THE IMPACT OF FOREIGN DIVESTMENT ON ECONOMIC GROWTH IN MYANMAR: EVIDENCE FROM ARDL APPROACH

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A thesis submitted to the University of Huddersfield in partial fulfilment of the requirements for the degree of Master by Research

The University of Huddersfield Business School

April 2016

Abstract

In 1988, Myanmar started pursuing an open door policy and released its economy from closed-door policy to market-orientation. The foreign direct investment started flowing into the country, and the foreign trade rapidly increased. Unfortunately, market liberalisation was short-lived because Myanmar being imposed an economic sanction by Western countries in the late 1990s. In subsequent years, multinational firms substantially pulled out their investments from Myanmar market.

This study seeks to investigate the patterns of foreign divestment and its impact on Myanmar economy. The primary objective of this research is to formulate the systematic analysis of the impact of foreign divestment on economic growth of Myanmar. Firstly, this study reviews the determinants that influence divestment in Myanmar. Secondly, patterns of divestment are analysed based on the firm-level characteristics. Finally, an empirical model is estimated to analyse the impact of divestment on economic growth by employing Autoregressive Distributed Lag Approach (ARDL) by covering the annual data from 1990-2013. The test confirms that there is a cointegration between foreign divestment and real GDP. The results shows foreign divestment has a negative impact in economic growth of Myanmar in both short and long run. This study also finds that the human capital was negatively significant in the context of Myanmar while explaining its relationship with economic growth. These findings embrace practical implications for policy makers, investors and government.

Key words: Foreign divestment, Economic growth, Myanmar, ARDL

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Acknowledgements

Foremost, I would like to acknowledge and express my deepest gratitude to my supervisor Dr Palitha Konara for the continuous support of my study and research, aslo for his motivation, patience, immense knowledge, and enthusiasm. I have been amazingly fortunate to have a supervisor who encouraged me to working on new research area. I also appreciate his vast knowledge, skill in many areas and provides me with guidance and constructive feedback throughout my study.

I am also grateful to U Aung Naing Oo, Director General and his team from the Directorate of Investment and Company Administration (DICA) for helping me to get the data for this research. My sincere gratitude also goes to my cousin for helping me with the data collection process from Myanmar. I would also like to acknowledge my friends from Business School, Hannah from Research office and Tutors from Academic English course for their help and support during the period of my study at Huddersfield.

I would also like to express my heartfelt gratitude to my parents and my sisters for their love and encouragement throughout this endeavour. And I would like to thank all the people who support me during my time at the University of Huddersfield as a research student.

List of Abbreviations

ADB	Asia Development Bank
ADF	Augmented Dickey Fuller
AIC	Akaike Information Criterion
ARDL	Autoregressive Distributed Lag
ASEAN	Association of South East Asian Nations
DICA	Directorate of Investment and Company Administration
EU	European Union
FD	Foreign Divestment
FDI	Foreign Direct Investment
FY	Fiscal Year
GOM	Government of Myanmar
IMF	International Monetary Fund
JVs	Joint Ventures
LDC	Less/Least Developed Country
MECH	Myanmar Economic Holdings Corporation (a military-controlled conglomerate)
MIC	Myanmar Investment Commission
MNC/MNE	Multinational Cooperation/ Enterprises
MNPED	Ministry of National Planning Economic Development
NGO	Non-Government Organisation
NLD	National League for Democracy
ODA	Official Development Assistance
PP	Philips and Perron
R&D	Research and Development
RGDP	Real Gross Domestic Product
SME	Small and Medium-Sized Enterprises
SOE	State Owned Enterprises
SLORC	State Law and Order Restoration Council (1998-1997)
SPDC	State Peace and Development Council (1997-2010)
UNCTAD	United Nations Conference on Trade and Development
UK	United Kingdom
US	United States
US$	United States Dollar
WOS	Wholly Owned Subsidiaries

Chapter 1 : Introduction

1.1 Introduction

The expanding literature on determinants of economic growth has addressed foreign direct investment (FDI) mostly have a positive impact on economic growth. (Blomstrom 1986, Kokko 1994, Olofsdotter 1998, Wang 2002, Basu and Guariglia, 2007). Although the impact of foreign investment is still debatable on economic development (Lall, 2000), there is a general understanding that FDI can contribute to economic growth in the host country to some extent. However, the depth of such impact may vary on the conditions of host countries such as the level of human capital, domestic investment, macroeconomic stability and political stability (Borghesi and Giovannetti, 2003). In particular, when socioeconomic and political environments invariably change, whether within the home or host countries or at both, these changes can have an impact on the multinational firms (MNCs) which operating businesses in the host countries. In the worst scenario, these changes can create political risk and even form social movements.

Social movement is an activity that is organised by special interest groups by conducting protest events and boycotts. It can effect on the policies, procedures and even financial stability of the private firms (Soule et al, 2009). Consequently, these social movements can force MNCs to make decisions, which are not relevant with market-related. That strategic and operational decision could be for a firm to withdraw from host country's market, i.e., foreign divestment is occurred. According to Soule et al. (2013), foreign divestment is a significant corporate-level decision, which involves the sale of foreign subsidiaries, closure of international plants, and exit from the host country's market. Many scholars have studied the factors that influence firms to divest such as the size and experience of the affiliate (Duhaim, 1987), mode of entry (Li, 1995), the industry background of the subsidiary, location and exit behaviour (Tan and Sousa, 2015). Others have studied foreign divestment through the lens of global strategy (Benito, 2005) and streams of foreign investment theory (Berry, 2003). Despite the firm level factors of divestment, we know relatively little about its impact on economic growth of the host country.

The objective of this study is to fill this research gap partially using Myanmar's experiences. Myanmar has been regarded as one of the most enduring authoritarian countries in the world since the military took power in 1962 (Bunte and Portela, 2012). Then, the country adopted the program named 'Myanmar road to socialism' but it was abandoned in subsequent years. In 1988, the military government started transformed the country's economy from a centrally planned system to a market-oriented economy. The open door policy has welcomed several Western firms to enter the Myanmar market where they have committed 80 percent of direct investment that accounted for 65 percent of actual FDI while ASEAN countries contributed the rest (Bissinger, 2012). However, the market liberalisation and growth was a short-lived as the sanction imposed from Western countries included the US, Canada and the EU for ignoring the result of 1990 elections and committed human right abuses and lack of political freedom. Since the sanction imposed, multinational corporations from Western firms with affiliates in Myanmar faced pressure from various social and political groups and pushed them to withdrawal from Myanmar. As a result, most of the firms pulled out their investments from the country, thereby meeting the expectations of those groups and being concerned of practicing good corporate governance and maintain their reputations. While some multinational companies decided to cut ties with Myanmar, others remained and continuing giving the commitments to their investments in Myanmar~~.~~

This study aims to examine the impact of foreign divestment on the economic growth of Myanmar. With respect to country specificity, this study will use the divestment data in Myanmar from the period of 1990-2013, to explore the impact of foreign divestment on Myanmar's economic growth. To achieve the aim, this study addresses the following research questions (1) what are the trends and patterns of divested firms in Myanmar? (2) Did foreign divestment have an impact either on Myanmar’s economic development in short run or in long run? To answer these research questions, this study will employ ARDL approach by analysing divestment cases from Myanmar.

1.2 Motivation for the Study

The focus on foreign divestment is of interest for several key reasons. Firstly, divestment study has given less attention compared to investment studies in International Business area. The difficulty of accessing divested firms' data and treated as confidential case are some of the common reasons, which makes divestment area less studied. Secondly, Myanmar as a unique context, types of foreign divestment occurred in the country cannot be categorised in a conventional way either as the voluntary divestment (Boddewyn, 1979) or forced divestment (Korbin, 1980). Foreign firms in Myanmar were given pressure by the social movements and their home countries to withdrawal from the market (Soule et al., 2009). It would be interesting to investigate the divestment case under the unique context and it will add value to the literature of divestment. Moreover, much literature has been focusing on the determinants that influence firms to divest without paying attention to the consequences of the divestment. This study makes a significant contribution to the current literature by examining the impact of divestment on the host country's economic growth.

1.3 Research Aim, Objectives and Questions

The main aim of this research is to examine whether foreign divestment (FD) affects economic growth of Myanmar by using ARDL approach. To achieve this aim, the following research objectives were formulated.

Objective 1: To identify trends and patterns of foreign firms that divested from Myanmar.
Objective 2: To examine the relationship between economic growth and foreign divestment.

To realise the primary aim and objectives of the study, research questions were designed. The following questions are to be answered by this research.
Question 1: Which firm-level characteristics that divested firms' possess?
Question 2: Has FD been significantly impacted on the economic growth of Myanmar?

1.4 Research Methodology

To investigate empirical impact of foreign divestment on economic growth, time-series data of selected variables based on the theory are utilised from the period of 1990-2013. The lack of consistency and constraints of data availability prevent this study from including other variables in the model. Concerning methodology, the Autoregressive Distributed Lag (ARDL) approach has been employed. The EViews software has been used to estimate the result in the empirical chapter. For evaluating the long-term relationship, bound testing (Pesaran and Shin, 1998) is applied before applying the short run error correction coefficients. The details of the ARDL methodological framework and data specification are embedded and discussed under the empirical section.

1.5 Research Importance and Contributions

Studies on foreign divestment and its impact are still limited and received little attention. In addition, there is currently a lack of published materials, limited existing literature on the study of Myanmar context as well. Therefore, the main expected contributions of this research are:

1) This study provides inclusive literature review of foreign divestment studies
2) This study provides a descriptive divestment analysis of Myanmar, a context that received limited consideration in the literature.
3) This study examines the impact of foreign divestment on the host country's economic development; the research findings are likely to complement current studies, which have only focused on the impact of foreign investment.

1.6 Structure of the Study

This study is organised by six chapters. Chapter starts with initial introduction of the research, research aim, objectives, followed with research questions, a brief summary of research methodology and concludes with the outline of this study.

Chapter Two introduces a descriptive economic background of Myanmar while focusing on the economic development of Myanmar and trends of FDI.

Chapter Three presents the relevant literature review of this study. It beings with a review of theories in FDI and continues with brief introduction of foreign divestment, proceeds with literature review of determinants of foreign divestments. Thereafter, the impact of divestment is presented and concludes the chapter with a summary of key themes being discussed.

Chapter Four provides a context analysis of foreign divestment in Myanmar. It starts with an overview background of divestment in Myanmar, followed by presenting trends and patterns of foreign divestment and trade from the perspective of industry background and country of origins.

Chapter Five develops a research methodology and conducts an empirical study on the impact of FD on economic growth of Myanmar. Thereafter, findings and further discussion of this study are presented. **Final Chapter** provides a conclusion of this study by highlighting key findings, discussing policy implication and providing recommendations and potential research area.

Chapter 2 : An Overview of Economic Environment in Myanmar

This section will briefly provide a summary of Myanmar economic and political background due to divestment study will not be understood without reference to this unique background context and its trends of foreign direct investment (FDI).

2.1 Geography, Resource Endowments and Demography

Myanmar is situated in the Southeast Asia region, bordering the Andaman Sea and the Bay of Bengal, located between the world's most dynamic nations, China and India. The country is a member of ASEAN and shares the borders with Thailand, Laos and Bangladesh with the geographical area of 676,578 square kilometer. It is the 40th largest country in the word and the second largest in South East Asia, behind Indonesia (Oxford Business Group, 2016).

The Republic Union of Myanmar has 14 states/regions and is the 12the most populous country in Asia with a population of more than 53 million (World Bank, 2013). The current capital is Naypyitaw, a state administrative city and the former capital, Yangon, the economic centre of the country. Myanmar has abundant labour force with a median age of 27, and 55% of people are under the age of 30. However, approximately 70% of the population lives in rural areas, and urbanisation is increasing at a rate of around 2.9% per year (Oxford Business Group, 2015).

In term of religions, Theravada Buddhism is the country's official religion since the 11th century and 90% of the entire populations following it's teaching. The rest of the populations are Christian, Hindu etc. There are 135 ethnic groups in Myanmar and more than 100 languages are spoken where Burmese is the official language, widely spoken across the country. The country also famous for its abundant historical and cultural tourism resources

Myanmar has a subtropical climate with three seasons, which are summer, rainy, or monsoon season and winter season. In monsoon season, the rainfall from 5000mm to less than 1,000 mm. Myanmar is resource-rich nation, more than 2000 occurrences of 62 commodities according to the Department of Geological Survey and Mineral Exploration. On top of that, Myanmar has the largest deposit of jade in the world with vast amounts of arable land and forest and a major exporter of natural gas.

2.2 Post-Colonial Context and Economy Environment

Myanmar's history of economic development can be studied by dividing into three periods since it became independence in 1948. They are:

1) 1948-1962: Period of parliamentary democracy with a mixed but free economic system based on a U.K inspired constitution
2) 1962-1988: Period of socialist economy introducing nationalisation, isolation and repression under the military government and
3) 1988 onwards: Period of market liberalisation under military rule

In March 2011, civilian government was appointed, and Myanmar has carried out a range of political and economic reforms in order to open the country's economy to the global marketplace (Bissinger, 2014). With regards of other changes, Government of Myanmar (GOM) has adopted the budgetary and tax reforms, monetary and financial sector regulatory changes, and liberalization of trade and investment (Jones, 2014). Western countries have rewarded these efforts by lifting up most sanctions, such as on May 2012, Secretary of State Hillary Clinton announced that the US was lifting sanctions and followed by the relaxation of sanctions from the EU, Japan, Canada, and Australia (Myers, 2014). Those changes that encouraged foreign companies to consider in investing and returning Myanmar market. Most foreign trading partners have started eying on Myanmar and examining unique opportunity, which the country offers within a variety of different sectors and industries (Kim, 2012).

Prior to this recent transaction in Myanmar, the country was notorious for its human right abuses during the period of military rule. In addition, a large part of the country economy is composed of severe distortions with oligopolistic market structures during the military junta's regime (McCarthy, 2000). In this section, market-oriented economy under military rule, the trends of foreign investment and sanction and divestment environment will be presented.

2.2.1 Market Oriented Economy under Military Rule

During the period of 1988-1996, GOM transformed the country's economy into a market-based from a socialist regime and opened its economy to private investment (McCarthey, 2000). In 1988, a broad pro-democracy movement was violently suppressed in the country, and the military government seized the power to quell the democracy movement. The military junta formally abandoned "Burmese Way to Socialism" and opened up the economy to private and attracted foreign investment (Holliday, 2005). In 1989, the country name was changed to Myanmar from Burma. Later, the military took over the power, ended 24 years of socialist government and started engaging the economic reform by facilitating foreign trade, opening and attracting the foreign direct investment and implementing fiscal and financial reform, including the privatization of state-owned enterprises (Kyi et al, 2000). After the year of 1992, the country's economy achieved the moderate rate of economic growth of about 6%-8% per annum, which was driven mainly by the exports and FDI (Myint, 2006a).

