

# **CHAPTER 1**

## **Introduction**

### **1.1 The Rational Background**

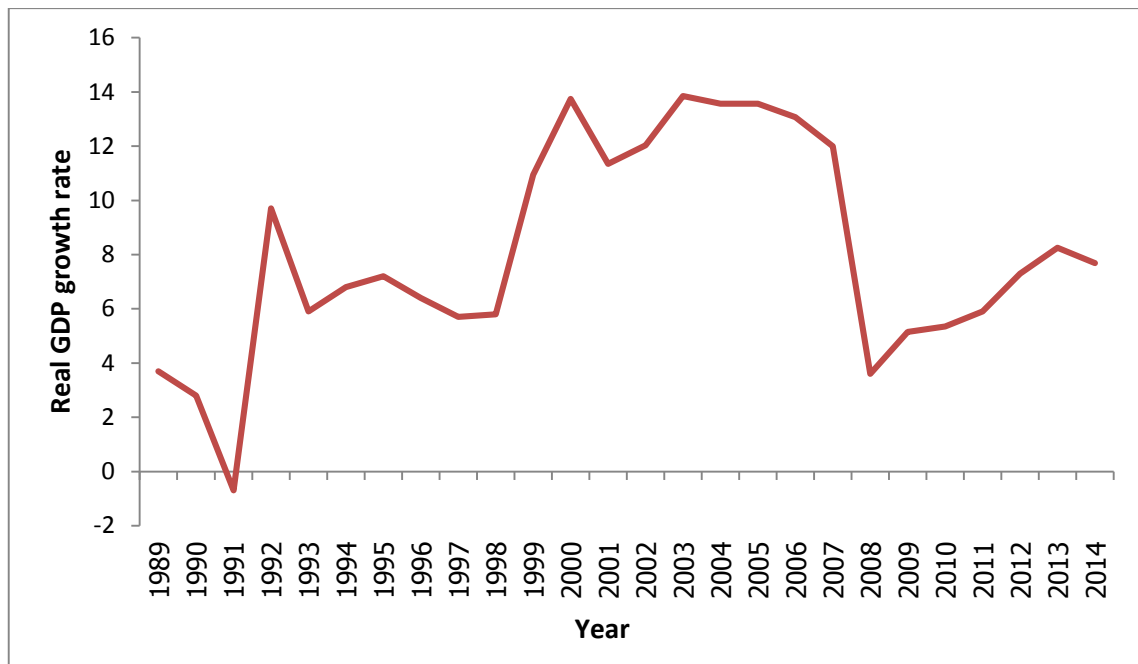
The Republic of the Union of Myanmar is a country which is rich in natural resources, diverse culture and great histories. It is also the country where there are many unspoiled natural and historical heritage sites which are big tourist attractions. The unique culture of the Myanmar people is also one main resource that increases the country's development via tourism sector. As tourism can boost the economy growth of the country in effective and efficient way, it has become one of the important sectors for the country's development in recent years. The country can create job opportunities and foreign exchange earnings via tourism sector. Thus, tourism is also considered as development strategy for less developed countries (LDC). Since Myanmar is one of the LDCs, tourism plays a huge role in country's economy.

In order to achieve the successful modernization, it is important for the less developed countries to transform their primary sector of business, which is agriculture, to industrialization. The emerging tourism economic activities in a country can have influence over the growing development rates via infrastructure development, foreign currency flow, and new management, etc., which play major roles in the country's development of social and economy sectors. The tourism sector can benefit the country in term of economic, social, cultural, and environmental development by creating job opportunities, foreign exchange earnings, and increasing GDP and living standard of people.

In 2011, Myanmar set a remarkable milestone in the nation's history by transforming the military government to the democratic nation, and created stronger international relations with the global community. Because of the country's efforts,

Myanmar has received help to move towards the developed democratic nation from international funding agencies and development organization. The easing of sanctions also attracted many investors and international attention which led to the transactional period of growth in Myanmar economy.

