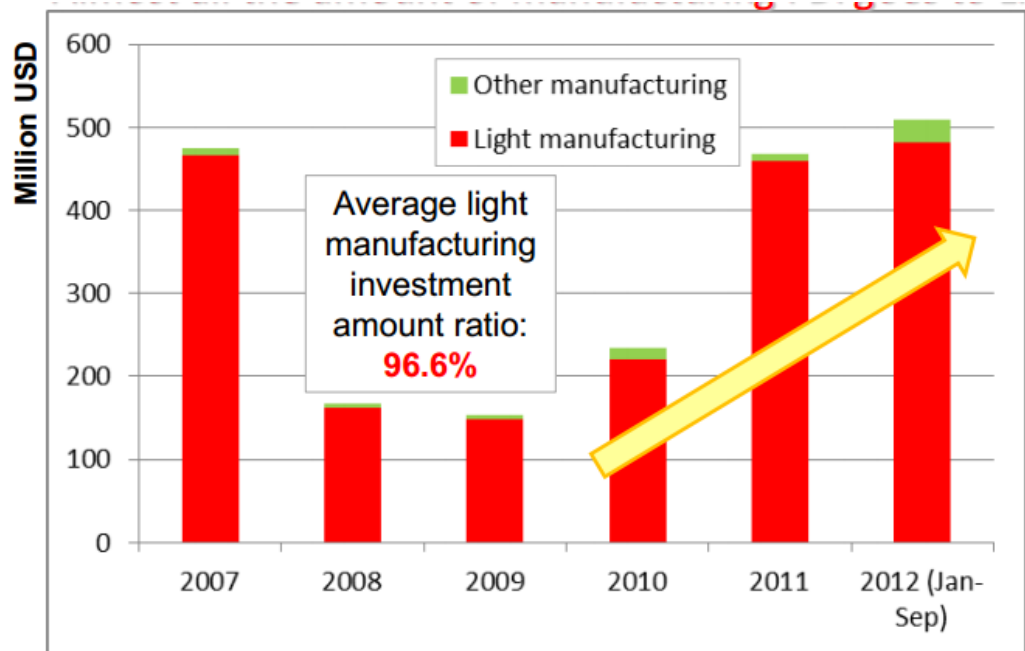
FDI flows	2005-2007 (Pre-crisis annual average)	2010	2011	2012	2013	as a percentage of gross fixed capital formation			
						2005-2007 (Pre-crisis annual average)	2011	2012	2013
Cambodia									
Inward	577	783	815	1 447	1 396	40.2	39.7	59.3	51.3
Outward	5	21	29	36	42	0.4	1.4	1.5	1.5
<i>Memorandum</i>									
Lao People's Democratic Republic									
Inward	180	279	301	294	296	15.8	11.7	10.1	9.2
Outward	22	- 1	-	- 21	- 7	1.9	-	- 0.7	- 0.2
Myanmar									
Inward	407	1 285	2 200	2 243	2 621	20.2	13.0	10.9	13.4
Outward	-	-	-	-	-
South-East Asia									
Inward	64 564	99 124	99 613	117 527	125 455	23.9	16.7	17.8	18.7
Outward	36 725	57 572	56 380	53 847	56 374	13.7	9.8	8.4	8.6
Asia and Oceania									
Inward	299 144	411 661	432 905	418 405	429 053	11.6	7.4	6.5	6.3
Outward	164 624	296 840	305 211	303 782	327 059	6.4	5.3	4.8	4.8
Developing economies									
Inward	455 155	648 208	724 840	729 449	778 372	13.2	9.8	9.1	9.2
Outward	236 888	420 919	422 582	440 164	454 067	7.0	5.8	5.6	5.4

APPENDIX 2. Approved foreign direct investment by sector in Myanmar until 30.06.2014 (DICA 2014)