In the first reform period of 1988-1996, Myanmar has also strengthened its amity relationship with its neighbours such as joining the Association of South East Asia (ASEAN) in 1997. The 'open door policy' that was implemented by the State Law and Order Restoration Council (SLORC) did attract significant foreign direct investment inflows in the early to mid-1990s (Fink, 2001). More and more foreign investments inflow into Myanmar since 1988 for the abundance of natural resources, cheap labour and and doing business with military junta in the mining, sale of teak, real estate, constructions and other extraction sectors (Macdonald, 2013). However, the military government still maintained its monopoly in several major industries. There was a very remarkable surge in FDI inflows between 1996 and 1998. With regards in trade, the agriculture sector showed strong growth primarily led by beans (Tin, 2008). However, there were trade deficits at the same period as the country's economy is heavily depend on FDI inflows, which made the economy vulnerable to external shock.

After 1998, due to export growth slowed and FDI declined significantly, there was a severe shortage of foreign reserves in Myanmar, which result in currency depreciation and inflation. The exchange rate of Myanmar currency depreciated on average by about 31% per year in the period of 1997-2003 (Htay, 2005). By 1998 to 2003, Myanmar's economy experienced a significant external shock. That proved that the surge of the FDI inflows to be unsustainable due to the consequences of the Asian Financial Crisis, which reduce the appeal of Myanmar significantly as an emerging destination for FDI and also impact on the corporation between the states and the region and led reduction in outbound capital inflows. After 1998, export growth was significantly slowed, and FDI declined from US$304.23million in 1999 to US$128.07 million in 2003 (ASEAN, 2004). The current account showed the deficit, the reduction of foreign capital inflows brought the serious shortage of foreign reserves led the currency depreciation and inflation.

To cope with these difficulties, the government decided to turn the country back into state control in most aspects. The failure of the military regime to restore country into a democratic situation, on top of that, have abused human right violations including forced hundreds of thousands of people, including women and children to work without pay and other notorious activities such as money laundering that forced Myanmar to adopt a more isolationist-oriented attitude. (Huang, 2013). Moreover, the junta renamed itself the State Peace and Development Council (SPDC), continued to control heavily on country's economy, and shaped Myanmar into one of the least developed country in the world (Fink, 2001).

Compared to other ASEAN neighbours such as Vietanam and Thailand, Myanmar is ranked almost at the bottom of doing business ranking (Table 2-1). The World Health Organisation (WHO) ranks Myanmar second to last among 191 countries, for infant mortality rate is 95 per 1000births, concerning protein consumption, and has the second lowest level intake in all of South East Asia (Ware, 2011). In additions, according to the World Bank (2007), at least half a million of population are HIV positive and a third of children under five years old are malnourished. Moreover, health and safety procedure is underdeveloped in the workplace and employers in Myanmar are not monitored by rules and regulation to follow these procedures strictly which results they are not necessary to provide the employees benefits, sick leave or maternity leave and son on (White, 2004).

Table 2-1 Countries rank under the Doing Business 10 Topics

Category	Myanmar	Vietnam	Thailand
Starting a business	189	109	91
Dealing with construction permits	150	29	14
Getting electricity	126	156	12
Registering property	154	51	29
Getting credit	170	42	73
Protecting investors	182	157	12
Paying taxes	107	149	70
Trading across borders	113	65	24
Enforcing contracts	188	46	22
Resolving insolvency	155	149	58
Total Ranking	182	99	18

Source: Doing Business 2014 Economy Profile: Myanmar

2.2.2 FDI in Myanmar: an Overview

Since the military regime implemented 'open market policy' and launched FDI law in late 1988, which attracted the foreign firms to invest in this resource-rich country. FDI began to flow into the country with the approved amount of US$1352.295million for the fiscal year of 1989-1990. With the opened-door policy and encouragement of private investment and promotion of exports enhance the amount of FDI grew steadily into US$1.056 billion where Thailand was the largest investor in the year of 1994. In 1994, France took over the largest investor position with the investment of Total Oil, and this led that year of approved investment rose to US$2.4billion. However, the UK has quickly taken the position of France. Until 2006, the Western investors mainly dominated foreign investment in Myanmar. However, the growth of FDI and market liberalisation were short-lived due to the political issue. Because of political instability, the combination of the amount of foreign investment from Western countries (such as the US, the UK, and some EU countries) which account only 40% of total investment compared with the combined investment from Asian countries, which contributed 59%. Besides, the sanction imposed by the US in 1997 placed the Myanmar in a disadvantage position as this effect other developed countries hesitate to enter the Myanmar market (Anukoonwattaka, W., & Mikic, M, 2012).

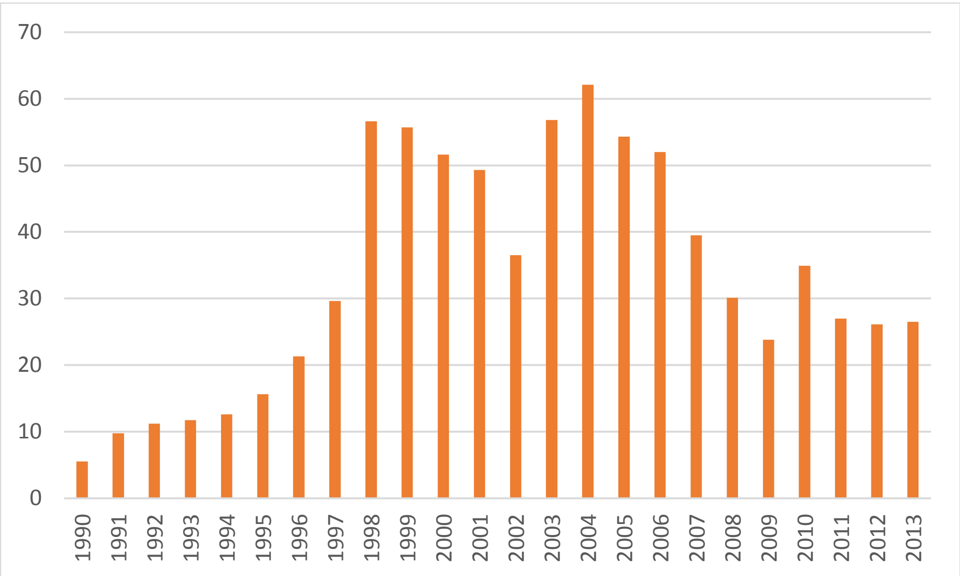
However, the US sanction did not seem to have an impact on Asian countries to do business in Myanmar. According to the Figure 2-1, it is obvious to see that inward FDI stock as a share percentage of GDP in Myanmar didn't dramatically decrease due to the economic sanction imposed by Western countries particularly in 1997 and 2002. In 2005, the military government permitted investment in oil and gas industry that attracted neighbouring countries from ASEAN to invest in Myanmar, where the approved amount of investment rose to US$20million in 2010, which has contributed the improvement of the country's balance of payment (Anukoonwattaka, W., & Mikic, M, 2012) . However, the foreign investment was not diversified as only the oil and gas sector alone has occupied 88% of the total investment in Myanmar (Than, 2012). Thus, compared to the other ASEAN countries, Myanmar was in the second lowest position in terms of inward FDI stock according to the Figure 2-2. Contrast with foreign investment, according to Table 2-2, construction and manufacturing sectors have received large amount of investment from domestic investors.

Table 2-2 Domestic Investment by Sector from 1994 to October 2010 and October 2013

	Accumulated amount as of 2010		Accumulated amount as of 2013	
Sector	Approved Amount (Million Kyat)	%	Approved Amount (Million Kyat)	%
Manufacturing	88314	8.41	892954	24.74
Construction	553617	52.72	733314	20.13
Others	61537	5.86	473079	13.11
Hotel and Tourism	6931	0.66	433298	12
Transport	64477	6.14	306728	8.5
Power	218003	20.76	290484	8.05
Industrial Estate	-	-	249213	6.9
Real Estate Development	30033	2.86	195082	5.4
Livestock & Fisheries	14387	1.37	22025	061
Mining	12181	1.16	13008	0.36
Agriculture	525	0.05	548	002
Total	1050111	100	3609733	100

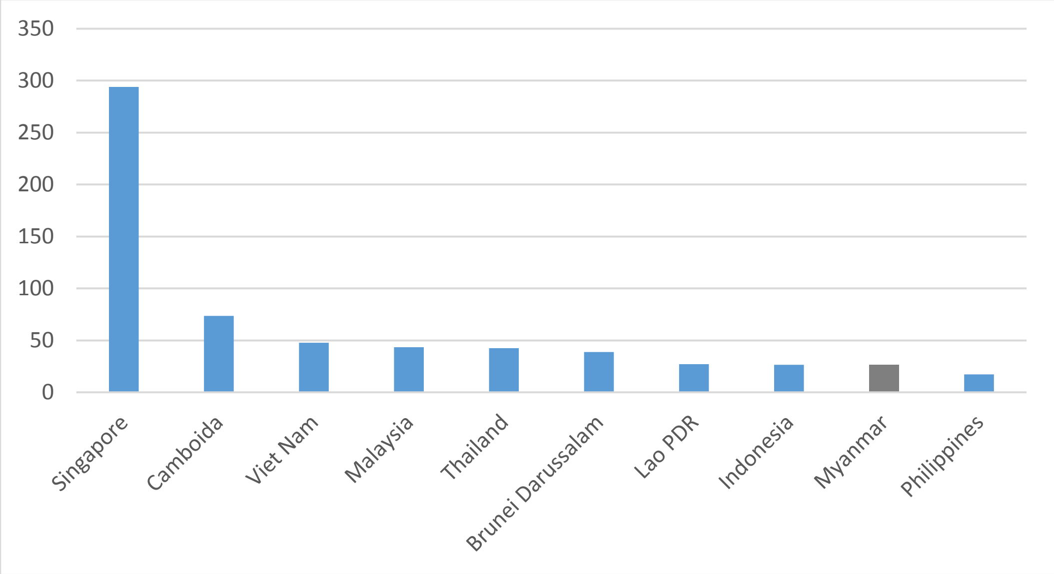
Source: DICA

Figure 2-1 Inward FDI stock as a share of GDP in Myanmar (percent)



Source: UNCTAD,2013

Figure 2-2 Inward FDI stock as a share of GDP in ASEAN member states, 2013 (Percent)



Source: UNCTAD, 2013

Chapter 3 : Literature Review

The foreign divestment can be theoretically investigated from several viewpoints due to its multiple nature and determinants (Georgopoulos, A., & Mouratidis, K. (2007). However, compared to theories of foreign direct investment, theories of foreign divestment are still in the premature age. Following section will firstly present the theoretical perspective of FDI before presenting the literature review of FD.

3.1 Brief Theoretical Perspective of FDI and Economic Growth

There have been many empirical works addressing the relationship between FDI and economic growth by focusing on both developed and developing countries. The notion that foreign direct investment promotes economic growth, 'FDI-led growth hypothesis' is justified in the neoclassical and endogenous growth models. According to the neoclassical growth theory, economic growth comes from factor accumulation or capital accumulation and total factor productivity or technological progress (TFP) growth (Felipe, 1999). In addition, it makes FDI increases the volume of investment, its efficiency and leads to long-term effects and transitional increases in growth. On the other hand, the new growth theory treats technological progress as the heart of economic growth. Even it said capital formulation from neoclassical theory, however, in the new growth theory, it is defined investment in human capital and skill, research and development and other tangible capital (Romer, 2006).

As opposed to the limitation of the neoclassical growth theory, the endogenous growth literature points out that FDI affects growth and increases capital accumulation of the host country by introducing new inputs and technologies (Todaro and Smith, 2005). In other words, this model considers technology progress as a form of long-run growth. It provides the FDI as a channel for the host country to benefits the technology transfer, diffusion, and spillover effects. On the other hand, according to the dependency theory, which rejected the statement of FDI, inflows promote the growth of developing countries. Due to when multinational firms enjoyed benefits from host countries, they tend to monopolise the market, exploit natural resources, local culture and so on (Moran, 1978). However, Dunning (1993) argues that the impact of foreign direct investment on economic growth depend on the firm-specific ownership characteristics, location-specific characteristics of host countries and much rely on the way multinational internalise these assets.

3.2 Definitions, Concepts and Types of Divestment

There is an enormous amount of literature on foreign direct investment (FDI), both theoretical and empirical such as the market perfection theory (Hymer, 1976), the internalisation theory (Buckley and Casson 1998), and the eclectic paradigm (Dunning 1988). According to the Gastanaga et al. (1998), among those theories, the eclectic paradigm has remained primary analytical framework for studies of investment and the activities of multinational corporations. According to Dunning's eclectic theory, it address that when a country's firms possess ownership-specific advantages that mean the firms will have greater incentive to internalise in order to get more profit by exploiting them in abroad . It is worth to note that according to Jagersma et al. (2003) foreign divestment tends to be a total or partial termination of international production.

In 1980s, cooperative ventures and international acquisitions has become popular and that decade has been named as "Age of Acquisition" (Chow, 1991). Thereafter, the foreign divestment has become appear and come about in various ways. Boddewyn, who is an early contributor on divestment studies, published a series of articles on foreign divestment between 1973 and 1985. Based on Dunning eclectic concept, Boddewyn (1983) suggested the "reverse theory" which refers divestment could be treated as the reverse process of FDI. He developed a Dunning like eclectic theory of foreign divestment, and this theory has been supported empirically (Chen and Wu, 1996; Belderbos and Zou, 2006). He predicted that foreign divestment would occur, when any one of the following situations happened on MNCs:

It ceases to possess ownership advantages or net competitive advantage

It no longer finds it profitable to internationalise its advantage; and

It is no longer lucrative to internalise its net competitive advantage in a particular host country.

Unlike foreign investment theories that demand these three conditions need to meet simultaneously, divestment just requires only a minimum of one of them. Boddewyn and others (Benito 2005; McDermott, 2010) cited precipitating circumstances in explaining FDs.

Divestment occurs when firms exit the market. It is also named withdrawal, divestment and de-internationalization. According to Pauwels and Matthyssens (1999, pp10-11), withdrawal is defined as "a firm's strategic decision to remove product/market combination from its international portfolio". Boddewyn and Torneden (1973) defined divestment as "a reduction of ownership percentage in an active direct foreign investment on either a voluntary or involuntary basis (1973, p.26). When a firm choose to operate the activities abroad, it's called internationalizing. However, when firms decide to exit from that market, the process of leaving the market or country have been defined as de-internationalisation (Capron, Mitchell & Swaminathan, 2001). Boddewyn (1979) classified divestment into voluntary or deliberate divestment and involuntary or forced divestment. The former one is based on strategic consideration of firms and leading to end the firms or subsidiaries by liquidation or selling. The latter one refers to expropriation or nationalisation, which means the foreign owned properties are taken by local governments (Boddewyn, 1979a). In early decades, Boddewyn (1979) addressed that divestment cases have been found in the voluntary type rather than forced one. Foreign firms can exit a local market through the following strategies (Li, 1995; Benito, 2005; Mata and Portugal 2000):

a) Bankruptcy and liquidation;
b) Closure or relocation;
c) Divestiture

In this study, Myanmar as a unique case, the types of divestment cannot be placed under any of those categories either voluntary divestment or forced divestment. For the purpose of this research, it is defined 'divestment' as the cessation of manufacturing and operating activities by multinational firms in an existing affiliate. The sub-category of divestments can be divided into two groups; (i) when an affiliate is closed (ii) the affiliate is sold to another firm or local partners.