Figure 1.1 shows the prediction of growth rate of Myanmar economy during 1989 to 2014. The figure shows the positive trend, resulting from the export earnings from resources-oriented products and the rise in foreign direct investment (FDI). In 1991, where the military government governed the country, the growth rate dramatically dropped to 0.7%. However in 1992, the rate immediately increased to 9.7%. An annual percent rate increased by 5.4% and 6.0% in 2010 and 2011 respectively. The estimation from Asia Development Bank stated that the GDP of Myanmar would reach 8.2% in 2016. Exports of resources-oriented products, infrastructure investment, FDI growth and the international trade are the factors expected to influence the economic growth of Myanmar. It is also suggested that the economy could grow at 7% - 8% annually over an extended period if the reform process does not collapse. If the growth rates are stable at those rates, by the year 2030, the per capita income of the people can project between \$2000 and \$3000, which is three times higher than the present income level. However, despite the positive prediction over the Myanmar economy, Myanmar is still ranked as one of the poorest nations in South East Asia, according to CIA World Factbook, with about 32% of the population suffering from poverty. Nevertheless, the service sector raised the GDP from 32% in 1990 to 35% in 2005 to 42% in 2011. Among all the sectors, service sector is regarded to create the fastest growth. Still the service business only creates employment opportunities and production less than agriculture sector does. In 2013, only 849.6bn MMK (that is 1.6% of GDP) earned directly from Travel and Tourism sector. The rate is estimated to increase by 9.5% in 2014, generated by the industries such as hotels, travel agents, airlines and other transportation services. By the year 2024, it is expected that the Tourism Sector will boost the country GDP by 6.9%, 817.4bn in MMK.



Source: International Monetary Fund, World Economic Outlook Database, September 2006 and International Monetary Fund, World Economic Outlook Database, April 2015

**Figure 1.1:** RGDP growth rate at current prices during 1989 to 2014

The Myanmar tourism history can be learnt in three periods of time. The first one is parliamentary democracy era (1948-1963). The second is the socialist period from 1962 to 1988. The third period is the time when the tourist market was opened since 1990. The tourism was introduced to Myanmar in the high colonialism period of South East Asia (1870-1940) and reached its peak in 1920 when the Irrawaddy Flotilla Company, the travel agency, received 9 million passengers per year. Even though Myanmar won back the independence in 1948, the development of tourism sector halted due to the civil war during the first tourism history era and the closed-door governance system in the second era. During the parliamentary period, the economy of Myanmar is capitalized by the government. There were only a few tourist agencies as the rate of tourist visit was so low. Tourist Burma which was formally known as Tourist Information Services was the organization that arranges sharing information and guidance to the tourists. Around that time, the validity of visa was only for a month but in 1962, the visa validity was shortened to only 24 hours, due to Revolutionary Council Coup d'état. The socialist nationalization law also made the hotels and Tourist Burma, state owned. Because of the authorities difference approach to protect traditional values

and customers from foreign influence, the tourism sector had unfortunately, become shrank.

The new military government of Myanmar set up a different strategy rather than opening markets to the public in 1990s after they gained power by a coup d'état. The tourism sector was considered as an economic priority. The planning for the development for tourism sector such as hotels and infrastructure started in 1992 and in 1996, known as “visit Myanmar Year 1996”; the country welcomed the tourists around the world. The visa entry to Myanmar has become less difficult and the length of visa has been extended. The reason is to invite more tourists into Myanmar as many as possible. E-visa was introduced in 2004 and the visa on arrival is issued directly upon arriving at the Yangon International Airport and Mandalay International airport starting 2010.

Nowadays, the tourism market of Myanmar grows under the management of new government. But the factors such as old tight previous centralized planning, closed economy and political instability are still unappealing for the tourists to visit the country. Even though Yangon, Mandalay, Bagan and Irrawady regions can be accessed, there are many places where visitors are not allowed to go. Alternatively, the department of hotels and tourisms introduced ecotourism, and delegated the tourisms projects to regions in order to develop the intra and inter regional tourism. The tourism level of Myanmar has not yet reached to the level of the existing substandard tourism infrastructure.