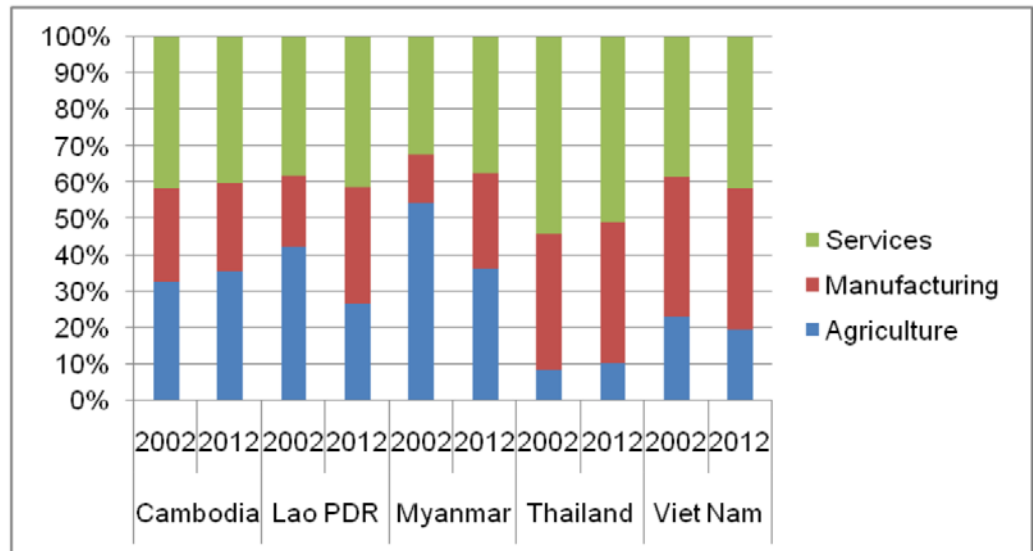
(US \$ in million)

Sr. No	Particulars	Permitted Enterprises		
		No.	Approved Amount	%
1	Power	7	19284.432	41.28
2	Oil and Gas	115	14372.272	30.76
3	Manufacturing	362	4129.442	8.84
4	Mining	69	2863.180	6.13
5	Hotel and Tourism	55	1854.900	3.97
6	Transport & Communication	24	1782.748	3.82
7	Real Estate	23	1497.026	3.20
8	Livestock & Fisheries	30	437.674	0.94
9	Agriculture	14	208.645	0.45
10	Industrial Estate	3	193.113	0.41
11	Other Services	16	56.986	0.12
12	Construction	2	37.767	0.08
	Total	720	46718.185	100.00

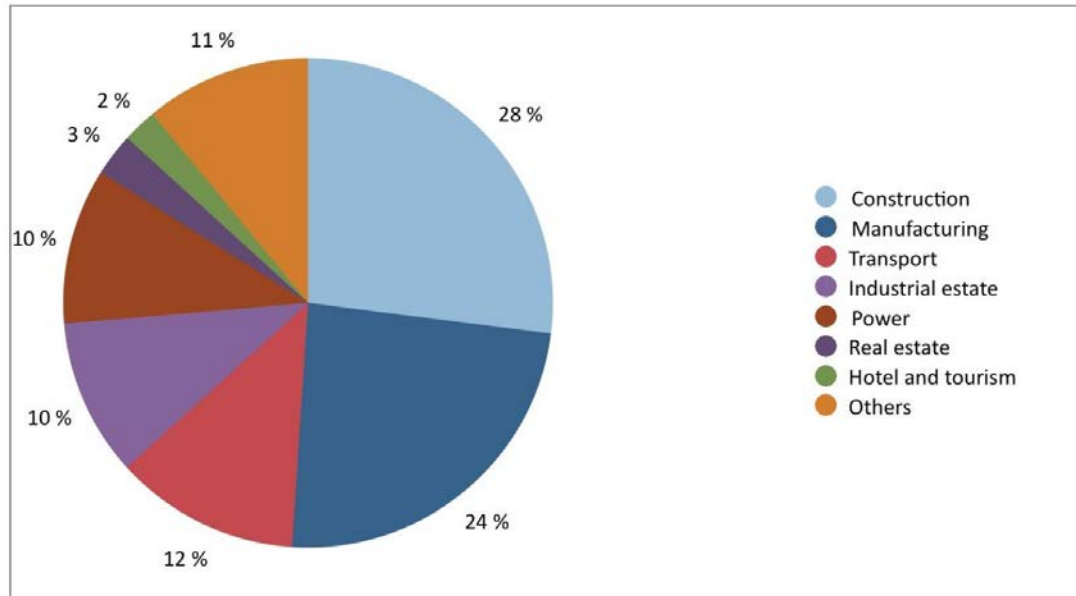
APPENDIX 3. The chart on FDI in manufacturing sector in Cambodia from 2007 to 2012.