3.3 Foreign Divestment: Literature Review

In order to address the impact of foreign divestment, it is important to understand the factors that influence multinational firms to divest.

Industrial organisation literature has contributed to the nature of divestment and the factors that could affect divestment, focusing on asset specificity and its activities (Chow and Hamilton, 1993). According to Benito (2005), the reasons can range from nations, regions or industries to specific firms even individual and the multi-layered of analysis could be implied on divestment. Several studies have identified the determinants of divestment attribute foreign subsidiaries divestment decision to firm-specific factors. A large set of studies has examined that poor performance as the strongest predictor of divestment (Hamilton and Chow, 1993; Benito, 1997; Haynes at el, 2003). As the most basic divestment motive, poor performance which can lead to firms having poor financial, have been paying special attention to the impact of divestment on company performance. According to Berry (2013), poor performance not only raises the pressure on managers to divest failure operations but also signals the need to alter the corporate decision.

Recent studies have mentioned that it is not necessary to conceptualise divestment as a failure, it can be as a strategic consideration. In an early review of the literature, others suggest that divestment is motivated by the concept of end game theory (Harrigan, 1980) and life cycle theory (Porter, 1983). They argued that divestment is one of the several strategic options for 'declining industries characterised by high volatility and uncertainty, unexpected poor performance in terms of future return. Besides the Porter's concept (1983) on divestment, from the internalisation theory point of view, transaction costs can also be treated as the cause of divestment. Strategic management's literature also provides valuable insights into the determinants of divestment. Berry (2010) pointed that this is important to take account that divestment can occur in the case of the firm encounters a better opportunity in other geographical markets. Dharanaj (2009) and Song (2014) argued that foreign affiliate has considerable potential for operational flexibility, which means the firm can switch and re-switch their resources between several host countries and taking competitive advantages of national differences in economic policies and market potentials. However, in this case, only flexibility characteristics that have a direct relationship with focal location would have an impact on its propensity to be divested (Fisch and Zschoche, 2012).

Contemporary researchers also proposed studies on divestment about firms are encountering with the problem of adaption or operating in changing business environment. According to Chow (1991), divestment is treated as an integral aspect of corporate restructuring strategy when there is time to change technology or market conditions which need a major restructuring of corporate assets. The study finds that firms will divest their operations from host countries if there is no longer comparable with firm's long-term strategic plan. On the other hand, firms will divest for the reasons of generating funds for further strategic acquisitions or investment activities (Schmidt, 1987).

While a substantial body of literature address that divestment decisions are made because of firms' characteristics. Foreign divestment face low barriers to exit such as foreignness (Li and Guisinger, 1991), the unit size of firms relative to the parent firm (McCloughan and Stone, 1998; Pennings and Sleuwaegen, 2000), experiences in different countries (Delios and Beamish, 2001), the ability to adapt to local business conditions are some of the factors that significantly influenced firm to divest. Furthermore, from the corporate governance perspective; there are studies focused on the inadequate governance systems that lead managers to over-diversify and subsequently divest operations (Hoskisson et al., 1994). In additions, divestment has also been examined from the portfolio perspective (Benito, 2005, Hamilton and Chow, 1993) which derives from portfolio management theory. On the other words, a foreign affiliate is considered as a firm's portfolio of assets, products, divisions or one of the business activities. Some studies pointed out that a strong interdependency among business of a multinational firm could be a determinant of divestment decisions. Particularly in the multidivisional or multiproduct firms, each business unit are competing with the other business for the resource, in this case, particularly poor performance units are likely to be divested or liquidated (Yamawaki, 2004).

To sum up, the above discussion has briefly reviewed existing international business literature concerning voluntary divestment. The reasons for divestment are numerous, ranging from poor financial performance of foreign subsidiary to the characteristics of firms. The literature of divestment concludes that divestment occurs mainly through industrial organisation approach, relocation approach, corporate strategy approach and financial-accounting approach. There has not been sufficiently investigated up to now about the impacts of divestment. To fill this gap, the following session will review the determinants factor using Myanmar experiences and its impact on economic growth.

3.4 Factors that can influence divestment in Myanmar

Following section proceeds with a review of selected determinants, which influence on divestment firms in Myanmar.

3.4.1 Political Situation of Host Country

Several scholars have studied on political economy stream by focusing on the host country political risk, complexity of investments and used an array of variables such as political risk, political hazards, and restrictiveness (Boddewyn 1983, Henisz 2000). Hymer (1976) addressed the significance of the political aspects of the host country in his foreign direct investment study. Agarwal (1980) mentioned that foreign firms are obviously less likely to make investments in the countries with high political risk. According to Simon (1984), political risk includes 'any governmental or societal actions and policies, originating either within or outside the host country, and negatively affecting either a select group of or a majority of foreign business operations investment'.

Dhanaraj and Beamish (2009) mentioned that when firms expand into a foreign market by setting subsidiaries, they are more likely to have a concern about the political risk of the host country particularly in developing and lease developed countries. In particular, the complexity and the lack of transparency of business regulations of the host country may place the foreign subsidiary in a disadvantageous position, especially on its financial transactions and remittance restrictions. A subsequence issue is the taxation policies which can frequently change and thus hurt the profitability or survival of the firm. In some cases, political volatility and violence, societal terrorist attacks and demonstrations directed against MNCs operations or anti-MNE legal rulings, may damage the investment, diminish the efficiency of the overall market and might lead the firms having poor performance (Kesternich, I., & Schnitzer, M. (2010). Moreover, the political environment of the host country could be notorious as a corrupt regime, which can significantly challenge the policies of the MNCs especially in developing and least developed countries (Korbin, 1980). This can increase the chance of the firms need to lobbying, providing financial inducements to individual decisions makers and having a meeting with a local authority in order to gather information. In additions, the organisation tends to have more pressure and demands on processing information due to the firms need to gather additional information on the political and regulatory changes that might affect firms' operation.

Certain types of political risk will available in most developing countries, however, based on the degree of openness in its socio-political system, the situation will differ (Korbin, 1980). As the political openness of the host country increase, firms are likely to mobilize their resources, knowledge, talents, technology in order to enhance their performance (Sinha, 2008). In contrast, firms will less likely to take risk by bringing their valuable resources to the country with high level of political risk. In international business context, the political and socioeconomic environment are always changing, either in home and host countries. These changes sometimes create the political risk that leads the firms to exit or withdrawal from a particular market without alternative solutions. Whereas, in the worst scenario, forced withdrawal can occur. For example, the left of multinational corporations from South Africa (Akhter & Choudhry, 1993).

To conclude, country risk affects the divestment decision in different ways. First, political risk can be adverse home country action, for instance, expropriation or nationalisation can take place. Even though, negotiation option is available with the government, the firms are expecting to leave. Secondly, political risk can lead to forced divestment, but there can be deliberate and voluntary divestment when the host country political risk shows negative. Finally, the country risk may also heighten the barriers to exit because a sale of the affiliate is likely to attract few buyers even though at a low price.

3.4.2 Human Right's Records

According to Garriga (2014), MNCs take the record of human rights as one of the determinants in location decision when deciding host countries to invest. Broad literature is available in suggesting variation in the attractiveness of countries for FDI. The conventional assumption address that poor human right records attract investment. For example, when firms go abroad and striving to maximise their profits, firms like to target countries where local population and local resources can be exploited and controlled (Blanton, 2007). In another word, repressive regimes are less likely to allow the citizens demonstrates their rights such as express strike, protest, and raise voice without fear of violent retribution (Earl,2004). To some extent, these can make MNCs reluctant to invest in the country.

Alternatively, firms could use this opportunity, which is the denial of the human right in order to get the advantage of cheap labour, and exploit the resources (Kucera, 2002). According to Hymer (1976), the relationship between MNCs and host countries, mostly from developing and least developing countries are in cooperative associations in terms of human right issue. MNCs invest in the country and support governments with repressive mechanisms and guarantee the maintenance of operations. On the other hand, authoritarian governments will also maintain the oppressive systems in order to let the firm enjoy cheap labour and secure a productive alliance with foreign firms. Within such system, foreign firms take the dominant role as its economic power and corrupted relationship with host military elites. As a result, the chances of firms to divest from that country may relatively low. This is one of the reasons that encouraged some of the foreign firms still keep ties in Myanmar, while others left due to poor human right records.

With the traditional perspective on human right, which brings political instability and violence in the host country, MNCs are increasingly faced reputation issue in the global marketplace. Since last two decades, special interest groups are continuously focusing on various issues; such as human rights, environmental conservation and democratisation governments and so on. Those interest groups always keep on eyes on firms and can influence firms' strategies and operation decisions e.g. divestment case from South Africa and Myanmar by social movements (Spar, 2003).

In the human right case, those firms monitor the practices of corporations and publicise firm's involvement in human rights violations. According to Rodman (1998), interest groups like NGOs make MNCs harder to evade responsibilities on the human right violation and avoid being linked to countries responsible for violations. Muchlinski (2001) also addresses that NGOs can have an impact on MNCS operations particularly when NGOs publicise a country is failure to meet its treaty obligations, they could pressure firms make a decision to withdraw from the host country. Failure to pursue a human rights policy, may not affect all firms in the same way. Especially high profile firms are likely to be targeted by such interest groups. For example, Nike in Indonesia, Unocal in Myanmar, and Texaco in Ecuador are the firms that have been publicised due to the involvement in the human right violations. In additions, businesses that are operating in the repressive regions, also facing the risk of being targeted by political violence. For example, Shell suffered kidnappings and sabotage in Nigeria, Chevron's employees in Sudan were killed and also was forced to abandon two oil fields (Blanton et al., 2007). These firms appeal in the primary sector, labour and capital-intensive industry with a strong incentive to reduce labour cost, have been suffered a bad record in human rights.

To sum up, the human right issue is one of the main reasons that Myanmar was imposed the economic sanctions and resulted foreign firms leave the market. It is vital for multinational corporations to maintain a positive public image in all market. In consequences, firms themselves may justify the adoption of human right policies by the idea of good reputation (Musteen et al., 2013).

3.4.3 Home Countries' Institutions

Some studies argue that differences in rules, regulations, and norms of doing business in foreign countries may present a different set of opportunities and challenges to MNCs and their foreign subsidiaries. The MNCs behaviour is used to explain by the institutional distance (Henisz, 2000). According to Kostova and Roth (2002), the larger the institutional distance, the greater the pressure MNCs have in order to localise their activities in the host country, which mean it will make firms harder to build external legitimacy. In addition, firms will face difficulties in practicing a global integration strategy because there will be more problematic due to transferring strategic routines between the parent firms and its subsidiaries. This study addresses the normative institutional (Ando, 2012) pressure from the home country, which likely to have an impact on divestment decisions in Myanmar.

According to Kostova (1999), the normative institutional pillar deals with social norms, value, beliefs, assumption about human nature and human behaviour which are socially shared and carried by individuals. In simple way, it refers how things should or should not be done, in the way of reflecting the value and norms of society. Those informal prescriptions and proscriptions are culturally driven, tacit, deep structure of a country which is difficult to interpret and understand by outsiders (Hutzschenreuter et al., 2014). MNCs also face direct external risks such as the home societal protest against investments from individual country, home government restrictions on overseas operations, and regional and global organisations' attempts to monitor the operations of MNCs, as well as impose codes of conduct. The country business environment is a huge difference either with the developing or developed countries. The institutions of Myanmar were operating ineffectively which was the centralised political system, corrupted government, the absence of the rule of law, underdeveloped legal and regulatory frameworks, and lack of independent legislative and judicial systems, which fail to provide legal and economic certainty, in particular, weak in economic institutions (Meyer & Thein, 2014). The weak formal institutions, which led Myanmar, relied more heavily on informal institutions.

When comes to divestment in Myanmar, multinational firms faced the risk of complete appropriation by governments or locally based hostile pressure groups by social movements from non-government organisations, trade unions, and other interest groups. This situation leads Western and European firms cautious, but for Asian business (in particular, from China, Thailand, Korea, Taiwan, Singapore, and Malaysia) have developed thriving investment and trade relationships. When the US imposed the sanctions to Myanmar for notorious human right abuses, ASEAN placed the constructive engagement on Myanmar. From the normative institutional point of views, Asian culturally prefers for public harmony, respect for authority, face and consensus building that came along with constructive engagement (Hofstede, 1994).

Pressures from social movements, non-government organisations and government bodies may work with investors from the America and EU. However, this haven't become a barrier for countries from Asia such as China, Japan, Korea, Singapore, Hong Kong and Thailand. In particular, resource seeking industry of Myanmar (oil and gas, garments), most of the investment came from Asia.

Under the context of Myanmar, informal institutions of a country stands an important role compared to formal institutions framework. In addition, the leadership and corporate values are also a part of normative institutions, which also manifested in specific decisions for multinational firms in Myanmar whether to stay or divest their operations from the country. When there is a lack of consistency in cultural values and standards with the firm's value and the host country, there would be rejection, unwillingness to work in or become take part from firms in the host country (Ionascu et al., 2004). For instance, when head of the Levi, announced to pull out the activities from Myanmar, he mentioned that "We will not source in countries where conditions, such as the human rights climate, would run counter to our values and have an adverse effect on our goal brand image or damage our corporate reputation (Hass 1994). At Levi, foreign investment in the host country is guided by the corporate code of ethics and a set of "Ethical Principles". Like Levi, most of the firms from Western has similar value and criteria of brand image, human rights, legal requirements, political and social stability, environmental requirement, ethical and employment standards when they are selecting the countries for investment (Schermerhorn, 1999). Firms whether to leave or stay in Myanmar also results from one of the factors of normative institutions that is moral self-regulation which is based on value-based decisions (Wright & Ferris, 1997). Thus, the greater the normative distance between the home countries and Myanmar, it may assume that the higher the likelihood for MNCs to divest from Myanmar. As the discussion clearly shows, there is a difference in Asia and Western and EU in terms of normative institutions.

3.5 Impact of Divestment

3.5.1 Introduction

International Business literature has given plenty of attentions to MNCs' interactions with their host country environment (Dutt 1997; Bende-Nabende et al. 2001; Oztuk 2007). While the literature intensively discusses the effect of foreign investment on economic development, there are not many studies in the literature, which analyse the impact of foreign divestment on the host country economic. However, little is known about what happens to host country economy in general when the foreign firms or subsidiaries left. This section will briefly look at the impact of divestment on economic performance of host country from the impact of investment perspective.