For South East Asia countries, the tourism industry is one of the strongest and fastest profit making businesses for the economy. From 1992 to 2012 the tourism sector boosted the numbers of international tourist arrival in ASEASN from 21.8 million to 89.5 million which is 7.3% of growth per year. The tourism sector has also put up 11.1% to regional GDP and created 25.4 millions of jobs in various economic sectors according to the World Travel and Tourism Council (WTTC). The United Nations World Tourism also predicted that by the year 2030, the tourism in broader Asia and Pacific Region would host 540 million international travelers and 30% of Global market share. Table 1.1 illustrates the graph of ASEAN international visitor arrivals between

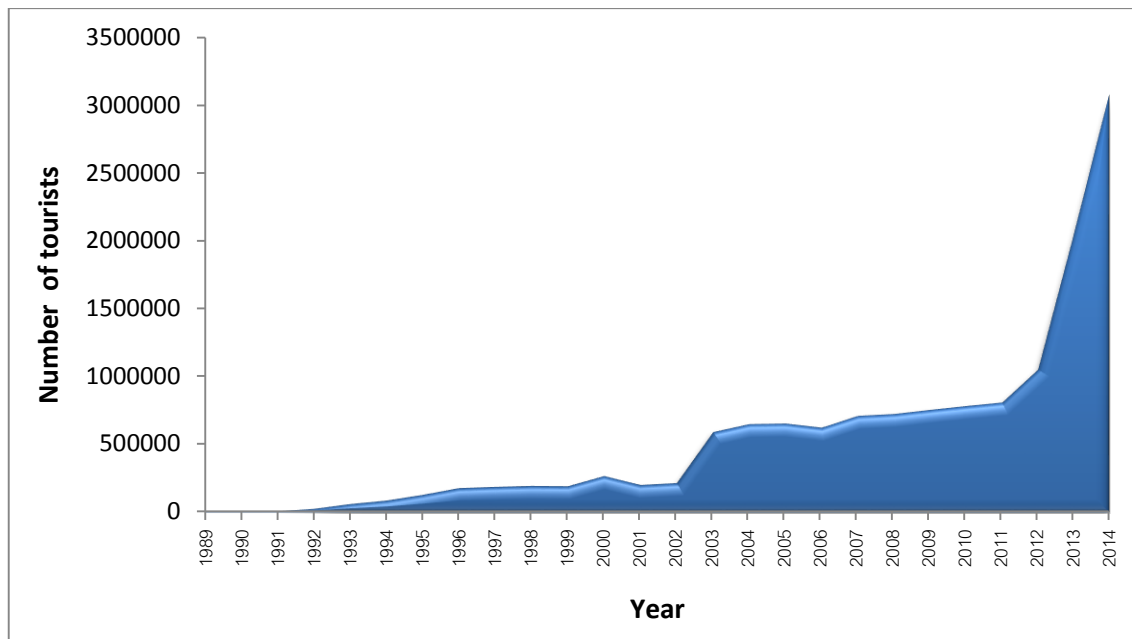
2009 and 2012. Despite being the nation with the second last arrival shares, Myanmar achieved the highest growth of 29.7% regionally.

**Table 1.1** Tourist arrivals in ASEAN countries during 2009 to 2012

Country	2009	2010	2011	2012	Share (%)	Change (%) 2011–2012
Brunei Darussalam	157,474	214,290	242,061	300,139	0.3	24.0
Cambodia	2,161,577	2,508,289	2,881,862	3,560,000	4.0	23.5
Indonesia	6,323,730	7,002,944	7,649,731	8,147,000	9.1	6.5
Lao PDR	2,008,363	2,513,028	2,723,564	3,050,400	3.4	12.0
Malaysia	23,646,191	24,577,196	24,714,324	25,950,000	29.0	5.0
Myanmar	762,547	791,505	816,369	1,058,995	1.2	29.7
Philippines	3,017,099	3,508,818	3,917,454	4,259,600	4.8	8.7
Singapore	9,681,259	11,638,663	13,171,303	14,356,500	16.0	9.0
Thailand	14,149,841	15,936,400	19,230,470	22,303,065	24.9	16.0
Viet Nam	3,772,559	5,049,855	5,988,425	6,585,853	7.4	10.0
<b>Total</b>	<b>65,680,630</b>	<b>73,740,988</b>	<b>81,335,563</b>	<b>89,571,552</b>	--	10.1