APPENDIX 4. The share of Services, Manufacturing and Agriculture of 5 ASEAN countries from 2002 to 2012 (Abe 2014)



APPENDIX 5. Approved domestic investments by sector in Myanmar until January 2013 (Abe 2014)



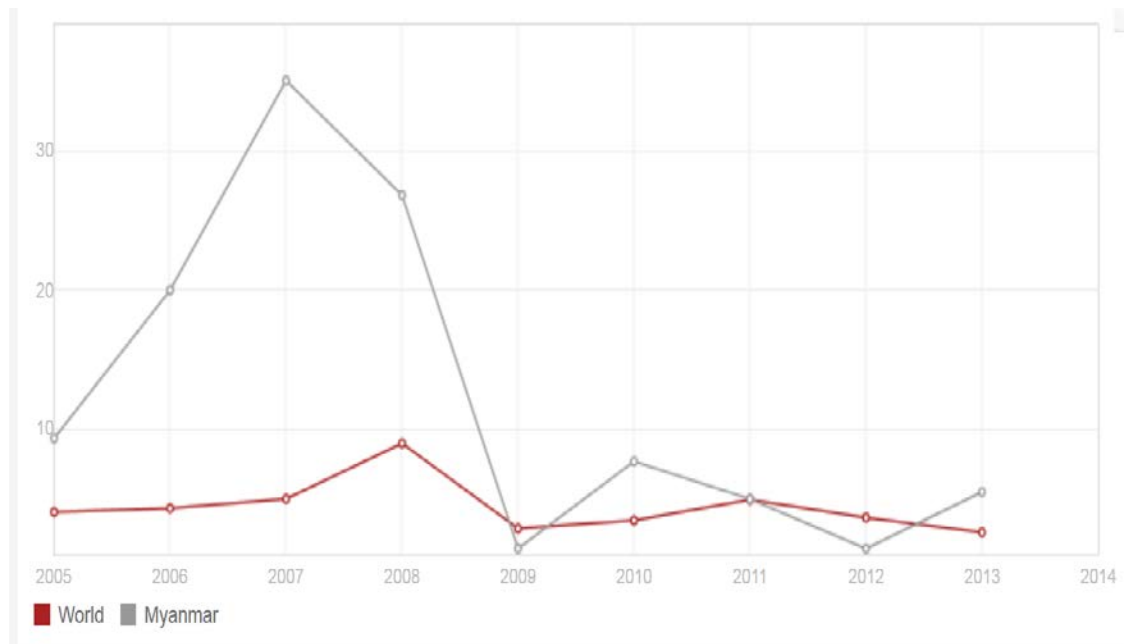
APPENDIX 6. The rankings of Myanmar and Cambodia in Corruption Perception Index from 2009 to 2014 (Modified from CPI 2014).

Year	Cambodia	Myanmar	The number of surveyed countries
2009	158 th	178 th	180
2010	154 th	176 th	178
2011	164 th	180 th	182
2012	157 th	172 th	174
2013	160 th	157 th	177
2014	156 th	156 th	175