3.5.2 Impact on Capital Formation

To a nation with inferior and weak domestic saving and investment, the left of multinational firms may effect on economic growth particularly on the capital formation as foreign enterprises provide a significant resource of saving and investment (Bende-Nabende, 2001). For example, to cover the current account deficit and fiscal deficit that is caused by the inflow of consumer and investment goods that are not produced domestically (Krkoska, 2002). In contrast, Blomstorm et al. (1994) pointed out that the changes in capital formation rates do not have any significant influence on growth rates. Kendrick (1993) notes that the formation of capital alone does not lead to economic prosperity. The allocation of capital from less productive to more productive sectors influences economic growth. Even though a high share of FDI in overall capital formation does not necessarily reflect attractiveness of an investment location, but it has a substantial impact on the economic growth. In this case, the host country will try to stimulate and encourage domestic investment while there is foreign investment in the country, the government tends to provide tax incentives to foreign firms and the local investors are being discriminated.

The absence of multinational firms may also lead to the capital constraint which can have an impact on the capital stock of an economy including preventing the creation of factories, limited budget on procuring new machines, and unable to improve transportation and infrastructure. In addition, the host country with undeveloped financial sector, macroeconomic instability and high inflation can result in the saving gap when domestic savings lower than domestic investment. Moreover, divestment can also affect the host country's balance of payment accounts for not be able to acquire the benefits from the initial capital cash inflow, not able to substitute for import of goods with FDI.

3.5.3 Impact on Employment

Scholars have suggested that divestment firms have an impact on local employment (Gomez-Plana, et al., 2014). When multinational firms withdraw from the host country, which means MNCs will close down their factories and pull out the investment. This could have the most noticeable impact on local employment particularly in countries where capital is relatively scarce but labour is abundant. When sanction imposed in Myanmar and called the firms to divest from the market, the numbers of workers in the garment industry dwindled by 17% during 2002-2004 (Kudo, 2007). Studies suggest that FDI enhances the living standard and social welfare of workers in developing countries, by paying higher wages than local ones (Graham and Wada, 2001). However, by contrast, there are also critics of MNCs and its employment. There have been critics of representative trade unions on multinational corporations for paying low wages to workers in developing countries and often involve in the human right abuses. In Myanmar, social movements have been conducted because of human right abuses especially in labour intensive industries where business was jointly operated by the military junta and multinational firms.

While foreign firms divest, local firms are less likely to benefits for trainings. According to Inekwe (2013), being employed in the foreign affiliate is more rewarding than working in domestic firms because the former ones offer more opportunities for training and professional development. For example, foreign-owned firms in Malaysia offer more training than the local enterprises to their employees (World Bank, 2007). While the absence of MNCs create the job loss, but the former employees with previous experiences of working at foreign companies will not idle as an unemployed for a long period. The experiences that employees acquired, the trainings that they received can convert into unfair advantages while seeking for employment opportunities. For instance, the host country employers can benefit by recruiting displaced employees to access unique knowledge along with two dimensions. Firstly, they can increase the uniqueness of the firm's existing knowledge stock by creating novel combinations (Cassiman & Veugelaers, 2006). Utilising in this unique knowledge in the creation of products, process, and services that cannot be easily imitated by competitors. Secondly, the acquisition of external knowledge allows firms to shorten the time and reduce the resources necessary for developing the knowledge in house (Javorcik, 2014). To sum up displaced employees of foreign MNC subsidiaries have a higher potential to create value for their new employers than the average displaced employees do.

3.5.4 Impact on Technology and Knowledge Transfer

Technological spillover is one of the benefits that FDI could bring into the host country (Lim, 2001). With regards in knowledge transfer, the left of MNCs will also impede the host country to enjoy the benefits of collaboration between industry and institutions such as collaboration with local universities to conduct research and development activities and also providing apprenticeships and bursary awards for selected employees. According to UNCTAD (2005), 700 firms, 98 percent of which were multinational firms, accounted for 46 percent of the world's total research and development expenditure and 69 percent of the world's business R&D in 2002. Those research activities are no longer conduct only in the headquarters of the firms. 28 percent of its 2003 R&D budget have been used in outside of the home countries. This argument suggests that while MNCs left the country may not only create the job loss but also can have an impact on the channel of knowledge transfer .

When the multinational firms divest from the market, local firms will less likely to continue accessing the advanced technologies introduced by multinational firms to improve their productivity. Domestic firms are more likely to put financial investments on the purchase or to licence those technologies. The absence of MNCs do not necessary mean that there will not be any spillover effect from foreign firms. When multinational firms are operating in the host country, they also bring the technologies along with the firms in order to gain the competitive advantages in the host country. In this case, firms will train local people to let the employees use those technologies efficiently. However, there are some conditions apply to the host countries. According to Nunnenkamp (2004) whether the spillover effect will be released or not it will depend on the capability of local firms to absorb superior technology and knowledge appear. In other words, which means the level of absorptive capacity should be significant. For instance, domestic firms from many developing countries are too far behind regarding technological and managerial development while absorbing technologies from the foreign firms. In addition, De Mello (1997) mentioned that the larger the technology gap between the host and home country, the smaller is the impact of FDI on economic growth. In particular, least developed countries lack the necessary background such as the educated population, infrastructure, liberalised market, economic and social stability.

A study by Xu and Wang (2000) on a panel of majority-owned US manufacturing affiliates in 40 countries lends support to the role of technology transfer on the productivity-enhancing impact of FDI in the host countries. The study used spending on royalties and licence fees as a share of value added as an indicator of technology transfer and found that while technology diffusion had contributed to productivity improvement in developed countries, it had not done so in developing countries due to insufficient absorptive capacity. In this case, Myanmar as a least developed country with the weak education system, which results in the level of absorptive capacity, will not be significant in order to enjoy the benefits of technology spillover. The falling literacy rate, low secondary school enrolment and high dropped out rate in tertiary education have left the young population of Myanmar ill equipped and became a barrier of preventing them from working in high value-added activities (Myint and Rasiah, 2012). According to Myanmar business survey (2014), almost 60% of business enterprises need to deal with skill shortage problem especially in the service sector and manufacturing industry. To summarize, in this case, whether firms stay or divest from Myanmar, there may be no spillover effect affect the economic growth of the recipient country.

3.5.5 Impact on Integration with Global Economy

There have been increasingly recognised on the trade and investment are mutually reinforcing channels of cross-border activities. As one of the main trade-related benefits of FDI for developing countries is that it has a long-term contribution to integrating the host country economy into the world economy (Ghosh, 2007). It may assume that the absence of multinational firms may affect the host countries economic of integration with the global economy. Firstly, there will be fewer opportunities for firms to gain access to multinational firms' marketing and distribution network to international markets to have global trade. In other words, there is no longer inter-firms linkages advantages from foreign firms through subcontracting, supplying parts and components to MNCs or even economic of scales. According to Blomstrom and Kokko (1998), the integration in the global market of local firms is made by imitating and attainment of knowledge held by the multinationals. The impact of divestment will also block the channels that domestic firms acquire knowledge from foreign firms and be a part of multinational firms' network. Ford et al. (2008) asset that multinational tend to include their suppliers in the international network to which they belong, so, if foreign firms did not divest from the host country, local firms can also involve in global trade by establishing relations with other international entities. However, the left of foreign firms means local firms will need to try their own to access the international and global market and work on their internationalisation without the spillover effect from multinational firms. In a positive way, if the local suppliers have gained the knowledge from MNCs, even though the firms left, later on the local firms can still able to do direct exports. This might take time for local time to do it, which indirectly can also slow down the growth of host country economy.

When divestment occurs, the local suppliers will less likely to get benefits from MNCs such as production facilities, getting technical assistance or information to raise the quality, receiving assistance in purchasing of raw materials or having training from MNCs. Katz (1969, p. 154) reports that foreign MNCs operating in Argentina 'forced their domestic suppliers to adopt productive processes and techniques used by the suppliers of their main firms in their country of origin.' Similarly, Watanabe (1983a) notes complaints from small local producers in the Philippines about the large foreign firms' stringent requirements on both product characteristics and prices: in developing countries, in particular, this alone may have an effect on what technologies are used, and perhaps also on the general competitive climate.

In the case of Myanmar, since the sanction imposed, which restricted foreign firms in particular firms from western countries to do business with Myanmar. As a result, integrating into the global economy through the help of Western multinational firms will not be accessible for Myanmar. Beside from changes on the global level, ASEAN has placed constructive engagement on Myanmar which allow the country to have a regional integration.

3.5.6 Impact on Competition and SMEs

When foreign investment pulls out from the host country, there will be the impact on competition either in the negative or positive way as multinational firms used to create a local market for a greater competition. Especially when all the multinational firms left the country, only local firms and limited numbers of foreign firms will stay. Besides, if the government adopted the closed-door policy or being isolated, which had the chance of transformed the market from perfect market competition into monopolised, this will create a market with little competition or no competition at all (Mencinger, 2008). When there are few or no competitions, local firms will not be perceived the pressure to survive which led them not placing the R & D into priority and reduce expenditures on research and development. As a result, local firms can become inefficiency in productivity, increase prices by not following the market needs either in supply or demand, little or no invest in employees and tangible assets and also can increase the market power of local firms and could turn the market into the monopoly. In the long term, this can cause the market unhealthy, and the market will collapse as a result. For example, in Myanmar, the withdrawal of foreign investment created the growth and rapid success of local conglomerates. Without a need to worry about market competition but with the support and special rights from the military government, local top groups enjoy a monopoly over certain markets and also tax privileges as working with military elite.

On the other hand, foreign divestment can be treated as a positive sign when firms divested due to the poor performance in the host country. For instance, firms that cannot produce positive spillover effect on the local economy. In this case, limited market competition can be a positive sign for the local firms. Firstly, local enterprises will not need to worry the competition brought by MNCs and will still survive in the market. In addition, this will also prevent the disappearance of local firms. However, the economy with limited market competition and monopolised market cannot be the true engine of growth and lead to a sustainable economy.

In contrast, the absence of MNCs will prevent local firms especially SME disappearance in the market. According to Bhasin and Venkataranmany (2012), the small firm development has become a central goal in economic policies due to its can also fosters employment, entrepreneurship development and economic growth. According to the World Bank (2006), close to 140 million SMEs in 130 countries employed around 65 per cent of the workforce. Especially in the least developed countries, the employment opportunities for the majority of the population who live under the poverty line, so SMEs contribute not only economic but also social benefits by reducing the crime rate and poverty.

Overall, the rise of spillover might be difficult in Myanmar with its limited absorptive capacity, but with the support of government policy could be able to maximise the benefits from foreign firms and able to utilise them to boost the host country's economy. Without the help of foreign investment, it is expected that the effects of divestment on the economy, can be negative. Following from the above discussion, the following hypothesis is derived and will be tested using Myanmar's experiences

Hypothesis: Divestment has the negative impact on the economic growth.

3.6 Summary of the key theme

To summarise, this chapter provids a preliminary analysis of foreign divestment (FD) and followed by addressing factors than can influence foreign divestment in the context of Myanmar. Several studies have started paying attention to the foreign divestment, however, according to the above discussion; it is obvious that most of the research have been conducted by studying the determinants factors. None of them has focused the consequences of foreign divestment. The motivation of this study is to fill the gap to complement the recent studies by adding with the impact of divestment on economic growth. The later part of this chapter have briefly discussed the impact of divestment on capital formation, employment, technology transfer, integration of global economy, completion based on the previous literature review of impact of foreign investment on economic growth.

The following chapter will identify the trends and patterns of divested firms in Myanmar by using context analysis and followed by empirical session where the hypothesis will be tested by applying econometric model called ARDL approach.

Chapter 4 : Foreign Divestment in Myanmar: Trends and Patterns

Since the sanction has been placed in the early 1990s in response to the military regime's human right violations and again in 2003, most multinational firms are given the pressure to leave the country. This section will explore the case of divestment in Myanmar in firm level basic by looking at forms of organisation, the sector and the country of origin of divested firms.

4.1 Foreign Divestment in Myanmar: An Overview

Myanmar, a country that has high transaction cost, weak intellectual property rights protections and greater political uncertainty. Besides, the ineffectiveness government, bureaucratic structure, heavy involvement of military elite in business activities are some of the facts which place Myanmar being a one of the countries difficult to do business with (Ayres,2012). Moreover, regarding infrastructure of the country, the country suffers insufficient transportation network, unsophisticated telecommunication, shortages of basic supplement for doing business such as shortage of power supply for manufacturing firms, lack of skill labour for garment industry which also constraint foreign corporations expanding their operations. On top of that, the government changed the formulation and implementation of trade policy over time and instability regulatory made the firms increase its divestitures (Jones, 2014).

The difficulties of operating business is also one of the driving forces that influence multinational enterprises to divest from Myanmar. However, Soule (2014) indicated firms can be divested not necessary because of the poor performance or other market-related issues, but the pressure of social movement and particularly on firm's policy decision can affect its outcomes. For example, in the context of South Africa, multinational firms divested due the pressure of social movement, particular by protest (Posnikoff, 1997). The same situation applied into Myanmar where he political uncertainty or backtracking on economic reforms, inconsistent implementation of rules and laws, reputation risk and pressure of social movement, it is not surprised that many multinational firms from several countries, decided to divest from Myanmar. Figure 4-1 shows that political stability and effectiveness of government were consistently ranking under 20 percent based on the worldwide governance indicators. Foreign investors in extractive industries have been heavily criticized by a variety of NGOs including trade unions, environment activists, and human rights organizations (Robert, 2006). For example, in the oil and gas sector, human rights activists criticized the firms such as Unocal, a partnered with military juntas and Total, a French company for using slave labour and heavily damaged and destroyed the environment of Myanmar. Similarly, the

Asia-based firm, Daewoo International Corporation is accused for forcing local communities to relocate during the construction of the natural gas pipeline (Meyer, 2014) The awareness campaigns organised by NGOs that delivered the messages to consumers and politicians and triggered the debate in the civil society. Those pressure led firms like Premier Oil Plc. asked to withdrawal from Myanmar by the British government on 2000, and firms like Amoco and Texaco pulled out of Myanmar by shareholders (Myer, 2014). In addition, the garment industry, which is an exported-oriented sector in Myanmar, imposed by the formal restriction by the USA. The situation was led by the consumer groups from the US and EU implied calls for a boycott of products from Myanmar in 2001 which increased consumer awareness and pressure on trade intermediaries to discontinue sourcing from Myanmar (Kudo, 2005a).