Source: ASEAN Secretariat

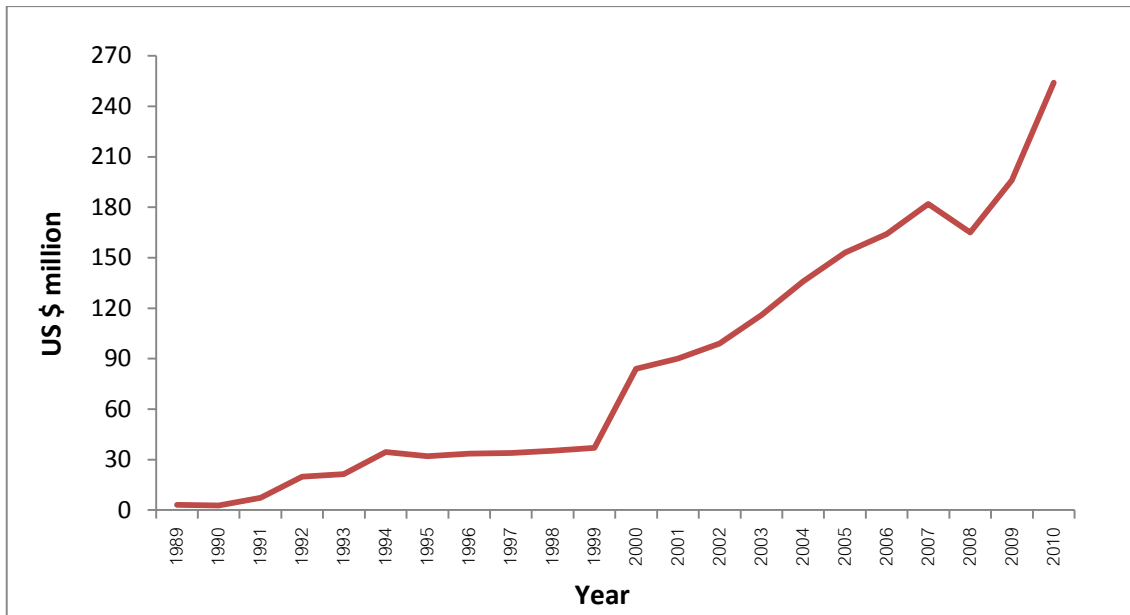
An increased number of tourist arrivals in Myanmar can be obviously noticed nowadays, which has rarely been experienced in the early years. As a lot of improvements to facility and amenity are made for the sake of tourists' convenience, the income of tourism-related enterprises has been increasing since 1992. Despite the fact that not all tourism receipts can easily be determined, there was a significant increase in tourism income from 1999 to 2001. Yet it remained constant in the latter years. Myanmar's total earnings from tourism were relatively small when compared with other BCIM or ASEAN countries because of such imperfect conditions as inexperience in hotel and tourism management, poor facilities and services, inflexibilities and controls over various activities on security and other grounds.