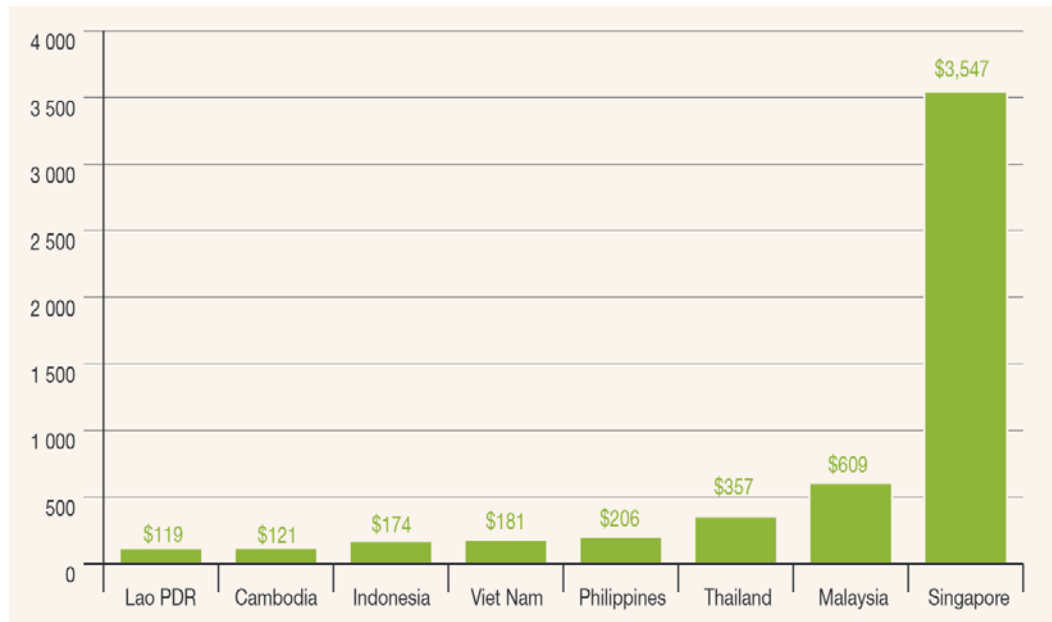
APPENDIX 7. Exchange rate of Cambodian Riel against US dollar from March 2010 to March 2015. (USD/KHR)



APPENDIX 8. Inflation, consumer prices (annual %) of Myanmar and the world from 2005 to 2013 (World Bank 2015)



APPENDIX 9. Average monthly wages in 2012 (\$) of Lao PDR, Cambodia, Indonesia, Vietnam, Philippines, Thailand, Malaysia and Singapore (ASEAN Community 2015 report 2014)

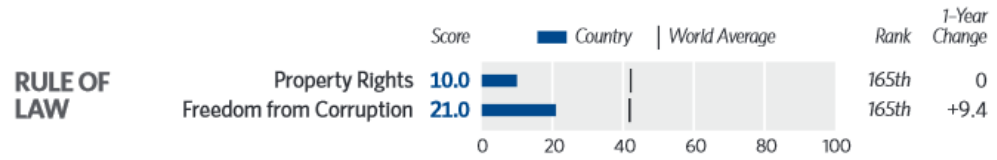


APPENDIX 10. Locations of Kyaukpyu, Thilawa and Dawei Special Economic Zones in Myanmar (Doing Business in Myanmar 2013)

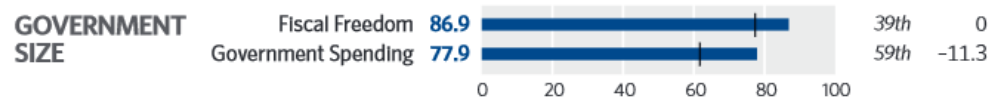


APPENDIX 11. The ten economic freedoms of Myanmar in 2015 (The Index of Economic Freedom 2015)