Corporations from the West and Europe had largely halted doing business with Myanmar. In the early 1990s, corporations like Levi Strauss stopped its outsourcing contract to Myanmar due to concern for human right abuses. According to Levi Strauss & Co. left in 1992, the firm mentioned that “not possible to do business without directly supporting the military government and its pervasive human rights violations” (Schermerhorn, 1998, pp.121-122). Eddie Bauer, Liz Claiborne, J. Crew, Columbia Sportswear later existed, as have Canada’s Seagram and America’s Wente Vineyards. Moreover, Apple Computers, Kodak, Motorola, Disney, and PepsiCo withdrew from the country. Heightened awareness of Corporate Social Responsible or Socially Responsible Investment among executives in leading MNCs stood an important role in the withdrawal process. In 1996, Danish brewer Carlsberg announced that they were stopping commercial engagement with Myanmar. Carlsberg cancelled a planned to invest $30 million in a bottling plant, with its decision preceded by protests by the International Union of Food, Agricultural and Allied Workers Association (The Nation, 1996). For the Dutch brewer, Heineken who was involved in a half-built brewery project also decided to withdraw. Moreover, PepsiCo also disconnected after suffering from boycott campaign in the United States and had the pressure from shareholder interest groups (Pick and Thein, 2010).

All of these withdrawals were prompted by informal sanctions. Informal sanctions were important due to intensive lobbying campaigns focused on the main inward investors. However, some formal sanctions also imposed. Only the USA has implemented comprehensives formal sanctions on Myanmar (Seekins, 2005). However, there were still other corporations continue to trade, invest, do business with Myanmar due to their top executives have fewer or simply different ethical or human right concerns, partly because sanctions have never been more than partial. In consequences, international bodies and many countries have shunned the military junta for not accepting the election result of 1990 as well as for its poor record on human rights (Holliday, 2005). Most donors included Japan and the US suspended aid to Myanmar after 1988. In 1997, the US government imposed the sanction against Myanmar due to the human right records of the country, especially, banned new investment in Myanmar by US companies (Skidmore and Wilson, 2008). In 2003, following another crackdown on political dissidents, the U.S government banned all imports from Myanmar to the US, except teak and gems proceed outside Myanmar (Seekins, 2005). In 2008, the importation of jadeite and rubies mined in Myanmar were also banned. Meanwhile, the EU and other developed countries like Canada have removed trade and aid benefits. The EU, in 1996, imposed a range of restrictions in the case of a visa ban on top-level officials in the military regime and their family members, a senior top –ranking government officials visits to Myanmar. In 2007, the E.U extended the restrictions to the exportation of Burmese timber, metals and precious stones into EU. Likewise, social investors demanded that companies make ethical investment decisions or socially responsible investment and advocated shareholder resolutions for companies investing in Myanmar to develop guidelines for their policies there (Schermerhorn, 1998). On the other hand, the Association of South East Asian Nations (ASEAN) has followed a policy of "constructive engagement" with the junta and argued that this policy would be more efficient in facilitating steady, stable and gradual change (Steinberg, 2012).

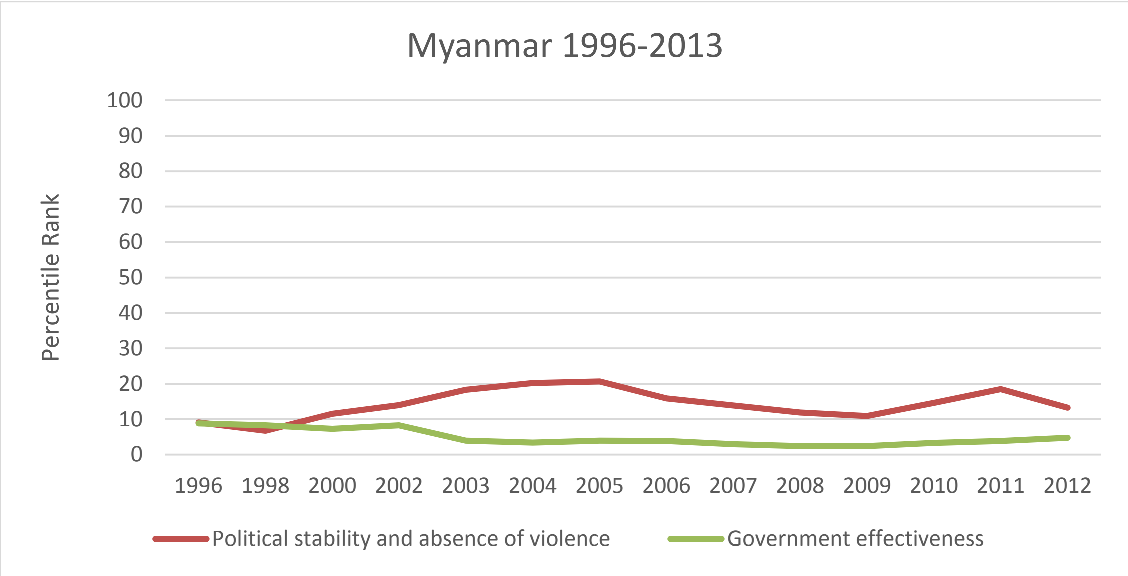
Andreasson (2008) argued that the sanction that imposed by Western countries by isolation the SPDC, would not be effective and it would not help the military government to understand the forces of globalization. In additions, Myanmar is not as geographically isolated as South Africa in the 1980s. The country shares the borders with several countries including China and India and a member of ASEAN. Those neighbour countries applied constructive engagement that led the Asian firms to enter the Burmese market when Western companies left the country (McCarthy, 20). Table 4-1 shows the bilateral investment agreements that were signed by Myanmar and neighbouring countries.

Table 4-1 Myanmar Bilateral Investment Agreements (2012)

Partner	Date of Signature
China	12 December 2001
India	24 June 2008
Lao, PDR	5 May 2003
Philippines	17 February 1998
Thailand	14 March 2008
Vietnam	15 February 2000

Source: UNCTAD IIA online database

Figure 4-1 Selected Worldwide Governance Aggregate Indicators



Source: Worldwide governance indicator

4.2 Geographic Vulnerability and Trade

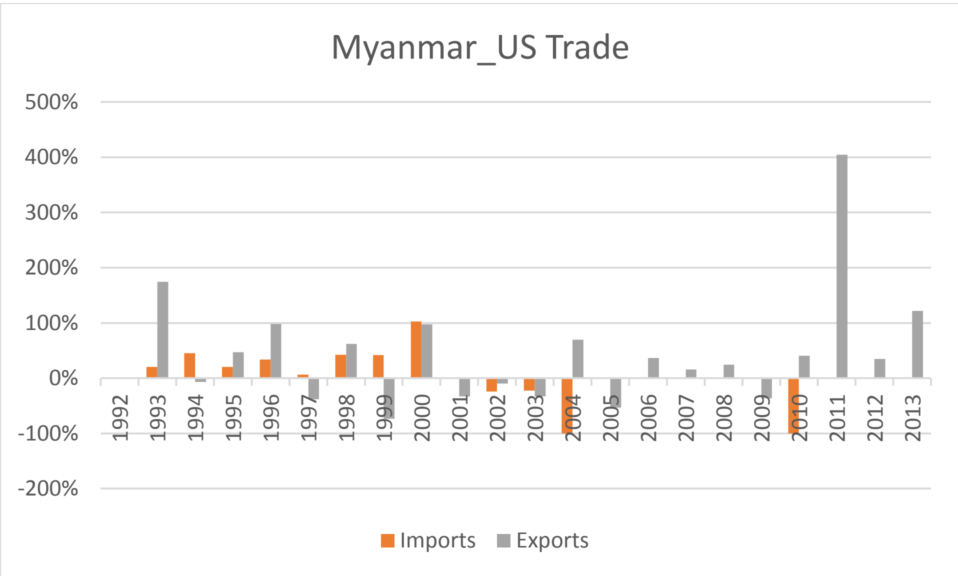
Since Myanmar opened its door to the rest of the world in 1988, its open door policy changed Myanmar’s external sector including foreign trade increased during the 1990s and up to 2005 (Mieno, 2013). For example, registration numbers of exporters/importers has significantly increased from 100 in 1989 to 2700 in the subsequent year by 1989. According to trade volume, Myanmar goods export rose from US$500 million in 1990 to the US$ 2billion in 2000 and import is US$2.5 billion in 2000. Moreover, trade volume per capita can also be the indicator for measuring the openness of an economy (Kudo, 2007). Concerning trade volume per capita, it steadily increased from US$85 in 1995, US$92 in 2000 and US$106 in 2003 (Kudo, 2007)

However, Myanmar’s export basket was predominantly filled with raw material including natural gas, food and other primary commodities (Than, 2012). Moreover, low-skill manufacturing goods and products also exported to developed countries like Japan, Germany and the United Kingdom (Ferrarini, 2013). By contrast, Myanmar imported more than 90% of manufactured goods from China, Korea, and Japan. As the volume of trade grew, Myanmar expands its trade relationship with its neighbouring countries and have integrated regional market. When export oriented and foreign direct investment-driven development strategy for developing countries in the context of globalization and regionalization, Myanmar could not follow that policy and failed to achieve the rapid economic growth (Kudo, 2007).

Since, Myanmar has been targeted by various economic sanctions by the United States, the EU, and other Western countries, most of the multinational firms withdrawal their operations from Myanmar voluntarily or with pressured from social movements. According to the Figure 4-2 and 4-3, trades with the US and EU has dramatically decreased. However, Figure 4-4 presents that trade with the rest of the world has still remain and steadily increased. It shows that not all of multinational firms divested from the country, some of them are still operating the business in Myanmar and expanding their business. In another word, the gap that created by the US and EU has filled up by the neighbouring counties (Andreasson, 2008). The hostile international environment targeted to the military government and underdeveloped infrastructure halted the Myanmar economy from taking part in the global and regional production and distributions. However, the country still able to maintain a good trading relationship with those export collaborates which are Thailand (44%), India (12%), China (7%) and Japan (5%) (Kudo, 2007). Overall, Asian business includ China, India, Bangladesh, Thailand, and Japan have developed thriving investment and trade relationships with Myanmar (Irrawaddy Online December 2005). Ninety per cent of Myanmar’s trading partners in 2005 period were Asian countries, and some of them are the neighbour of Myanmar and shares it long border. For example, China, Thailand India, Bangladesh and Laos, which share the border with Myanmar and with Malaysia and Singapore, which shares coastal waters (Kudo, 2007). In additions, Myanmar joined the Greater Mekong Sub-region (GMS) Economic Cooperation in 1992 and followed by in 1997, became a member of ASEAN, which obviously has strengthened its trade relations with neighbouring countries (Kudo and Mieno, 2007). The geographic significance of Myanmar and its strategic location make the country an important strategic ally for many of its neighbours (McCann, 2011).

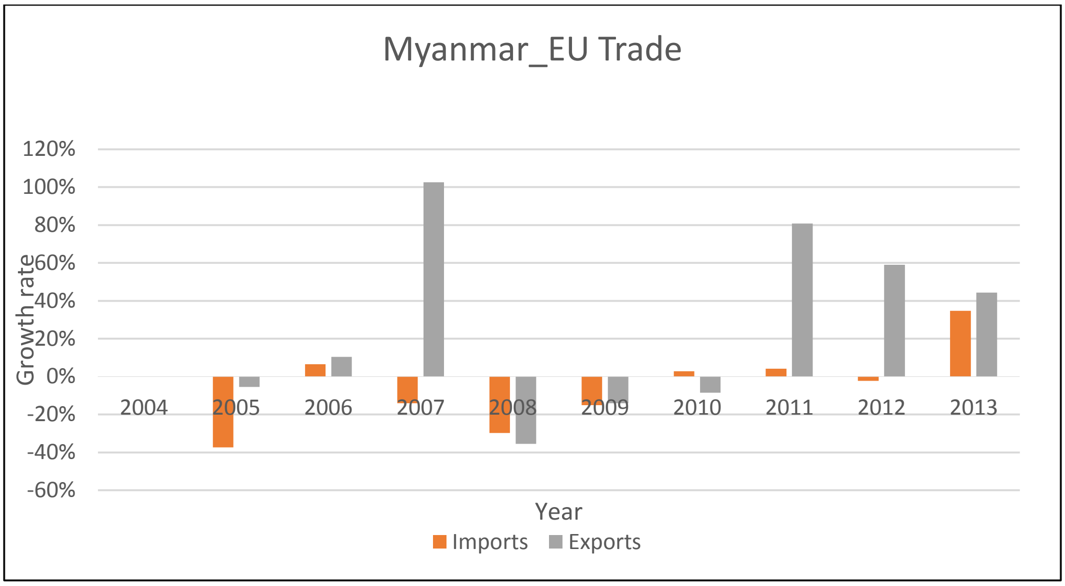
Taking the location advantage, the investment and trade relationship between Myanmar and China, Thailand and India have also been fostered and promoted by the those governments (Naing, 2014). In contrast, the countries which have the larger geographical distance with Myanmar such as the Western nations, cannot benefit the locational advantages but also cautious or pessimistic about investment opportunities because of the political risk.

Figure 4-2 Myanmar trade with the US (annual growth rate)



Source: Directorate-General for Trade, EU

Figure 4-3 Myanmar trade with the EU (annual growth rate)



Source: Directorate-General for Trade, EU

Figure 4-4 Myanmar trade with the rest of the world (annual growth rate)

Source: Directorate-General for Trade, EU

4.3 Types of Foreign Divestment in Myanmar

When multinational enterprises operate in foreign countries, their ownership strategies stand as significant implications for resource commitments, organisational control and consequently the performance of their foreign operations. Previous literature had addressed that wholly owned subsidiaries have lower survival rates than joint ventures (Li, 1995). In contrast, some argue that firms with higher level of commitments are less likely to abandon their operations than the subsidiary with minority-owned shares (Chen and Wu, 1996). On the other hand, according to Delios and Beamis (2004) indicated that there are no substantial differences between these two entry modes either on survival rates or financial performance.

Since the Foreign Investment Policy became active on 1988, which allows investors to establish either wholly foreign-owned enterprise or joint venture. Due to the problem of the official exchange rate, there were more wholly foreign-owned than joint ventures. In this divestment study of Myanmar, it is found that the number of wholly- owned has the higher divestment rate than the joint ventures. Among the divested joint ventures firms, the number of firms that collaborated with private enterprises divested in double times than the enterprise that collaborated with state-owned enterprises (SOE) and MEHL.

4.4 Foreign Divestment by Sector

To examine the impact of divestment, it is vital to understand the industry context that firms are operating.

4.4.1 Resource seeking/capital intensive: Mining and Oil and Gas sector

Myanmar is heavily dependent on natural resource-based industries, especially the hydropower, oil and gas, mining sectors. The country attracts large but infrequent resource seeking investments in power, mining, and oil and gas while other such as manufacturing attract small but more numerous investment. The sanction that imposed by Western mainly targeted key sectors including oil, gas, mining, and timber, which are the primary income source of the military junta (Table 4-2). When it comes to divestment, it is easy to hypothesize that former one would be less likely to divest than the following one due to captive-intensive nature of their operations. Among the sectors of divested firms operated, this study finds that mining industry divested at the rate of 86% higher than other firms did. Some of the mining firms left Myanmar by outsourcing their operations to Thai mining companies regarding reducing the pressure from the home countries while continuing the profitable business.