Source: MOHT (Ministry of Hotel and Tourism)

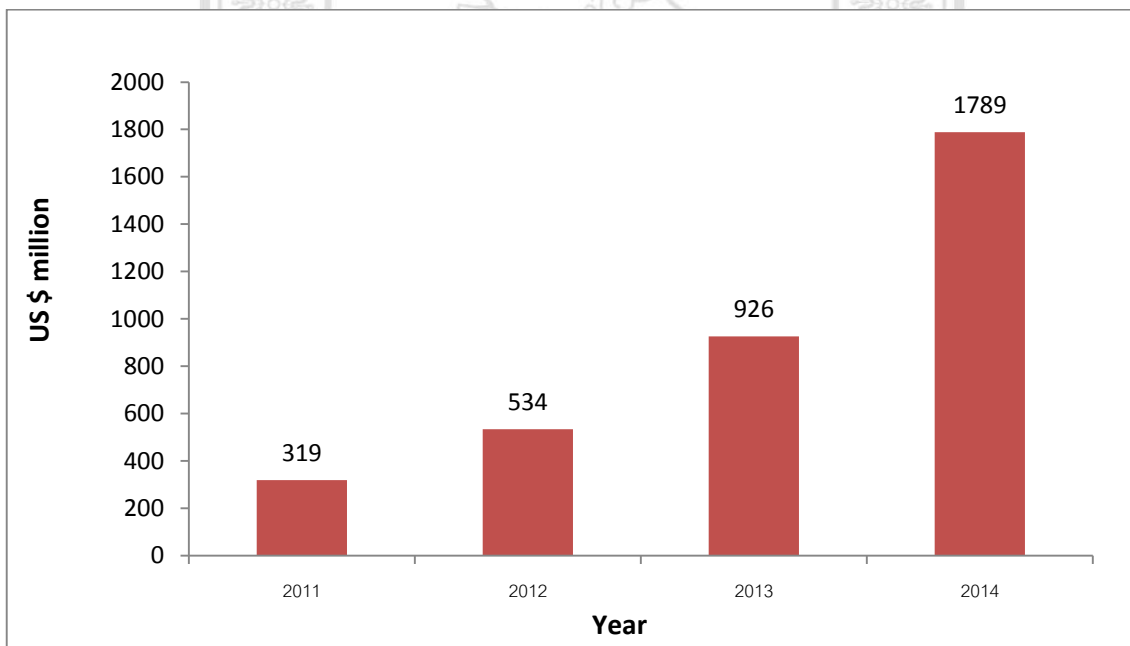
**Figure 1.2:** Number of tourist arrivals in Myanmar between 1989 and 2014

Figure 1.2 describes the number of tourist entry to Myanmar in the year 1989 to 2014. Before the reforms until 2011, the tourism sector of Myanmar is least likely to develop among ASEAN countries, dropping lowest number in 2010, receiving only 311000 visitors that was only the one fourth of the number of tourists coming to Laos. However, as the country underwent the social, political, and economic reforms in 2011 and eased out the numbers of forbidden areas that needed permission for the admission, it experienced the rapid growth in tourism sectors from the international arrivals. The graph shows the dramatic growth in the numbers of tourists visited in 2014, which is three times higher than 1 billion of tourists in 2012. Regardless of the reports from World Tourism Organization and Pacific Asia Travel Association (PATA) that estimated that up to three third of those 3 million visitors were short day travelers from the neighboring countries, the numbers of tourists have indeed increased. The most popular destinations such as Shwedagone Pagoda and Inle Lake have the visitor number increased by 20-25 % in 2014. With more tourists from Thailand, Japan, South Korea and China, that would occupy 70% of the total entry, it is expected that the number of tourists will project to 20.4 million from international and 29.2 million from local between the year 2013 and 2020.



Source: Kyaw Min Oo (2007), Myanmar tourism statistics, 2014 (MoHT)