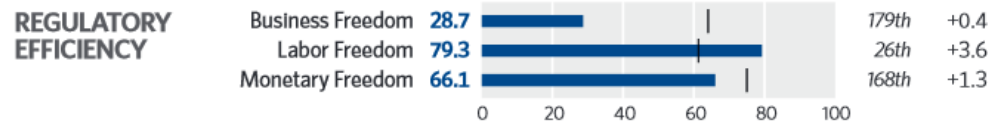
THE TEN ECONOMIC FREEDOMS



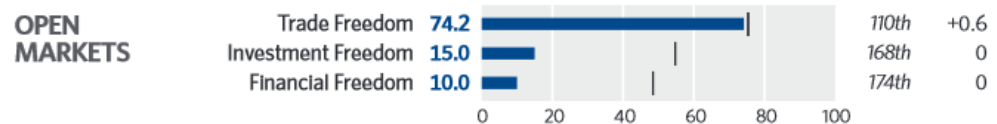
Burma's emerging but deeply flawed democratic reform process will likely lose momentum in the run-up to the 2015 elections. Corruption is endemic. Due to a complex and capricious regulatory/legal environment and extremely low government salaries, rent-seeking is ubiquitous. Rule of law and protection of property rights are weak. Judicial decisions are often influenced by government interference, personal relationships, or bribes.



Burma's top individual income tax rate is 20 percent, and its top corporate tax rate is 30 percent. Commercial and capital gains taxes add to government revenue, but the overall tax burden remains less than 5 percent of gross domestic product. Public expenditures amount to 27.2 percent of the domestic economy, and public debt is equal to around 43 percent of total domestic output.



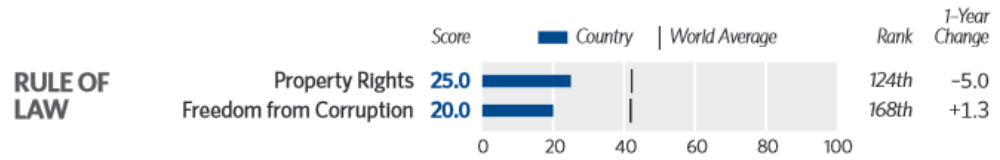
Significant bureaucratic impediments to entrepreneurial activity and economic development persist. The labor market remains underdeveloped, and enforcement of the labor codes is ineffective. The informal sector continues to be an important source of employment. Inflation is expected to remain elevated, led by higher prices for rice and other staple foods and electricity.



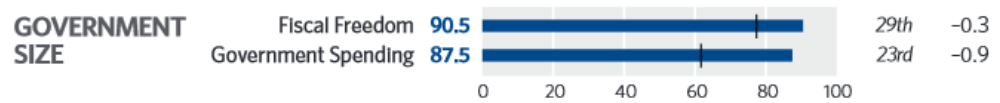
Burma's average tariff rate is 3.2 percent, and some imports face additional restrictions. The government reviews new foreign investment, and state-owned enterprises dominate some sectors of the economy. The financial system remains underdeveloped, and the banking sector is dominated by state-owned banks. Most loans are directed to government-led projects, and access to credit remains very poor.

APPENDIX 12. The ten economic freedoms of Myanmar in 2015 (The Index of Economic Freedom 2015)

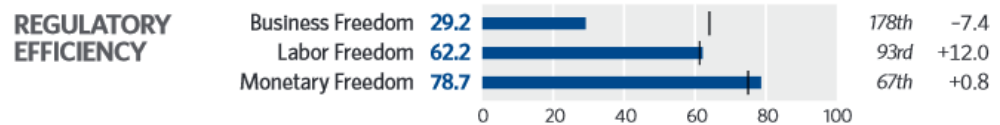
THE TEN ECONOMIC FREEDOMS



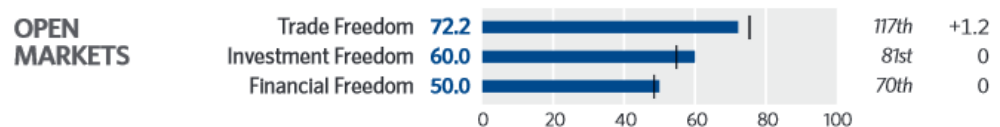
The perverse effects of decades of international intervention and foreign aid have contributed to rampant corruption in Cambodia. Three new judicial “reform” laws approved in 2014 will further entrench the ruling party. Weak and inconsistent courts do not protect private property effectively. Investments in many economic sectors frequently are accompanied by land grabs by powerful politicians, bureaucrats, and military officers.