In Mineshu, the largest mining area of the country, there were once 100, 000 people employed in the mines but it is reported that three-quarters of them have lost their jobs and left. Currently, mining firms were mostly from China, Hong Kong, Thailand and Vietnam in 2012. In terms of Oil and gas sector, it has been heavily criticized by a variety of NGOs including trade union, environmental activists and pro-democracy groups (Meyer, 2014). With the pressure from, directly and indirectly, this sector divestment at the rate of 38%. Even some of the Western firms such as Amoco and Texaco pulled out of Myanmar; there are still other firms which have been doing business as usual, such as CNP from China, Petronas from Malaysia, Nippon Oil of Japan, Daewoo from South Korea and some firms from India.

4.4.2 Resource seeking/non-intensive capital: Manufacturing sector

It is obvious to see that manufacturing sector was ranked the third position among divested sectors (Table 4-2).

A case example of garment sector

The economic sanctions that imposed on the country is one of the reasons for leading firms to divest as well as cut the relationship of doing business with Myanmar. According to Nordas

(2004), the garment industry had grown into an established subsector of the manufacturing sector by the end of the twentieth century. Myanmar's garment industry followed this trend. When military government of Myanmar initiated an open-door policy after its seizure of power in 1988, there have been many garments firms were formed as a joint venture between state-owned and military-related enterprise. Apparently, most of Myanmar's garment factories have been financed by Korean, Taiwanese and Hong Kong firms because of low labour cost in Myanmar and efforts to circumvent US quotas that are limiting imports from individual countries. As countries reach the limits of their US import quotas, investment in Myanmar garment industry becomes attractive because its US import quotas have not been filled. These factors lead the share of garment exports of Myanmar increased from 2.5% in 1990 to 39.5% in 2000 out of total exports with clothing becoming the country's leading goods exported (Kudo,2008). Among the market, the United States offered the largest market with 54.1% of Myanmar garment export in 2000; followed by the European Union with the second place, absorbing 37% the same year (Kudo,2008). According to Myanmar Garment Manufacturing Association (MGMA), there are about 400 firms or factories during the period of 200-2001 and the total employment in the garment industry include firms, small factories at about with more than 300,000 workers as its peak of 2001.

However, the U.S market was suddenly lost in 2003 due to the US sanctions imposed on Myanmar. These institutional pressures emanating outside the country had a strong impact on the garments industry. As Myanmar's main garment export markets were the US market as the first place and followed by UK, EU and East Asia. Especially, the garment industry where Western clothing labels discontinued sourcing agreement and also the formalised control of government over exports and import, which resulted in a decline of garment export to the USA falling by 50% but fortunately export to Japan was increased from 4.3 percent in 2003 to 34.4percent in 2007 (Myint and Rasiah, 2012). Most of the firms closed down especially small-medium firms while foreign-owned business those have closely associated with military elite continued to export.

This resulted in 50,000 to 60,000 jobs with more than 100 garment factories had closed and forcing many of them to work in the sex industry instead. In a country where manufacture sector is still underdeveloped, garment sector is an important channel of technological and managerial transfer. Unlike the heavy industry where technological matters are in confidential and not easy to transfer. For Myanmar, garment production is an important channel to learn modern mass-production –based manufacturing. Besides, the garment industry is also one of the channels that Myanmar exporters can integrate with global economy by being a part of global supply chain. In this point, when western firms stopped doing business with Myanmar, this may effect on the industrial and technological upgrading in the future of Myanmar as

Myanmar is lack of in house research and development which may rely on foreign firms. Job loss resulting from trade and investment sanctions is a specific, very serious problem for the urban poor, who have few employment opportunities outside the informal sector (Kudo,2008). Even before the latest U.S. import ban, factory closures and production cutbacks resulting from highly efficient consumer campaigns against U.S. and European clothing stores had already cost tens of thousands of jobs in the garment export industry, one of the few sectors that was producing new jobs and paying comparatively good wages.

4.4.3 Marketing seeking/capital non-intensive: Branded consumer goods sector

Many western consumer brands doing business in Myanmar through non-equity activities relying on local small and medium sized enterprises or independent Thai or Indian owned companies as their local distributors or representatives. Those firms who intend to divest from Myanmar has downsized their local operations but maintain some form of local presence.

A case example of British American Tobacco (BAT)

In November 2003, British American Tobacco (BAT) decided to dissolve its presence in Myanmar after facing sharp criticism and pressure from of a yearlong Myanmar Campaign UK. The decision to pull out of Myanmar came after the pressure from activist and the UK government by over concerns about the country's human right records. According to the BBC News (2003), the Burmese regime makes profit $400,000 a year and received as a tax revenue $16m from its joint venture with BAT. BAT sold its 60 percent stake to Rothmans of Pall Mall Myanmar (RPMM), a cigarette manufacturing and marketing company based in Singapore. The company owned by Military's regime controlled the remaining 40 percent of share. However, BAT's withdrawal decision was not certainly representative of the action of other multinational firms. In this market-seeking sector, many Asian brands were doing business as usual manner and some Western brands were marketed by employing low profile strategy (Meyer and Thein, 2014)

Table 4-2 Existing and Terminated projects by sectors

Sector	No of existing firms	No of terminated firms
Power	6	1
Oil and Gas	64	51
Manufacturing	198	89
Mining	10	58
Hotel and Tourism	35	15
Real Estate	10	12
Livestock & Fisheries	8	18
Transport & Communication	7	9
Industrial Estate	2	1
Agriculture	9	3
Other Services	10	2
Construction	-	2
Total	359	261

Note : Accumulation from 1988/89 to October of 2013/14. The existing figure does not include approved and terminated enterprises

Source: Information by the Directorate of Investment and Company Administration (Unpublished dataset)

4.5 Foreign Divestment by Countries

Over the period of 1995-2001, the FDI inflow into Myanmar was from developed countries includes the United Kingdom and the United States. Those countries were significant and mainly invested in the oil and gas industry (DICA). Due to the sanctions implemented by the Western firms, regarding of divestment source regions, most of the western multinational firms' withdrawal their operation from Myanmar voluntarily or with the pressure from social movement and the home governments. Moreover, the sanction also halted the new investment enter into Myanmar (Holliday, 2005). The investment from EU slowed down and decreased (Table 4-3). Other countries that invested in Myanmar in the 1990s such as Austria, Denmark, France and the Netherlands have not made any new progress and commitments further.

Not only Western firms pulled out the investment from Myanmar, investment from Japanese and Singapore slowed down. Japan and Singapore were the most important traditional economic partners of Myanmar. Japan has been the largest and foreign aid donors during the socialist period with the average annual amount of US$154.8million Kudo, 2009). However, the ODA policy to Myanmar was suspended that due to the human right record of the country under the government of military junta. Along with the suspension of foreign aid, the investment from Japan was reduced significantly from $190million in 1988 to $250, 000 at the fiscal year of 2005-2006. Even, there is some additional investment of $7millon to existing project; there are no further new investment approvals. Unlike the other countries, which purely invest in the extractive and power sectors, Japan investment outside of these sectors which 80 percent of its actual investment was manufacturing sector. In term of trade with Myanmar, the import share declined from 39% in 1988 to only 2.7% in 2006 (Bissinger, 2012).

Unlike the Western country, ASEAN conducted the 'constructive engagement' with Myanmar. ASEAN and Chinese firms stepped into the vacuum and compensated Myanmar's needs for trade and the economic corporation when western companies left the country. That can be proved by the economic agreements that were signed by China and Myanmar were 30 in 2006 and estimated up to over 100 in 2010. The Chinese mining firm, Wanbao, a diversion of the Chinese state military-industrial conglomerate, take over the minefield in the Sagaing division, which the Canadian firm competed for the first phase of operation in 1088. The Chinese firm took over in 2011 and a joint venture with a Myanmar military company. While sanction pushed the Western firms to divest, China has started to involve heavily in Myanmar's extractive and energy sector. According to the Table 4-4, it shows that China has taken place the first position in 2015 that the country have not been on the top ten list in a decade ago. The rise of China can be witnessed by its increasing numbers of actual investment. Since the FY200-2001, its actual investment counts for 17 percent and increased to 36 percent in FY2007-08 and 60 percent in FY2008-09. However, that investment from China has failed to have a substantial impact on Myanmar's economic and industrial development. Due to almost all of the investment's figures go to the exploiting and energy sector without considering the sustainable environment. Furthermore, economic cooperation and commercial loans obviously support Myanmar's military government and have little or no impact on overall economic growth (Kudo, 2009). According to the comment of Steinberg and Fan (2012), if China limited its economic relationships like Western firms and Japan do, other neighbouring countries would step into Myanmar market and fill the vacancies in the country left by Western and Chinese firms. Alamiger (2008) indicated that the sanctions have pushed away the Western firms out of the country but it dragged the Asian firms inward. Due to the culture and institutional differences, social movements on human rights has not affected the Asian firms in the same way as it pressured on Western multinationals.

Table 4-3 Existing and Terminated Investment Projects by Major Countries of Origin

Unit: US$ million

Major Countries of Origin	Existing Investment		Terminated Investment	
	No	Approved amount	No	Approved amount
Australia	1	23	13	39
China	31	14115	20	72
Hong Kong	44	6366	17	53
Japan	29	190	11	120
Malaysia	19	1028	27	398
Republic of Korea	71	2973	13	86
Singapore	60	2247	36	245
Thailand	33	2876	36	6750
UK	30	2503	32	530
USA	-	-	15	318
Total of Major countries	318	32322	220	8612
Total	359		261	8963

Note: Accumulation from 1988/89 to October 2013/2014

Source: DICA

Table 4-4 Major foreign investors in Myanmar by Country as of March 2002 and as of 31 January 2015

	2002			2015	
Rank	Country	Share (%)	Rank	Country	Share (%)
1	Singapore	20.1	1	China	27.25
2	UK	18.9	2	Thailand	19.29
3	Thailand	17.5	3	Singapore	15.96
4	Malaysia	8.1	4	Hong Kong, China	13.38
5	USA	7.8	5	UK	6.98
6	France	6.3	6	Republic of Korea	6.08
7	Indonesia	3.2	7	Malaysia	3.11
8	The Netherlands	3.2	8	Vietnam	1.29
9	Japan	3.1	9	The Netherlands	1.04
10	Republic of Korea	2	10	France	1.02

(Note) UK includes British Overseas Territories

Source: For the year of 2002, CSO, Statistical Yearbook 2002. P.252 and for the year of 2013 by the DICA, MNPED, Myanmar.

Chapter 5 : Impact of Divestment on Economic Growth: Empirical Analysis

5.1 Introduction

This chapter empirically examines the relationship between foreign divestment (FD) and economic growth in Myanmar. In particular, this study is to explore the casual link between foreign divestment, foreign investment, human capital development, trade openness, political situation and economic growth.

5.2 Empirical Framework

This section presents the empirical models, which will examine the relationship between FD and economic growth of Myanmar. In this study, 24 years annual data of Myanmar have been used from 1990 to 2013. The choice of the starting period of the data was constrained by the availability of data set and the historical milestone as well. The chosen start date for this study is 1990. This is a period under the military-run government that is formed under the name of State Law and Order Restoration Council (SLORC) in 1990 when was the time the NLD party won the election, but the result was ignored by the military. The chosen end date for this research is 2103, a time of two years later when Myanmar transformed from military rule to a civilian democracy led by President Thein Sein.

Based on empirical literature, theories of economic growth, the basic neoclassical production function is identified as follow:

$$RGDP_t = \alpha + \alpha_1 FD + \alpha_2 FDI + \alpha_3 EDU + \alpha_4 OPN + \alpha_5 DP + \varepsilon$$

As applied in many empirical growth studies, the dependent variable (RGDP) is the measure of economic growth by real gross domestic product. The details of data source by variables and its long-term form are mentioned on the Table 5-1. FD is the real foreign divestment at constant prices, FDI is the real foreign direct investment at constant prices, EDU is measured by the gross rate of secondary school enrolment ratio as a measure of school general education. School education enrolment is derived by dividing total school enrolment. OPN is the trade openness. The dummy variable captures the effect of types of government that the country was governed. DP is a dummy variable representing the date on which Myanmar transformed into a civilian democracy. A value of 0 is assigned for the period of 1990 to 2009 when the country is under military rule and 1 when the country under the transition of democracy reform. ɑ is the coefficient which represents the elasticity of output while μ is the error term. The subscript (t) is time.

5.3 Data and Variable Sources

This section presents the data and methodology that will apply in the impact study of FD on economic growth. The study employ annual data for the 1990-2013 period. The methodology used in this study includes the stationary test for the time series data and the cointegration technique to avoid spurious result.

Table 5-1 Summary of data source by variables

Variable	Proxy	Sources
RGDP	Real Gross Domestic Product growth rate	CIA, the World Factbook
FD	Real Foreign Divestment at constant price	The Directorate of Investment and Company Administration (DICA), unpublished dataset
FDI	Real Foreign Direct Investment at constant price	United Nations Conference and trade and development (UNCTAD)
EDU	Secondary school enrolment	World Development Indicators, World Bank
OPN	Degree of trade openness	United Nations Conference and trade and development (UNCTAD)
DP	Dummy Variable of political situation	Dummy variable for Autocratic political situation and democratic transition, takes values 0-1

The description of the explanatory variables that are included in the model are explained as follows:

1) FDI and Growth

There has been a wide range of literature studies the effects of FDI on host country economic growth. There are also intensively debated in the literature because of their controversial issues. Mello (1999) uses the panel data model to conclude that there is a positive relationship between FDI and growth in the long run but this relationship depends on the country-specific factor. Blomstrom et al. (1994) argue that there is a positive effect of FDI on growth when a country has high per capita. In additions Balasubramanyam et al. (1996) pointed, that trade openness is one of the important factors for pursuing the potential growth impact of FDI.

Kholdy (1995) applied Granger causality test estimated the impact FDI on growth, found that there is no causation between FDI and productively due to FDI may generate only limited efficiency spillovers. On the other hand, Chakraborty and Basu (2002) examine the relationship between FDI and economic growth in India by carrying out cointegration and error-correction model. The result proved that FDI does not cause GDP growth, but the causality runs more from GDP to FDI. Given the conflicting theoretical point of views, many empirical studies have examined the relationship between FDI and economic growth. Previous research also proved with a strong argument that to capture the potential benefits associated with FDI; the developing countries have to reach a certain level of development (Zhang 2001, and Alfaro et al., 2010). Borensztein et al. (1998) and Zhang (2001) find that only in countries where the labour force has achieved some degree of education can benefit the FDI. In contrast to the studies that find a positive correlation between FDI and growth, there is also a non-significant or negative effect on the impact of FDI on economic growth (Hermes and Lensink, 2003, Akinlo, 2004).