**Figure 1.3:** Myanmar tourism receipts for the period between 1989 and 2010



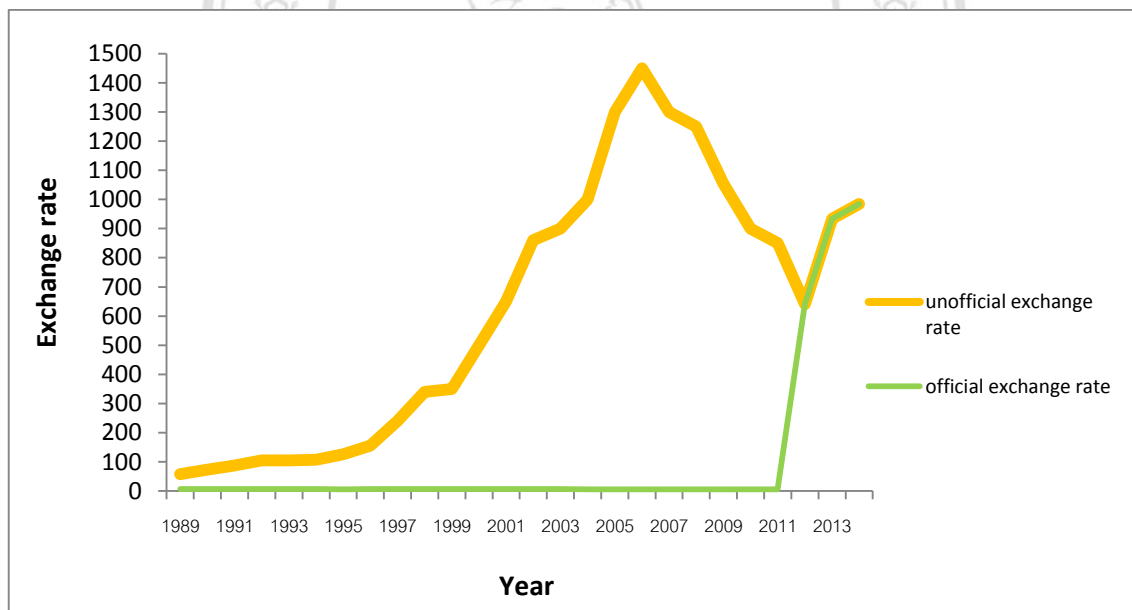
Source: Kyaw Min Oo (2007), Myanmar tourism statistics, 2014 (MoHT)

**Figure 1.4:** Myanmar tourism receipts for the period between 2011 and 2014

Figure 1.3 and 1.4 compares annual income received from tourism industry within more than two decades. A gradual rise was witnessed between 1989 and 2009 though some slight reduction was found in 1999 and round 2008. However, numerical data from the latter 4 years show that tourism becomes a fast developing sector. An upward

trend from \$ 319 million in 2011 to \$ 1789 million in 2014 is shown in the bar graph, conducted by MoHT (Ministry of Hotels and Tourism). According to MoHT, it has been assumed that there will be between 1.5 million and 3 million visitors to Myanmar. The government has confirmed that the plans for a Visit Myanmar Year will be implemented in 2016 among ASEAN countries. This initiative is supposed to invite more visitors to Myanmar.

The main reason why tourism has become one of the major sources for the betterment and development of the nation, especially foreign currency earnings, is that it helps promote such sectors as agriculture, fisheries, manufacturing, construction and crafts production. The income gained from those sectors may, in turn, be utilized in alleviation of poverty and other activities that benefit the local people economically and socially. Thus the exchange rate plays a significant role in tourism sector.



Source: 1995 data is from 1995 CIA world factbook  
 2012, 13, 14 from World Bank and others from IMF (sean junnell)  
 1989-94 are collected with financial year (start from April 1 to March 31)

**Figure 1.5:** Official and unofficial exchange rate in Myanmar (1989-2014)

According to Figure 1.5, two kinds of exchange rates were identified in the past in Myanmar: official exchange rate set by the Central Bank of Myanmar, and the unofficial market exchange rate. Even after the reform process started in Myanmar, foreign visitors had to exchange their cash on the black market. But now the rate of



exchange can be found at private banks as well as official exchange counters. However, there is not much difference between the previous structure of exchange rate market and the current system. Although the Central Bank has let other private bank run foreign exchange counters and initiated auctions of foreign exchange with them, limitations are still being imposed for convertibility of kyat for current account transactions. In addition, state and region economic enterprises are still regarded as being detached from exchange market.