The top individual and corporate income tax rates are 20 percent. Businesses in the petroleum and gas sectors are assessed at a 30 percent rate. Other taxes include a value-added tax and an excise tax. Total tax revenue equals 12.2 percent of GDP. Government expenditures amount to around 20 percent of the domestic economy, and public debt is equivalent to 28 percent of total domestic output.



Red tape and inconsistent enforcement of the laws hinder the development of a critically needed private sector. The formal labor market remains distorted by state intervention that sets public-sector wages and influences wage-setting in the market. Enforcement of the labor code remains ineffective. Although most prices are determined by the market, the government has been increasing subsidies for fuel.



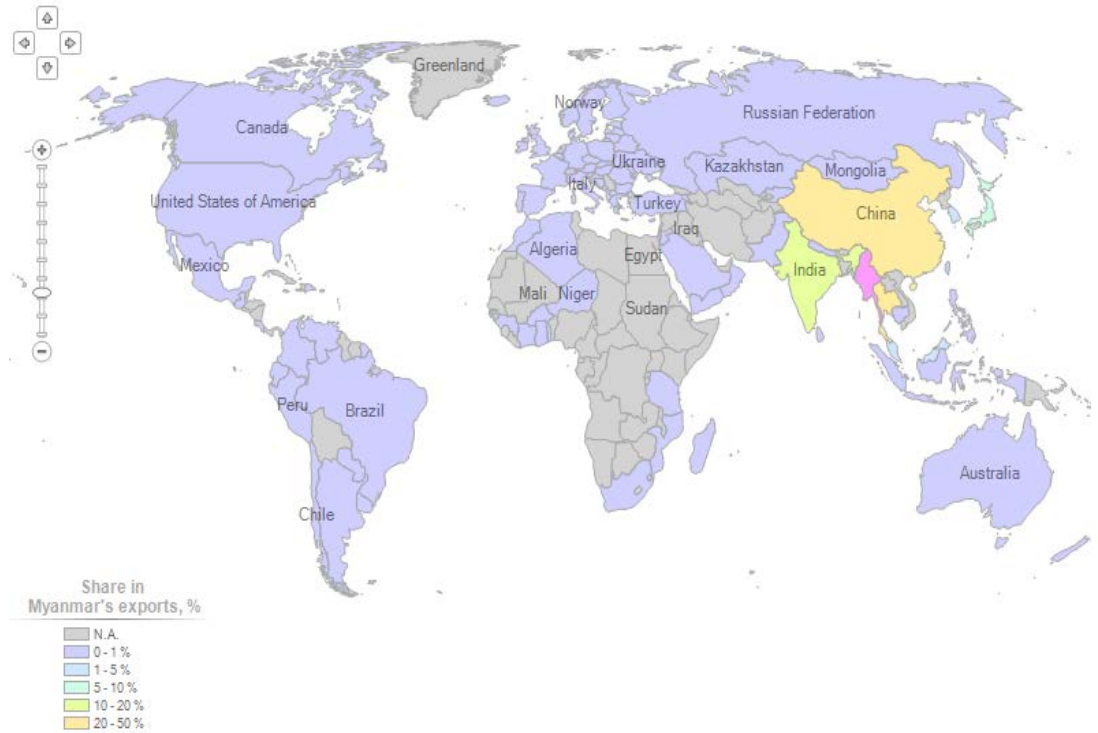
Cambodia has an average tariff rate of 8.9 percent. Non-tariff barriers at the border further restrict trade. The slow-moving bureaucracy and court system present challenges for foreign investors. Development of the financial sector has progressed gradually, although large state banks have recorded notable growth and continue to dominate the banking system.

APPENDIX 13. List of main markets of Myanmar's exported products in 2013
(ITC by country Report 2014 – Myanmar)

Trade Map

List of importing markets for a product exported by Myanmar in 2013 (Mirror)

Product: TOTAL - All products



APPENDIX 14. List of main markets of Cambodia's exported products in 2013
(ITC by country Report 2014 – Cambodia)

Trade Map

List of importing markets for a product exported by Cambodia in 2013

Product: TOTAL - All products