2) Education

Human capital is measured by applying the enrolment rate of the primary, secondary and tertiary level (Chatterji, 1998). According to Bils and Klenow (2000) indicated that the higher rate of enrolment in schools can achieve faster growth in per-capital income due to high enrolment rate considers for high labour productivity, absorption of new technology, increase the rate of innovativeness and efficient management (Sankay et al., 2010). In addition, Barro (1991) also mentioned that schooling of the individual has a positive effect on the economic growth of a country. This variable is included in the study to represent the knowledge and skill of individual that facilitating the economic outcomes. However, according to Hanushek and Wopmann (2007) address that education levels differ dramatically between developing and developed countries and pressed that role of education quality and economic outcomes.

3) Trade openness

Trade openness has been used extensively in the empirical literature as one of the primary variables to examine economic growth. There are several empirical studies have provided inconsistent conclusions on the relationship between economic growth and trade openness. For example, Leving and Renelt (1992) and find that the relationship between trade and economic is positively significant. Moreover, Yanikkaya (2002) investigated the impact of trade openness on per capita income growth by using data from 120 countries. The result has indicated that the trade openness has positively associated with economic growth. On the other hand, Kneller (2008) there is a shred of evidence showed that the relationship between economic growth and trade openness is statistically either weak and there is a limited impact of trade liberalisation on growth. According to Menyah et al. (2014) used a panel study for 21 African countries and found that there is no significant relationship between trade openness and economic growth. However, the result can be varied when variables include institutions and geography in the analysis. Furthermore, Vamvakidis (2002) found that there is a negative relationship between trade openness and economic growth in the period of 1920-1940 of developed and developing countries.

4) Political situation

Democracy and economic growth have also received a consideration attention in recent year. As a type of government, democracy is publicised as having many benefits, both political and economy. There have been pessimistic views on democracy in older literature. According to Huntinnton (1993), he suggested that countries in the third world cannot achieve rapid economic growth through a democratic framework which means those countries will face a dilemma of choosing either to pursue economic growth or democratic development, but not pursuing both simultaneously.

Briefly, the "compatibility school" see democracy and economic development as very much compatible which is a useful tool for maximizing economic freedom, stimulating investment, and also conducting more constructive to a sustained, industry balance, and equitable growth in the long run (Feng 1997). On the other hand, scholars from 'conflict school' argues that economic development requires an authority to enforce contracts. There are also scholars who believe that democratic government alone mean very little for economic growth without placing the institutional structures and government development strategies as a priority. The empirical literature on democracy and growth is also debatable, with the most recent study find that democracy has no direct effect on growth, but it does have an important indirect effect (Helliwell, 1994). Such as by facilitates political stability which is a fundamental factor for economic development and by leading to greater spending on education and public health (Baum and Lake, 2003) and so on. In addition, democracy may also influence the trade regime (Mansfieldet et al, 2000) or corporate governance and capital market development (Rajan and Zingales, 2001), both of which may affect growth. Moreover, the democratic government may also reduce the negative effects that brought by corruption. According to Hlaing (2012, p. 197), Myanmar" still have a long way to go before it can become a full-fledged democracy". However, since Myanmar has been undergoing a political transition as the start of a process of democratization, the country has been a substantially more liberal country along with its economy which has been increasingly liberalised.

5.4 Empirical Analysis

5.4.1 Methodology

This study applies the bound testing approach to cointegration within an Autoregressive Distributed Lag (ARDL) framework which was developed by Pesaran and Shin (1998). When two or more variables are cointegrated, the cointegration relationship among variables rules out the possibility of the estimated relationship being 'spurious' (Engle and Granger, 1987). There are also several methods available for conducting cointegration test as the residual based Engle –Granger (1987) test, Johansen(1998, Philips and Hansen (1990). However, these techniques strictly rely on I(1) stationary variables even the requirement of I(1) variables often makes estimates of these cointegration test subject to biases. As the variables considered in this study are a mix of I(0) and I(1) series. Therefore, the methods mentioned earlier, are not appropriate and cannot be employed. Hence, this study adopts the ARDL bound test approach.

ARDL approach

The bound test method conintegration has certain econometric advantages in comparison to other techniques and these advantages are also main reasons to motive this study to employ ARDL technique. The first main advantage of the ARDL model is that it gives the power to examine the long-run relationship and applicable irrespective of whether the underlying variables are purely I(0), purely I(1) or a combination of both but not necessarily be l(2) stationary. As the alternative cointegration, models requires all variables are at the same level. This is one of the most important factor this study decided to employ ARDL approach as according to the result from Table 5-3, it shows that there are a combination of both I(0) and I (1). As the ARDL approach does not rely on pre-testing, the order of integration of the variables that can eliminate the uncertainty that pre-testing the order of integrations brings.

Second, unlike the Granger method, the UECM does not push the short-run dynamics into the residual terms (Pattichis, 1999) where the UECM of ARDL is likely to have better statistical properties and also capable of distinguishing between dependent and explanatory variables. It can estimate the short and long run dynamic relationships in the impact of divestment simultaneously. Moreover, the diagnostic tests of the model in this study do not exhibit any evidence of serial correlation, heteroscedasticity and qualify with the test of functional form and normality.

Third, this technique has been chosen since it can be applied for a small sample size, which is appropriate for this study with only 24 observations where alternative methods cannot be reliable for the small sample sizes. There are several studies applied ARDL approach on small sample sizes such as a study of import demand function for Cyprus by analysing annual data of 20 observations by Pattichis (1999); a study on Malaysia's inflation by looking at 25 observation by Tang(2001) and so on.

$$RGDP_t = \alpha + \alpha_1 FD + \alpha_2 FDI + \alpha_3 EDU + \alpha_4 OPN + \alpha_5 DP + \varepsilon$$

The error correction version of ARDL model can be written as follow:

$$RGDPt = \alpha_0 + \sum_{i=1}^{p} \phi_i RGDP_{t-i} + \sum_{i=0}^{p} \theta_i FD_{t-i} + \sum_{t=0} \lambda_i FDI_{t-i} + \sum_{t=0}^{p} \varphi_i EDU_{t-i} + \sum_{t=0}^{p} \gamma_i OPN_{t-i} + \sum_{t=0}^{p} \eta_i DP_{t-i} + \delta_1 RGDP_{t-1}$$
$$+ \delta_2 FD_{t-1} + \delta_3 FDI_{t-1} + \delta_4 EDU_{t-1} + \delta_5 OPN_{t-1} + \delta_6 DP_{t-1} + \varepsilon_t$$

where $\phi, \theta, \lambda, \varphi, \gamma, \eta$ refer to short run and $\delta_1 to \delta_5$ refer to long run parameters.

The hypothesis are shown below:

The null hypothesis of no cointegration is H0: δ1 = δ2 = δ3 = δ4 = δ5= $\delta_6 = 0$ against the alternative hypothesis H1: δ1 ≠ δ2 ≠ δ3 ≠ δ4 ≠ δ5 ≠ $\delta_6 \neq 0$. The rejection of the null based on the F-statistics, which suggest there is cointegration relationship.

5.4.2 Descriptive Statistics

Before going to the econometric estimation, it is worth to have a look at descriptive statistics of the variables in Table 5-2. This is essential due to these statistics summarize the statistical properties of the series of the model.

Table 5-2 Descriptive Statistics

	RGDP	FD	FDI	EDU	OPN	DP
Mean	4.227083	0.956454	4.735329	37.39819	44.18185	0.166667
Median	4.950000	0.495012	2.123430	37.88346	43.61661	0.000000
Maximum	9.700000	6.233736	45.53427	56.50000	76.06148	1.000000
Minimum	-1.300000	0.034139	0.013656	19.29933	12.40783	0.000000
Std. Dev.	2.752982	1.305002	9.180199	11.81242	16.50913	0.380693
Skewness	-0.383265	2.898453	3.882277	0.019838	0.087339	1.788854
Kurtosis	2.620045	12.26379	17.74596	1.651457	2.492474	4.200000
Jarque-Bera	0.731932	119.4220	277.7317	1.820141	0.288095	14.24000
Probability	0.693526	0.000000	0.000000	0.402496	0.865847	0.000809
Sum	101.4500	22.95490	113.6479	897.5566	1060.364	4.000000
Sum Sq. Dev.	174.3149	39.16970	1938.349	3209.266	6268.678	3.333333
Observations	24	24	24	24	24	24

5.4.3 Unit Root Test

Before proceeding to the ARDL bound test, it is essential to verify the stationary status of all variables to determine their order of integration and ensure that the variables are not integrated of order (2). Lack of stationary of data may lead to an inappropriate statistical result and misleading inference. Because the bound test is based on the assumption that the variables are I(0) or I(1) and F-statistics provided by Pesaran et al. (2001) will become invalid when there is variable integrated of I(2). To verify the applicability of the ARDL bound approach, the order of integration of variables (Table) have been tested by employing two test such as the Augmented Dickey-Fuller and Phillips-Perron tests which will check for the null hypothesis of the existence of a unit root. The null hypothesis for the test states that the data series under consideration has unit root while the alternative hypothesis claims that there is no unit root or the data is stationary.

In the Table 5-3, it is found that all variables are I(0), I(1), or a combination of both, and none of them is integrated of I(2). Therefore, it is qualified to apply the ARDL method.

A summary of unit root test results regarding order of integration based on different unit root criteria such as ADF and PP is given in Table 5-3.

Table 5-3 Unit Root Test Results

Variables	ADF with intercept		PP with intercept		Decision
	I(0)	I(1)	I(0)	I(1)	
RGDP	-3.186**	-7.712*	-3.193**	-7.515*	I(0)
FD	-5.016*	-10.019*	-5.015*	-12.078*	I(0)
FDI	-4.564*	-6.788*	-4.564*	-20.310*	I(0)
EDU	0.250	-7.005*	0.630	-8.293*	I(1)
OPN	-2.012	-5.293*	-1.949	-5.294	I(1)
P			-0.380	-4.690*	I(1)

AIC was used for ADF to select the lag length; the maximum number of lags was set to five. *, ** are statistically significant at 1, 5 and 10%, respectively.

According to ADF and PP unit root tests all the dependent variables, i.e. FD, FDI, EDU, OPN and P are combination of both I(0) and I(1) and none of the variables is of I(2). Thus, the variables are qualified to run for ARDL approach of cointegration.

5.4.4 Long Run Bound Test for Cointegration

A two-step procedure is used in estimating the long run relationship: an initial examination of the existence of a long-run relationship among the variables is followed by an estimation of the short run and long-run parameters. The F statistics will be calculated. If the computed F-statistic exceeds the corresponding upper critical bound value of a given significance level, the null hypothesis (of no cointegration) is rejected, which means there is an evidence of long run level relationship between the independent variables and dependent variable. Alternatively, there will be no long run relationship and inclusive when F-statistics lies blow the lower critical value or within the lower and upper critical value.

Here, to investigate the presence of long-run relationships among the variables, the bound test will be carried out. Given a relatively small sample size (24) and the use of annual data, a lag length of 2 is used in the bounds test. The results of the bound test are given in Table 5-4.

Table 5-4 Bounds Test Results

			Bound Critical Values	
F-statistics	Lag	Significance Level	I(0) Bound	I(1) Bound
9.512	2	1%	3.29	4.37
		5%	2.56	3.49
		10%	2.2	3.09

The calculated F-statistics is 9.512 which is higher than the upper bound critical value of 4.37 at the 1 per cent level. Thus, the null hypothesis of no cointgration are rejected, implying long-run cointegration relationships among the variables. This implies that there is long run relationship among GDP, FD, FDI, OPN and P over the period of 1990-2013 in Myanmar.

Before estimating the long-run relationship and the short-run dynamics of the model, it is important to analyse performance of the ARDL estimates through the diagnostic test. As can be seen from the table, this is no evidence of serial correlation, pass the heteroskedasticity test and residual terms are normally distributed.

Normality test = 1.39(0.49)

Serial Correlation LM =3.37(0.06)

Heteroskedasticity Test=15.71(0.99)

5.4.5 Estimated Long Run Coefficient Using the Autoregressive Distributed Lag

Following the establishment of the existence of cointegration, this study continues to estimate the coefficients of the long-run relations and the associated error correction model (ECM) using the ARDL approach. The optimal lags on variables were selected by the Akaike info criterion (AIC) and turned out to be the ARDL (2,2,0,2,2). The empirical result for the long run is reported in the Table 5-5. The empirical results for the short run, obtained through normalizing on real GDP, together with standard diagnostics tests are presented in Table 5-6.

The error term ECM in the short run is statistically significant at 1 percent with a negative sign, confirming the existence of a stable long-run relationship and points to a long-run cointegration relationship among variables. Banerjee et al., (1998) addressed that a highly significant error correction term is further proof of the existence of a stable long-term relationship. The error terms represents the speed of adjustment to restore equilibrium in the dynamic model The coefficient of the ECM is around -0.74, implying that a deviation from the long-run equilibrium is corrected by about 74% in the following year, meaning that the adjustment takes place relatively quickly.

Table 5-5 Estimated Long-run Coefficients Results

The Long-Run Coefficient Results ARDL (2,2,0,2,2)		
Regressor	Coefficient	T-Statistics
Constant	20.8685	4.4637*
FD	-0.0050	-2.3750**
FDI	0.0000	0.1588
EDU	-0.2811	-4.6084*
OPN	-0.1236	-1.623
P	10.1978	2.6560**

Table 5-6 Estimated Short-run Error Correction Model (ECM)

ECM-ARDL: Dependent Variable RGDP		
Regressor	Coefficient	T-statistics
D(FD)	-0.0000	-3.4617*
D(FD(-1))	0.0023	7.7056*
D(FDI)	-0.0000	-0.09246
D(FDI(-1))	-0.0000	-2.4250*
D(EDU)	0.3334	2.7788**
D(EDU(-1))	0.6776	5.8840*
D(OPN)	-0.1043	-4.1693*
D(DP2010)	8.8521	4.4014*
ECM	-0.7493	-11.3598*

The results of the short-run dynamic coefficients associated with the long-run relationships are given in the Table 5-6. Results indicated the negative and significant impact of foreign divestment on GDP. The coefficient of FD indicates that in the long run 5 % increase in FD caused the decrease in the GDP.

5.4.6 Findings Remark

Most of the foreign firms withdrawal from the host country not because of poor performance but was getting the pressure from home countries. This result, not a few of firms were leaving but most of the firms. When firms left the country, there will be reducing capital formation, high unemployment rate, will not be able to access technology spillover effect and so on. In the short run, FD is positively significantly at one-year lag. This could be explained that most of the firms that left Myanmar are from western developed countries, which were given the pressure from their home countries. However, this did not effect on the Asian countries that conducted the constructive engagement on Myanmar to fill the vacant that left by western firms. As expected, the dummy variable for the political situation in democratic transition has a positive sign and is significant at 5% for both long runs a short run.