Tourism brings about a large number of opportunities in the nation. Tourism Industry related employment opportunities will come from travel agencies, tour operators and other service providers in this sector. This industry has created a considerable increased number of opportunities in its related and directly unrelated fields in Myanmar. Table 1.2 illustrates the estimated direct tourism employment in Myanmar, 2012-2020.

**Table 1.2** Estimated Direct Tourism Employment in Myanmar, 2012-2020

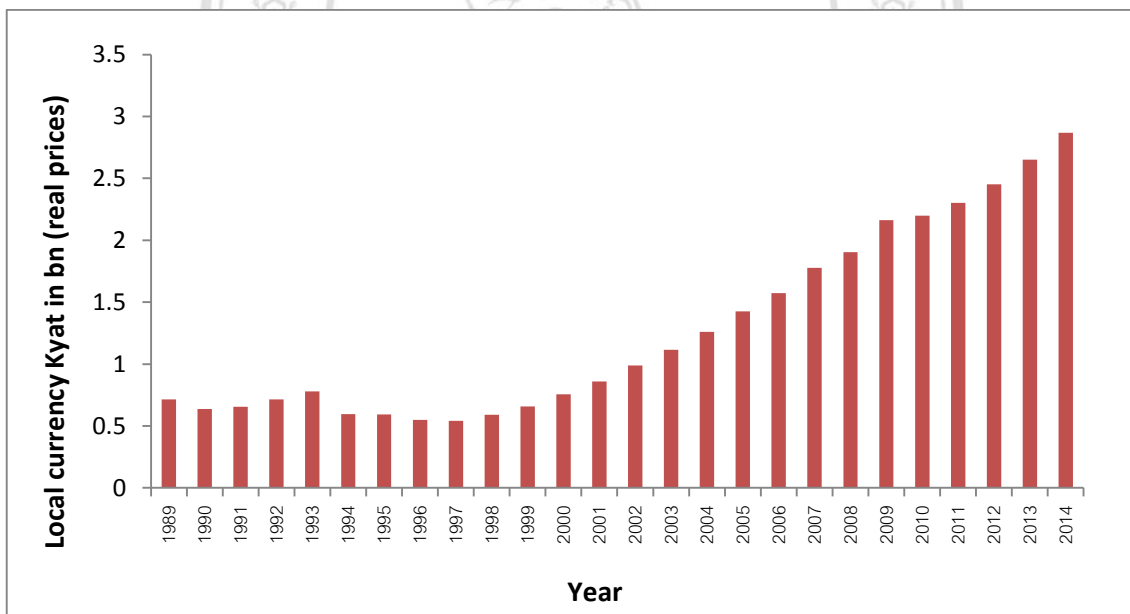
Subsector	Conservative			High	
	2012	2015	2020	2015	2020
Accommodation	44,055	63,668	84,458	125,403	224,670
Food and beverage	146,850	212,225	281,528	418,009	748,901
Recreation and entertainment	29,370	42,445	56,306	83,602	149,780
Transportation services	58,740	84,890	112,611	167,204	299,560
Travel services	14,685	21,223	28,153	41,801	74,890
<b>Total</b>	<b>293,700</b>	<b>424,450</b>	<b>563,056</b>	<b>836,018</b>	<b>1,497,801</b>

Source: World Travel and Tourism Council and Myanmar Tourism Master Plan Report (TA-8136)

The Tourism Master Plan developed by MoHT explains that 735,000 direct and indirect jobs were created in tourism industry in 2012, which is 2.8% of the total employment. Most of the tourism related opportunities benefit women. Besides, the employment rate is supposed to be greater in the future: conservative forecasts suggest that direct employment in the industry will increase to 424,450 in 2015 and 563,056 in 2020. In a high-growth scenario, direct tourism employment could reach as high as 1.49 million in 2020. Also, human resource development is a lot more important in tourism

industry than any other sectors because it is mainly concerned with providing services. Therefore, it is absolutely vital to produce qualified human resources in order to maximize the benefits of the tourism industry, including contributing to socioeconomic development, job creation, and business opportunities. The need to develop and train the required human resources in tourism industry is the main concern for this sector.

Along with foreign currency and employment, tourism directly generates investments for the reason that it has become a flourishing service industry. A large flow of tourism investment contributes to the development of the national economy. In Figure 1.6, it can be seen a steady increase in Myanmar Government spending on tourism services which are directly linked to visitors such as cultural and recreational services. The government has made strenuous efforts to improve infrastructure such as airports, museums, transportation, souvenir centers, and recreation programs.



Source: World Travel and Tourism Council (WTTC)

**Figure 1.6:** Government Individual Spending In Myanmar Tourism Sector (1989-2014)

Economic benefits like foreign exchange earnings and the creation of employment opportunities are the most distinctive among positive effects of tourism. However, the most important impact of tourism development is the all-round regional development of tourism destinations. Even though tourism in Myanmar has been a slowly developing sector because of political and economic sanctions, Myanmar is now

opening up to its neighboring countries, and is expected to become a major exporter among those nations. Also, it is supposed to be a platform for all trading matters amongst Asian countries.

## **1.2 Purpose of the Study**

Nowadays, in Myanmar, tourism is seen as one of seven priority sectors identified in the National Export Strategy, which is a roadmap for sustainable socio-economic development in the country implemented by the Ministry of Commerce with technological assistance from International Trade Center. Therefore, the objectives of the study are

1. To study an overview of current status and situation of Tourism industry in the Myanmar economy
2. To investigate whether there is the co-integrating relationship between tourism expansion and economic growth in the long run and short run through the use of empirical analysis
3. To examine the causality among economic growth, international tourism and exchange rates in Myanmar

## **1.3 Scope of the Study**

In this research, the secondary data over the period between 1985 and 2015 for tourism and economic growth of Myanmar will be used by applying ARDL co-integration analysis. In order to investigate the causal relation between tourism and economic growth, real GDP growth rate will be used as a proxy for economic growth; and tourism variables and unofficial exchange rate will be used for tourism sector of the country, Myanmar. The data chosen are Real GDP growth rate, Tourist Arrivals (number of visitors), Tourism receipts (million in US\$), Unofficial exchange rate (LCU Kyat compared to 1 dollar).

If the outcomes of the study show that tourism expansion and economic growth are not related each other, the government should focus on the development of tourism related infrastructure as tourism acts as the main source of foreign exchange earnings in

Myanmar. It is definitely clear that tourist arrivals in Myanmar have been significantly increasing during the past five years and it is expected to continue like that.

The results of the study is expected to reveal that tourism expansion and economic growth have mutually benefit each other, or there is the unidirectional causality between them, excessive tourism spending or reduced travel consumption will put the pressure on the economy. Therefore, not only additional investment in tourism sector but also other sectors developments like education, technology, policies that influence on ease of doing business are required for policy makers to emphasize on because tourism expansion generates an increase in employment and income of the economy by the way of direct, indirect and induced effects of the tourism sector.

#### **1.4 Contribution of the study**

The previous studies related with the analysis of tourism and economic growth suggested that tourism expansion can be viewed as a mechanism for generating to increase income and job opportunities in the country's economy directly and indirectly. The expected outcomes of this study are to recognize the existence of the causality between tourism sector and economic growth and to provide empirical information to the government policy-makers in deciding policy in tourism sector.

#### **1.5 Outline of the chapters**

The study consists of five chapters as follows: Chapter 1 "Introduction" contains the rationale of the study together with purpose of the study, scope of the study and advantage of the study; Literature review and theoretical foundations are described in Chapter 2; Chapter 3 "Methodology" explains the conceptual framework, variables used in research model and sources of data, model specification and the used methodology in the paper; the empirical results, discussion and further suggestions are demonstrated in Chapter 4 and Chapter 5 respectively. Moreover, appendix and references are enclosed together as supporting documents for this research.