The human capital variable (EDU) has a negative sign for the long run. This could be explained by the political history of the country. Myanmar was ruled over 50 years under military rule which resulted its education system is in a very weakened state and physical infrastructure is poor; teaching methods and practices have not updated and still left behind in the 1940s, and 1950s. In addition, teachers have little opportunities for professional development, and there is also no national quality assurance framework. In term of vocational education which has weaknesses in links to labour market demand and complete absence of any direct collaboration with private sector employers. Previous study also indicated that human capital was significantly negative on FDI inflows if there is a lack of quality of education and a low level of interaction between academic world and industry (Konara, 2013). According to Easterly (2001) argues that education may not have much impact on economic growth in less developed countries which lack facilities such as functioning institutions for markets and legal system. Moreover, expansion of school attainment has not guaranteed to enhance economic conditions (Hanushek Woessmann, 2007). According to ADB report (2009), working population were aged 18-27 and held formal jobs had withdrawn from school during and after secondary, and only less than 2% of them finished vocational schools. In addition, according to a survey by Action Aid, which found that Myanmar had the lowest education expenditure among ASEAN countries. According to the report from ADB (2015), employers in Myanmar cited that Myanmar's workforce are poorly educated and skilled. They cited that there was low quality of schooling, education and lack of training and basic knowledge skills. That can threaten to trap the economy and could be the main reason that human development variable shows the negative sign on economic growth.

A significant number of Myanmar trained worker or Myanmar educated left for neighbouring countries. While it is difficult to differentiate those with higher education from those without, it is estimated that more than two to four million are working in Thailand, 150 to 500 thousand in Malaysia, 100 to 2000 thousand in Singapore, 7 to 15 thousand in Japan. Myanmar's brain drain is a severe bottleneck for inviting highly valued industry.

The long run estimated equation indicates that trade openness (OPN) is negatively related to economic growth in the long run, but it is statistically insignificant. However, it is negatively significant in the short run. The result is supported by the early findings of Kim and Suen (2011) who found there is a negative relationship between trade openness and economic growth in the case of less developed countries. Besides, Hye (2012) stated that one percent increase in trade openness index could decrease by 0.145-0.368 percent of economic growth in the case of Pakistan. There is the literature address that the positive relationship between trade and growth will only be available o when trade openness is integrated with appropriate institutional framework and policies. In the case of Myanmar, a country below a threshold level of institutional development may be unable to reap the benefits of trade openness while the country is holding weak institutional quality and less developed financial system (Dollar and Kraay, 2003).

The estimated coefficient of foreign direct investment (FDI) show that that FDI positively influenced the GDP in the long run, but it is insignificant. However, it is negatively significant in one-year lag in the short term. Considering the period when economic sanction imposed

Myanmar due to human right abuses, foreign firms were asked to leave the country by their country of origin. However, some firms decided to stay in Myanmar, and most of them have the linked with the corrupted military junta and from heavy industry which has a little spillover effect on technology and employment. According to Boyd and Smith (1992) found that FDI may affect growth negatively due to poor resource management or misallocation of resources in the presence of some distortions in pre-existing trade, price and other.

5.5 Stability Test

In addition to the diagnostic test, the stability of long run is checked through stability tests such as cumulative sum of recursive residuals (CUSUM) and cumulative sum of squares of recursive residuals (CUSUMSQ) and the results of these test are shown in the Figure 5-1 and Figure 5-2 respectively. According to Brown et al. (1975) indicated that if the result stay within 5% level (portrayed by two straight lines) prove that the result is significant and there is a stable relations over the study period.

Figure 5-1 : Plot of Cumulative Sum of Recursive Residuals

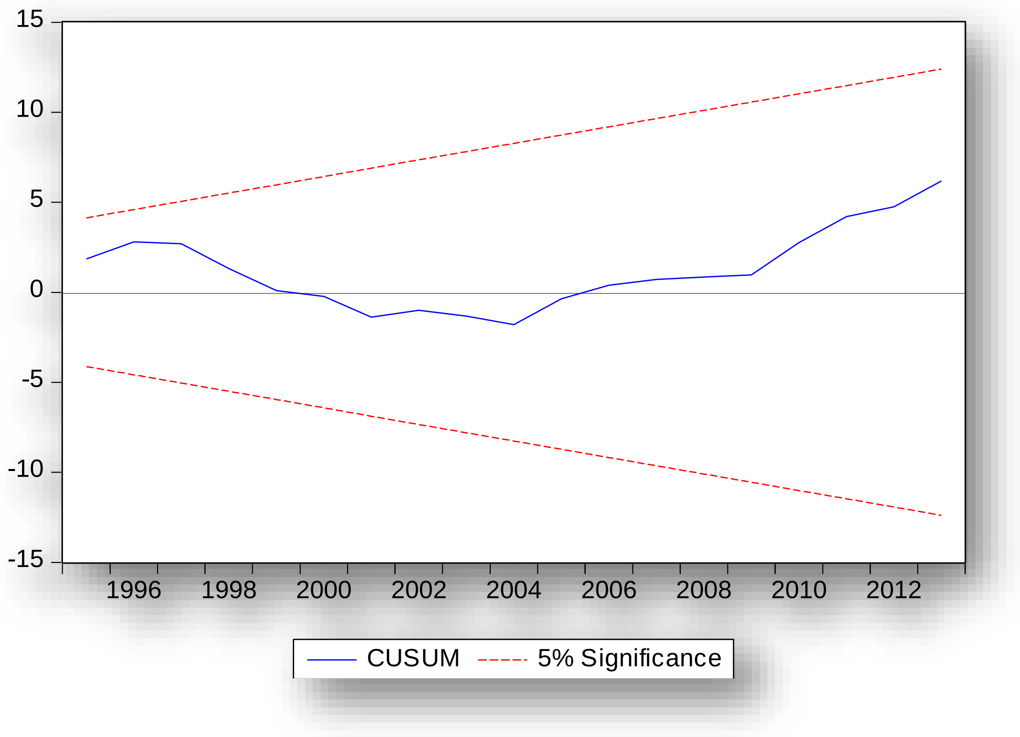
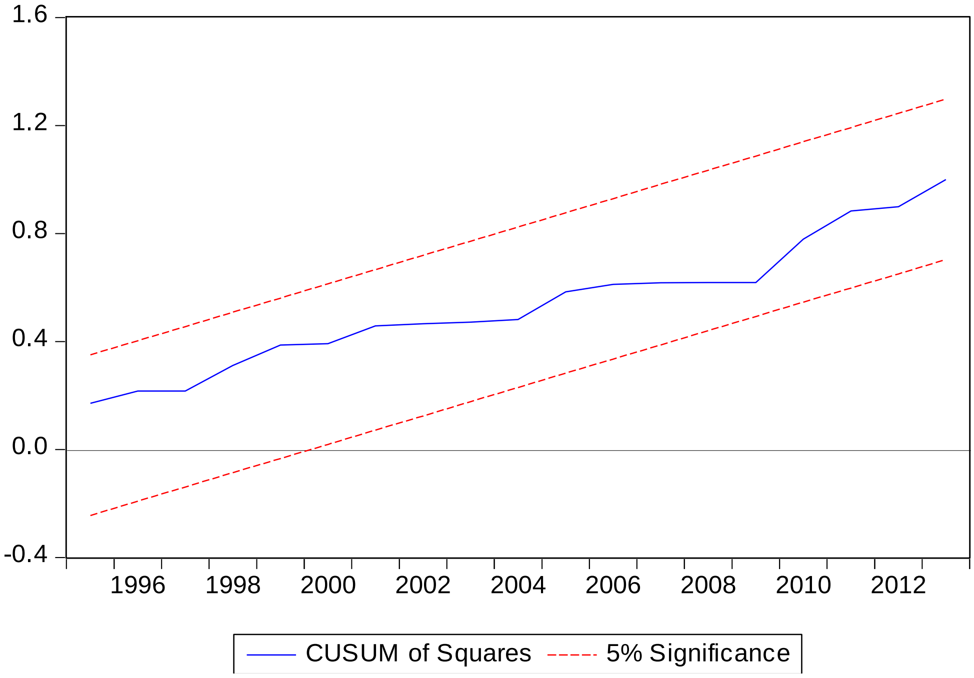


Figure 5-2 : Plot of Cumulative Sum of Squares of Recursive Residuals



From these two graphs, it can been seen that the line is within critical limits which can conclude that the long and short runs estimates are stable and the estimated model are reliable.

Chapter 6 : Conclusion

6.1 Introduction

Myanmar, a country with abundant nature resources, located in strategic location but performing poorly in terms of attracting FDI. Under the military government, Myanmar has been isolated, economic sanction was imposed as a result many divestment cases occurred. This research proposed to investigate the impact of foreign divestment on economic growth of Myanmar.

This thesis begins with providing the context of political economic background of Myanmar (Chapter Two), literature review covering foreign divestment, determinants and its impacts (Chapter Three). Chapter Four provides context analysis of foreign divestment in Myanmar to achieve the first objective of this thesis. Chapter Five explains the empirical session of this study, by applying econometric tool ARDL to test the relationship between the foreign divestment and economic growth.

The conclusion chapter summarise the key findings of this study and states the contribution of this research. Thereafter, it address policy implications of the research findings, discuss the limitation of this study, suggests follow up research topic and potential research theme that could extend this study further.

6.2 Key Findings

This study represents a first attempt to derive systematic evidence on the impact of FD on economic growth. The focus of this study is to examine and test whether foreign divestment has a negative impact on economic development of the country, by reviewing the determinants of divestment factors that influenced firms to divest from Myanmar, and analysing the patterns of divested firms.

To summarize the descriptive analysis from Chapter Four, it states that wholly owned subsidiaries have a higher divested rate than their counterparts which is joint ventures in the Myanmar's experience. Even though previous study has hypothesised that fully owned firms are less likely to be divested than JVs (Mtta and Portugal, 2000). In Myanmar context, it can be explained that WOS were given higher-pressure by home countries than JV to exit the market where investors from JV still able to maintain their control to the firm through local partnerships. In terms of divested industry background, the mining industry ranked at the top, followed by oil and gas and manufacturing sectors. In comparison with countries of origin, firms from Western countries are more likely to divest than Myanmar's neighbouring and ASEAN countries.

In the empirical session, this study employs ARDL technique, and the result proves that there is a cointegration relationship between foreign divestment and economic growth. The empirical findings show that the impact of foreign divestment on economic growth is negatively significant. In other words, the contribution of more divestment firms has negative impact on economic in the long run. The empirical result also indicates that FDI has a positive relationship with economic growth, but it is not significant. That could be explained that even Western firms divested, Asian firms stepped into and filled the vacant in Myanmar. However, the foreign investment that brought into the country by Asian firms have not enhanced economic growth.

6.3 Main Contributions

This thesis comprises a systematic investigation by addressing the divestment study in the context of Myanmar. This study contributes to the growing literature by integrating the determinants of divestment and impact of divestment on the Myanmar's economic development. Chapter Four provides a detailed overview of foreign divestment in Myanmar by identifying trends of patterns of divestment which is not only the most extensive overview but also the most recent one. Moreover, this study employs an econometric approach of ARDL and undertakes a systematic investigation of the relationship between foreign divestment and economic growth. Furthermore, the current study explores the relationship of divestment and economic growth using a critical case of international business activities in Myanmar by focusing on the period from 1990 to 2013. Myanmar as a context provided a unique opportunity in conducting research on divestment study. This study not only contributes to the FD literature in the context of Myanmar but also extends the literature on determinates of divestment from a frim-level study into the macroeconomic level by examining its impact on the country's economy.

6.4 Policy Implication

The findings of this research have important policy implications for policymakers, scholars and practitioners. After lunching economic and social reforms in Myanmar, most of divested firms are returning the country and new foreign investors started to look at Myanmar. This research has been prepared in the right time and its findings will have make an important contribution to Myanmar current government and various institution in term of policy making on FDI and related areas. On top of that, this research also provide important insights to investing countries and multinational firms in terms of entering the Myanmar market and doing business in Myanmar.

Results of this study proved that foreign divestment has a negative impact of economic growth of Myanmar. It was observed that divestment cases are less occurred under the democratic government. Therefore, the current government need to take the advantage of democratic transaction period, placed the political stability as the first priority in terms of maintain the current investment projects and attracting new investments. For example, providing a guarantee against expropriation.

In a case like Myanmar, least developing country, getting FDI is one of the important factors to stimulate economic growth. However in the econometric analysis, FDI variable shows negative significant in one year lag. This is happened due to most of the FDI were in the extractive sectors; mining, oil and gas which has limited spiliover effect. Therefore, one main important agendas of the new government should be to design appropriate strategic policies to diversify FDI flows. This is also important to for the relevant authority to link incoming FDI with existing local industries, which contribute to participate in major industries.

Although education variable is likely to have positive impact on economic growth in previous studies but it wasn't the case in Myanmar. Currently, the government is working on education reform and it is given priority in the national reform agenda. The relevant government also need to take account the quality of education instead of aiming the quantity. As education reform is a long process, the development process should be delivered strategically. It is important to draft suitable policy such as the strong link with industry is a necessity by upgrading and promoting vocational school, involve practical experiments in the curriculums.

Myanmar policy makers also should concentrate on technology transfer from FDI. The policy should provide incentives for investors under the legislation framework to emphasise on transfer of skill, technology transfer, supporting Research and Development (R&D). In addition, trade openness also does not have positive impact on Myanmar economic growth in this study. It is important for the current government to implement reforms on encouraging trade openness, as it is critical for poverty reduction of the country.

6.5 Limitations and Further Research

Although this study extends the study of foreign divestment by looking at its impact on economic growth, there are a few limitations arise in this study due to limited resources during the period. A primary limitation of this study is the small sample of observations available with the changing political situation in Myanmar. This study only examined a single nation with small sample size due to the availability of data. As the military adopted open-door policy since 1988 and there is only limited dataset available to study on divestment in Myanmar. However, the ARDL model is applied for this study, as this method is applicable for small sample size and this model pass all diagnostics and stability test. Myanmar's unique features of divestment, such as divestment pressure given by home countries, country's political issue are some of the most important factors, which makes this study unique by studying Myanmar as a context. However, these unique features also limit this study to have a cross-country analysis in terms of generalizability of the findings to other host countries.

It is also important to analyse how divestment firms react after the country is political and economic transition began in 2011 and more importantly after 2015's election. It would also be interesting to study the re-entry strategies of the divested firms that re-enter the Myanmar market. In addition, this thesis have provided descriptive analysis in looking at patterns and trends of foreign divestment, but in the empirical session, this study relies completely on secondary data. Future research on the study of re-entry, it would be interesting to know the mind-set/decision making process of foreign investors return into Myanmar market by conducting in-depth interview applying qualitative method. Another related extension of this research could be to understand market entry strategies by comparing with the firms whose are first enter and those that are re-enter into Myanmar market. Have the re-enter firms are more likely to be successful than the first-entry firms? Future research could attempt to answer this question. Another interesting potential future research them is to investigate other countries which were also imposed the sanction like Myanmar by applying cross-countries analysis and identify and explain the impact of divestment on those host country's economic. Although the present paper has some limitations, however, it is hoped that this study has introduced the impact of foreign divestment on economic growth by carrying out a preliminary investigation in the case of Myanmar. Finally, it hopes that the study will open research questions in Myanmar and on divestment study and its consequences on other nation's economic growth.

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